

## CRITICISM ON PORTER'S DIAMOND MODEL VIEWS OF COMPETITIVENESS

### Abstract

The competitiveness concept has a particular importance with expansion of world trade, rapidly changes in consumption and demand patterns, the revolution in information technology and the increase in the number and quality of local and international competitors in the past two decades. This paper introduces the basic concepts of competitiveness and also Porter's Diamond Model which is one of the presented theories in the context of competitiveness. This model classifies and interprets the various affecting factors on competitiveness. In addition, it reviews some raised criticisms about this model are concern.

**Keywords:** competitiveness, Porter's Diamond Model.

### 1. Introduction

Nowadays firms and industries are faced with challenges in the field of trade and economic activities such as globalization, the emergence of the World Trade Organization and integration of global markets, rapidly and fundamental technological advances, new developments in information technology, changes in consumption and demand patterns, explanation of environmental pollution control and energy conservation, resources scarcity and high their costs. Their survival depends on correct and timely decision making in the face of these changes. In the meantime, the process of globalization and the expansion of consume markets and increasing the number of competitors and the intensity of competition are the reason of importance of

concepts such as competitiveness. This has caused the firms, industries and countries in order to enhance their competitiveness try to identify and reinforce the effective factors on competitiveness. Many researchers in order to explain and interpretation of competitiveness and its influencing factors have been introduced some theories and models and are presented several models. These theories and models have high diversity but Porter's Diamond Model has great importance. So, after introducing the initial concept of competitiveness, this paper discusses about this model.

### 2. The Concept of Competitiveness

A review of theoretical study of scholars and researchers shows that there isn't single interpretation and definition of competitiveness. But in overall, competitiveness is the capabilities and abilities of a business, industry, region, countries which can be possess them and they can maintain the high returns rates in production factors on international competition a and create high position for their human resources. In other words, competitiveness is the ability to increase the share in market, profitability, growth in value added and remain in the fair and international competition for a long period. Competitiveness caused by a combination of assets and processes. Assets are as blessing (e.g. natural resources) or built by humans (e.g. infrastructure) and the process convert assets to economic benefits from sales to customers and finally create the competitiveness. We can show the global competitiveness formula as figure 1:

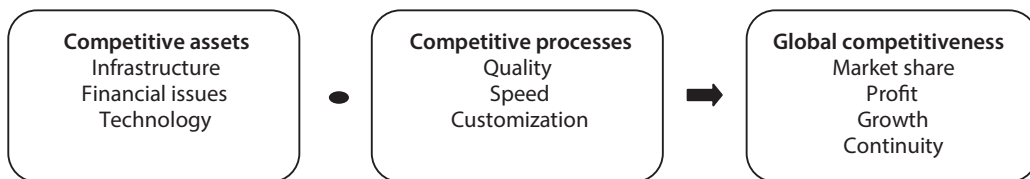


Figure 1: the global competitiveness formula

We can look to competitiveness from the resources vision. Sources of competitiveness can be divided to three categories as technology, organization and human resources. Created competitive advantage by human resources has greater durability and stability than other advantages and competitors need to long time to simulate of it.

### 3. Porter's Diamond Model

Michael Porter in his books that entitled "Competitive Strategy (1980)" and "competitive advantage (1985)" presented some new subjects on competitiveness field. In the released book that entitled "The Competitive Advantage of Nations (1990)" he has been introduced the "Diamond Model" about competitiveness. Michael Porter, by an economic perspective implies that "Competitiveness is synonymous with the rate of productivity of use a nation from their production factors". (Porter, 1985) He introduced four series of perspectives on competition. These include: the Mercantilist; the Classicist; the Strategist; and the Realist.

- Mercantilist has no problem with the term competitiveness and understands the competitive advantage issues and believes that the purpose of trade is to increase exports and so create jobs.

- The Classicist says a business model that is based on the ideas of Ricardo and John Stuart Mill. They believe that the goal of trade is being about imports rather than exports. In this idea, exports are simply a means to an end – effective, if indirect, method of production and imports. The standard model of classical economics taught in universities around the world.

