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"The Competitive Advantage of Nations' Competitiveness"

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Companies achieved international leadership styles through innovations which create competitive advantage by perceiving an entirely new market or serving market segments ignored by others. Innovations are mundane and incremental depending more on accumulation of small insight and advances than on a single major technological break through

Information plays a large role in the process of innovation and improvement. In competitive globe, the competitive advantages of nations are achieved through a highly localized process. Differences in national values, culture, economic structures, institutions, and histories all contribute to competitive success. Ultimately nations succeed in particular industries because their home environment is the most forward-looking, dynamic, and challenging. And the labor costs, interest rates, exchange rates, and economies, the words of the day are merger; alliance, strategic partnerships, collaboration, and supranational globalization are the important determinants of the competitiveness. Managers are pressing for government support. These approaches in favor in both companies and governments are flawed.

Patterns of National Competitive Success:

Michael E. Porter in his paper" The Competitive Advantage of Nations" studied ten nations- the United Nations, Japan, and Germany- economic position for four years. He grouped three nations in the world leading industrial powers. The other nations represent a variety of population sizes, government policies towards industries, geographical sizes, and locations.

He studied the nations in two parts. The first identified all industries in which the nation's companies were internationally successful. We defined a nation's industry as internationally successful if it possessed competitive advantage relative to the best worldwide competitors. A nation was considered the home base for a company if it was either a locally owned, indigenous enterprise or managed autonomously although owned by a foreign company or investors.

In the second part of the study, the history of competition in particular industries. The sample of nations and industries offers a rich empirical foundation for the developing and testing the new theory of how countries gain competitive advantage.

How Companies Succeed in International Market:

Companies achieve competitive success through acts of innovation. Innovations can be manifested in a new marketing approach, or a new way of conducting training. It often involves ideas that are not even "new"—ideas some innovations created competitive advantage by perceiving an entirely new market opportunity or by serving a market segment that others have ignored. The innovations which yield competitive advantages anticipate both domestic and foreign needs.

Information plays a large role in the process of innovation and improvement. Some time it comes from simple investment in research and development or market research. This is why innovators

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are often outsiders from a different industry or a different country. Innovation may come from a new, whose founder has a nontraditional background or was simply not appreciated.

Some innovations create competitive advantage by perceiving by perceiving an entirely new market opportunity or by serving a market segment that others have ignored. In international markets, innovations that yield competitive advantage anticipate both domestic and foreign needs. On the other hand, innovations that respond to concerns or circumstances that are peculiar to the home market can actually retard international competitive success.

Innovation is the result of unusual effort. The company that successfully implements a new or better way of competing pursues its approach with dogged determination, often in the face of harsh criticism and even adversity. Innovation usually requires pressures, necessity, and even adversity: the fear of loss often proves more power full than the hope of gains. Once a company achieves competitive advantage through an innovation, it can sustain it only through relentless improvement. Competitor will eventually overtake any company that stops improving and innovating. Competitors will eventually and inevitably overtake any company that stops improving and innovating. The only way to sustain a competitive advantage is to upgrade it- to move to more sophisticated type of nations.

What Is National Competitiveness?

As national competitiveness is a macro-economic phenomenon, driven by variables such as exchange rates, interest rate and government deficits, others argue that competitiveness is a function of cheap and abundant labor. Another view connects competitiveness with bountiful natural resources. It is clear that the competitiveness is drives is driven by the government policy, targeting , protection, import promotion, and subsidies haven by the government policy, targeting , protection, import promotion, and subsidies have propelled Japanese and South Korean auto,. The final explanation is the differences in management practices, including management practices, including management-labor relations.

The meaningful concept of competitiveness at the national level is productivity. The principle goal of a nation is to produce a high and rising standard of living for its citizens. It depends on both the quality and features of products. Productivity is the value of the output produce by a unit of labor and capital are employed. Productivity depends on both the quality and feature of products. A nation's high level of productivity and increase in productivity depends upon time factor. They must develop the necessary capabilities to compete in more and more sophisticated industry segments, where productivity is generally high.