- According to strategists, all kinds of markets have imperfections, which provide an opportunity for the government to exploit. Strategist argues that the government should actively support the internal companies, even where they may be a gain to monopoly benefit in future or which accrues several benefits to the their respective firms and companies.

- The realists acknowledge that markets are incomplete, but there are doubts about the potential benefits of trying to exploit market imperfections. Statements of realists are a lot as classicists, but the classical model cannot be quite the whole story.

His «diamond of national competitiveness» includes four 'facets' that determine the competitive strengths and weaknesses of countries and their major sectors. In addition, both the external factors as government and unforeseen events have indirect effects on the four major factors '(Porter, Michael E, 1990). These include:

- **Internal Factor conditions:**

The efficiency, quality and specialization of a series of affecting factors on the production of goods or services such as raw materials, natural, human and capital resources, productivity, creativity and innovation, research and development or R&D, infrastructure, technological issues, and managerial capabilities and advantages which is essential to compete in the competitive markets. Table 1 shows the classification of internal factors.

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1 Porter, Michael E (1990)

Table 1: Classification of Internal Factors

<i>Factors</i>	<i>Including</i>	<i>Desired feature</i>
<i>Human Resources</i>	<i>Unskilled and specialist</i>	<i>Quality, skill and cost</i>
<i>Physical Resources</i>	<i>Land, water, mineral resources and climate</i>	<i>Abundance, quality, availability</i>
<i>Knowledge Resources</i>	<i>Scientific and technical knowledge, market</i>	<i>The number and quality of Universities, research centers, Resources and scientific journals and statistical and information centers</i>
<i>Capital Resources</i>	<i>Characteristics of capital resources and methods of their development</i>	<i>The amount (savings rate, capital flow) and its costs</i>
<i>Infrastructures</i>	<i>Transportation systems, telecommunications, healthcare, money transfer and payment systems and etc.</i>	<i>Type, quality and costs of using them for users</i>

Source: Porter, Michael E (1990)

Porter is divided internal factors in two categories:

- **General Factors:** it includes things like raw materials, energy and labor force without special skills.
- **Specialized Factors:** such as skilled and advanced labor force, advanced technical knowledge and advanced technology.

Specialized factors create a more sustainable competitive advantage in comparison with the general factors. (Table 1)

- **Related and supporting industries:** Related and supporting industries is include: the suppliers of raw materials or equipment and tools, Distributors and resellers, systems, product distribution systems, research institutes, financial services such as banks and the Stock Exchange of Securities, transportation systems, universities, research centers and institutes and institutes that use from a kind of technology, raw materials and laboratory. Communication and cooperation with the industry is effective on the development and improvement of their products and services and the promotion of competition.

- **Demand conditions:** Domestic demand conditions define the nature of demand in domestic markets for the products of a specific industry. The size and growth of demand are effective on industrial competitiveness. Porter believes

that the existence of a large and growing domestic market is a factor to encourage investors to develop the technology and improvements the productivity. It is considered as a competitive advantage for the nation. Against, small domestic markets with low growth conduct of companies and industries to export opportunities. Domestic demand has both qualitative and quantitative aspects of the market. The amounts of domestic demand determine the minimum economic scale of domestic firms' activities and enable them to enjoy a stable demand. But it should be noted that the main benefits of domestic demand in the competitiveness is a quality perspective (Kim, C., 2002). Customer expectations of quality products and services can be an incentive to increase the competitiveness of a business and as a powerful incentive to develop and promote the competitiveness of firms and even national competitiveness.

- **Context for firm strategy and rivalry:** The conditions which control the nature of competition at the macro level of society and the way that businesses and organizations are founded, organized and managed has a considerable impact on competitiveness. Therefore, structures and strategies those prepare and implement for the firm's management has a direct impact on its performance and competitiveness. Porter to create competitive advantages

is suggested general strategies. According to these strategies, a business can create competitive advantage for itself and improve its competitive position in two ways:

- 1- Cost advantage: provide goods or services at a lower cost
- 2- Differentiation advantage: offering different goods and services with distinctive features

Each of these strategies can be applied by firms or cover only part of it. Also, each of these strategies creates a special competitive position for the firm (Man, Thomas W.Y. and et al,2002). Additionally, Porter stated that the nature and extent of competition in the each industrial environment depends on a set of five different forces which have been determined Table 1.

Porter believes that increasing the number of competitors and the level of competition among these five forces will increase national competitiveness. This may be due to the mutual effort of competitors to improve the quality or reduce the costs of products or services which ultimately leads to an increase in living standards and customer satisfaction.

- **Government:** Government as a major force always is effective on competitiveness by regulations and intervention in the political, economic and social affairs. Monetary, fiscal and trade policies, tax laws, supportive policies, administrative and organizational policies,

laws regarding the export and import, exchange rates, money supply and interest rates, inflation, government expenditure, the level of microeconomic and macroeconomic decisions, formal and informal agreements of political authorities, the establishment or development of commercial or political relations or disconnect the economic and trade relationship with other countries are the most significant influencing factors on the competitiveness. These factors are directly related with governments. (Thompson, J.L, 2001)

- **Unforeseen events:** Events and issues that have positive or negative effect on competitiveness but those are randomly and outside the control of businesses and governments. Disasters, wars, economic sanctions, oil shocks, political and economic crises or profound technological innovations are the example of unanticipated events.

Porter believes that competitiveness is defined as the set of institutions, policies and factors that determines the productivity of countries. The level of productivity, in turn, reflects the level of available welfare in different countries. In other words, the economic that benefits of higher productivity levels is more competitive. This means that achieve a higher level of income provide more welfare for the people. Described Porter model is specified in the Figure 2 as following:

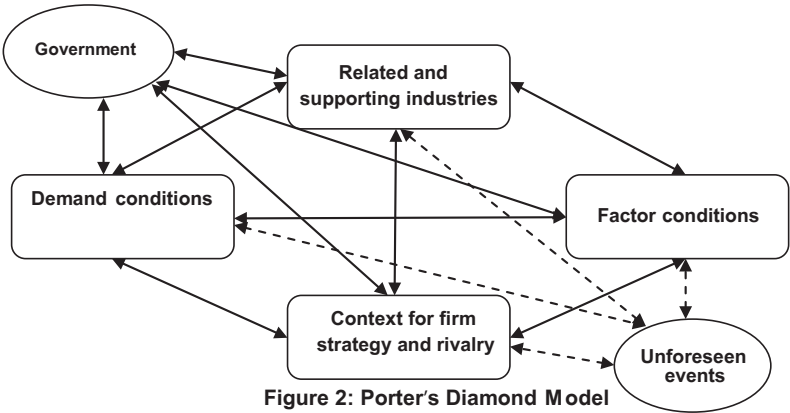


Figure 2: Porter's Diamond Model

#### 4. Criticism on Porter's Diamond Model

Although Porter's Diamond Model is one of the most successful models in the context of competitiveness and many researchers have been established on the basis of this model, but in this model, the affecting factors on competitiveness is limited only to the internal environmental of a country. This model doesn't attention to the mobility of factors of resources such as capital, human resources, technology, technical knowledge, research and development in global and international level especially by foreign direct investment and multinational

corporations. Moreover, international transformations in economic and political conditions affect country's international competitiveness. On the other hand, In addition to internal demand conditions of a country, global markets, international demand and potential for export are also effective on competitiveness. This is especially important with the expansion of world trade. In addition, governments have very important role in competitiveness in small and underdeveloped countries where a large part of the economic activities is available to government.