International trade and foreign investment can both improve a nation's productivity. The Surplus or balanced trade and foreign investment also can threaten productivity growth. They expose a nation's industries to the test of international standards of productivity. The national competitiveness is either a trade surplus or balanced trade surplus.

Competitiveness at national level is the determinants of productivity, international success in technology, the rate of productivity growth and we may focus on specific industries and skill industry segments. Classical theory is based on the so-called factors of production. Classical theory explains the success of nations in particular in advance industries and economies by globalization of competition and the power of technology.

A new theory recognizes that in modern international competition, companies compete with global strategies involving not only trade but also foreign investment. It is where a company's strategy is set, where the core product and process technology is created and maintained and where the most productive jobs and most productive jobs and most advanced skills are located. The presence of the home base has a positive influence.

A new theory goes beyond cooperative advantage to the competitive advantage of a nation. It must reflect a rich conception of competition that includes segmented markets, differentiated products, technology differences, and economic scale. A new theory must begin from the premise that computation is dynamic and evolving it must answer the question: why do some companies to improve and innovate faster than rivals?

The Diamond of National Advantage:

To overcome the substantial barriers to change and innovation for success depends on four groups of activities as:

1. Factor Conditions:
   The nation's position is in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
2. Demand Conditions:
   The nature of home market demand for the industry's product or service is necessary.
3. Related and Supporting Industries.
   The presence or absence in the nation the supplier industries and other related industries that are internationally competitive impacts national advantage.
4. Firm Strategy, Structure, and Rivalry.
   The conditions in the nation governing how companies are created, organized, and managed, as well as the nature of domestic rivalry.

   These determinants create the national environment in which companies are born and learn how to compete.

   In the Determinants of National Competitive advantage , each point on the diamond- and the diamond as a system- affects essential ingredients for achieving international competitive success: the availability of resources and skills for competitive advantage in an industry; the information that shapes the opportunities that companies perceive and the directions in which the companies in which they deploy their resources.

   When a national environment permits and supports the most rapid accumulation of specialized assets and skills then the companies gain competitive advantage, Finally, when the national environment pressures companies to innovate and invest, companies gain competitive advantage and upgrade those advantages over time. Each of these four attributes defines a point on the diamond of national advantage. But the points of the diamond are also selfreinforcing: they constitute a system. Domestic rivalry also promotes the formation of related and supporting industries.

The effects can work in all directions: Sometimes world-class suppliers become new entrants in the industry they have been supplying. Another effect of the diamond's systemic nature is that nations are rarely home to just one competitive industry; rather the diamond creates an environment that promotes clusters of competitive industry. Competitive industries are not scattered helter-skelter throughout the economy but are usually linked together through vertical (buyer-seller) or horizontal (common customers, technology channels) relationships. Clusters are neither scattered nor concentrated geographically. One competitive industry helps to create another in a mutually reinforcing process.

How the diamond works:

Factor Conditions:

Factors of production will determine the flow of trade. A nation will export those goods that make use of the factors. It is a classical economic era doctrine and is best incomplete and at worst incorrect. In the sophisticated industries a nation creates the most important factors of productions and the stock of factors is less important than the rate and efficiency.
The important factors are those which are specialized and sustained and heavy investment. Basic factors i.e. pool of labor or a local raw material source, do not constitute an advantage in knowledge intensive industries. To support competitive advantage, a factor must be highly specialized to an industry's particular needs.

Nations succeed in industries where they are good at factor creation. Competitive advantage results from the world class institutions that first create specialized factors and then continually work to upgrade them. Selective disadvantages in the more basic factors can prod a company to innovate and upgrade. When there is ample supply of cheap raw material or abundant of labor, companies can rest on these advantages and in case companies face a selective disadvantage e.g. high land costs, labor shortages they must innovate or upgrade to compete. When a national environment permits and supports the most rapid accumulation of specialized assets and skills the companies need competitive advantage. when the national environment pressures companies to innovate and invest, companies both gain a competitive and upgrade those advantages over time.