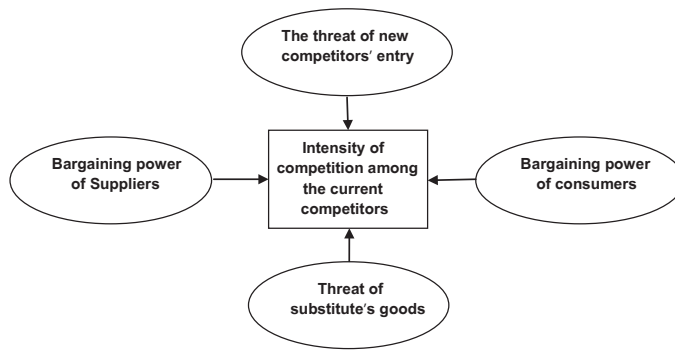


Figure 3: Porter's five forces model

These cases has caused to Porter Diamond Model be reform by experts. The result of these changes was introduction of new models such as the "Double Diamond Model" and after it "Generalized Double Diamond Model" (Moon, H.C and et al, 1998). These models pay more attention to international issues and the impact of other countries on the competitiveness of a country and its industries.

#### 5. Conclusion

Competitiveness is capabilities and abilities of a business, industry, region and country that by using it, they create high returns on production factors in terms of international competition and place their human resources on relatively high situation. Accordingly, some theories and models are presented in order to explain and illustrate competitiveness and its classification. Among these theories, the Porter diamond model has great importance.

According to this model, the four main factors as internal factors, domestic demand conditions, related and supporting industries and Context for firm strategy and rivalry have a direct impact on the competitiveness of countries and industries. Additionally, both the government and unforeseen events have indirectly impact on the competitiveness. Although this model is the basis of many studies and it is considered by many scholars but in total there are some weaknesses such as the lack of emphasis on international issues and global markets and also neglecting the movement of factors of production by multinational corporations and foreign direct investment. In addition, the role of government in developing countries is more than an indirect effect. Therefore, it is necessary to be considered these cases in evaluating the competitiveness.

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### ՓՈՐՏԵՐԻ «ԱԴԱՄԱՆԴ» ՄՈԴԵԼԻ ՄՐՑՈՒՆԱԿՈՒԹՅԱՆ ՏԵՍԱԿԵՏՆԵՐԻ ՎԵՐԱԲԵՐՅԱԼ ՔՆՆԱԴԱՏՈՒԹՅՈՒՆԸ

#### ՄՈՀԱՄԱԴ ԱԼԻԱՇՐԱՖԻՊՈՒՐ

*Երևանի պետական համալսարանի տնտեսագիտության և կառավարման ֆակուլտետ, հայցորդ*

«Մրցունակություն» հասկացությունը հատուկ նշանակություն ունի համաշխարհային առևտրի ընդլայնման գործում, արագորեն փոխվում է սպառողական և պահանջարկի նմուշներում, տեղեկատվական տեխնոլոգիաների ոլորտում հեղափոխությունում և վերջին 2 տասնամյակների ընթացքում տեղական և միջազգային մրցակիցների քանակի և որակի ավելացման դեպքում: Այս հոդվածը ներկայացնում է մրցունակության հիմնական հասկացությունները և, իհարկե, Փորթերի «Ադամանդ»-ի մոդելը, որը մրցունակության համատեքստում ներկայացված տեսություններից մեկն է: Այս մոդելը դասակարգում և մեկնաբանում է մրցունակության վրա ազդող տարբեր գործոնները:

Բացի դրանից՝ այն վերանայում է այս մոդելի վերաբերյալ բարձրացված քննադատությունները:

### АНАЛИЗ ПОЗИЦИЙ ОТНОСИТЕЛЬНО ПОНЯТИЯ "КОНКУРЕНТНОСТЬ" В МОДЕЛИ ПОРТЕРА "БРИЛЛИАНТ"

#### МОХАМАД АЛИАШРАФИПУР

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Понятие "конкурентности" имеет особое значение в вопросе расширения мировой торговли, быстро меняется в образцах спроса и предложения, в сфере информационных технологий, особенно за последние 2 десятилетия с учетом роста количества и качества местных и международных конкурентов. В статье представлены основные понятие конкурентности и, конечно, модель Портера "Бриллиант" как одна из теорий, представленных в контексте конкурентности. Данная модель классифицирует и поясняет различные факторы, влияющие на конкурентность. Кроме того пересматривается критика, поднятая вокруг этой модели.