Factor Conditions: As per standared economic conditions (p79)
Disadvantages can become advantages only under certain conditions. They must send proper signals about circumstances that will spread to other nations. The second condition for disadvantage is favorable circumstances elsewhere in the diamond.

Demand conditions:

The globalization of competition would diminish the importance to home demand. Nations gain competitive advantage in industries. The home market has a disproportionate effect on how companies perceive, interpret, and respond to buyer needs. The size of home demand is less significant than the character of home demand. Home demands conditions help build competitive advantage when a particular industry segment is larger or more visible in the domestic market. More important than the mix of segments per se is the nature of domestic buyers are the world's most sophisticated and demanding buyers provide a window into advanced customer needs, they pressure companies to meet higher standards. Stringent needs arise because of local values and circumstances.

Local buyers can help a nation's companies gain advantages if their needs anticipate or even shape those of other nations of global market trends. A nation's companies can anticipate global trends if the nation's value are spreading.

Related and supporting industries:

The third determinant of national advantage is the presence in the nation of related and supporting industries that are internationally competitive. First, they deliver the most cost-effective inputs in an efficient, early, rapid, and some time preferential way. The home-based related and supporting industries provide in innovation and up-grading- an advantage based on close working relationships.

The nation's companies benefit most when the suppliers are themselves, global competitors. Home based competitiveness in related industries provides similar benefits: information flow and technical interchange speed the rate of innovation and upgrading.

Firm Strategy, Structure, and Rivalry:

National circumstances and context create strong tendencies in how companies are created, organized, and managed, as well as what the nature of domestic rivalry will be. The competitiveness in a specific industry results from convergence of the management practices and organizational modes favored in the country and the sources of competitive advantage in the industry.

Countries differ in the goals that companies and individuals seek to achieve. Company goals reflect the characteristics of national capital markets and the compensation practices for managers.

A nations' success largely depends on the types of education its talented people choose, where they choose to work, and their commitment and effort. The goals a nation's institutions and values set for individuals and companies, and the prestige it attaches to certain industries, guide the flow of capital and human resources. Nations tend to be competitive in activities that people admire or depend on.

The presence of strong local rivals is a final and powerful stimulus to the creation and persistence of competitive advantage. The domestic competition is wasteful: it leads to duplication of effort and prevents companies from achieving economies of scale. Static efficiency is much less important than dynamic improvement, which domestic rivalry uniquely spurs. Geographic concentration magnifies the power of domestic rivalry. Another benefit of domestic rivalry is the pressure it creates for constant upgrading of the sources of competitive advantage. The domestic competition that ultimately pressures domestic companies to look at global markets and toughens them to succeed in particularly when there are economies of scale; local competitors force each others to look outward to foreign markets to capture greater efficiency and higher profitability.

The Role of Government:

Government's proper role is as a catalyst and challenger; it is to encourage companies to raise their aspirations and move to higher levels of competitive performance, even though this process may be inherently unpleasant and difficult. Government may be inherently partial, that succeeds only when working in tandem with favorable underlying conditions in the diamond. Still, government's role of transmitting and amplifying the forces of the diamond is a powerful one. Government policies that succeed are those that create an environment in which companies to raise their aspirations and move to higher levels of competitive performance, even through this process may be inherently unpleasant and difficult. The national competitive success is based on the time factor, human skills, investment in the products and processes, building clusters, and penetrating foreign markets.

In politics most governments favor policies that offer easily perceived short-term benefits such as subsidies, protection, and arranged mergers. As policies are slow so require patience, the static short term cost advantages but that unconsciously undermine innovation and dynamism represent the most common and most profound error in government industrial policy.

The specific policy approaches to guide nations seeking to gain competitive advantage include:

(1). Focus on specialized factor creation.

Government has critical responsibilities for fundamentals like the primary and secondary education systems, basic national infrastructure, and research in areas of broad national concern. Mechanism such as specialized programs will ultimately create the factors that will yield competitive advantage.

(2). Avoid intervening in factor and currency markets.

Governments hope to create lower factor costs or a favorable exchange rate that will help companies compete more effectively in international markets. They work against the upgrading of industry and the search for more sustainable competitive advantage.

(3).Enforce strict product, safety, and environmental standards.

Strict government regulations can promote competitive advantage by stimulating and upgrading domestic demand.

(4). sharply limit direct cooperation among industry rivals.

The most pervasive global policy fad in the competitiveness arena today is the call for more cooperative research and industry consortia. Operating on the belief that independent research by rivals is wasteful and duplicative, that collaborative efforts achieves economies of scale, and that individual companies are likely to under invest in R and D because they cannot reap all the benefits governments have embraced the idea of more direct cooperation.

(5). Promote goals that lead to sustained investment.

Government has a vital role in the shaping the goals of investors, managers, and employees through policies in various areas. Government should aim to encourage sustained investment in human skills, in innovation, and in physical skills.

(6). Deregulate competition.

Regulation of competition through such policies as maintaining a state monopoly, controlling entry into an industry, or fixing prices has two strong negative consequences. Deregulation and privatization of their own, however, not succeed without domestic rivalry but a strong and consistent anti-trust policy.

(7). Enforce strong domestic antitrust policies for horizontal merger, alliance, and collusive behavior:

It is fundamental to innovation and fashionable call for mergers, alliances in the name of globalization and the creation of national champions which undermine the national competitive advantage.

(8). Reject managed trade.

Managed trade represents a growing and dangerous tendency for dealing of the fallout of national competitiveness. Government trade policy should pursue open market access in every foreign nation. For efficacy trade policy should not be a passive instrument and should actively address emerging industries and incipient problems. Compensatory tariffs that punish companies for unfair trade practices are better than market quotas. Other important tools to open markets are restrictions that prevent companies in offending nations from investing in acquisitions or production facilities in the host countries.

The Company Agenda:

The role of innovation must be recognized. It takes leadership to recognize the all-too-easy escape routes that appear to offer a path to competitive advantage, but are actually short-cuts to failure. Competitive advantage arises from leadership that harnesses and amplifies the forces in the diamond to promote innovation and upgrading. Here are just a few of the kinds of company policies that will support that effort:

(1) Create pressures for innovation:
A company should seek out pressure and challenge, not avoid them. Part of the strategy is to take advantage of the home nation to create the impetus for innovation. Companies can sell to the sophisticated buyers and channels and treat employees as permanent,

(2) Seek out the most capable competitors as motivators: To motivate organizational change, capable competators and respected rivals can be a common enemy, the best managers always

run a little sacred. Companies that value stability, obedient customers, dependent suppliers and sleepy competitors are inviting inertia and, ultimately, failure.

(3) Establish early warning system: they are early warning signals translate into early-move advantages. Companies can take actions that help them see the signals of change and act on them, thereby getting a jump on the competition.

(4) Improve the national diamond: companies have a vital stake in making their home environment a better plate form for international success. Cluster formation and to work with its home – nation buyers, suppliers, and channels to help them upgrade and extend their own competitive advantage. In every competitive industry, leading companies also take explicit steps to create specialized factors e.g. human resources, scientific resources, scientific knowledge, or infrastructure.

(5) Welcome domestic rivalry: to competitive globally, a company needs capable domestic rivals and vigorous domestic rivalry. Especially in the United States and Europe today, managers are to complain about excessive competition and to argue for mergers and acquisition for scale economies and critical mass. Vigorous domestic rivalry is necessary for sustainable competitive advantage.

(6) Globalize to tap selective advantages in other nations: for global strategies many companies today abandon their home diamond. Foreign activities are the first ranked but the domestic activities supplanted by the foreign activities' and the innovation along with the buyers are also essential for the growth of the competitive advantage. All these need high quality and access to company's ideas.

(7) Use alliances only selectively: Alliance can benefit a company selectively. They allow two separate operations, reconciling goals within an independent entity creating competition and profits. Which causes short-term alliances and long-term alliances depends on the company's mediocrity.

(8) Locate the home base to support competitive advantage: the important decisions for multinational companies are the nation in which to locate the home base for each distinct business. A company can have different home bases for distinct businesses or segments. The circumstances must support innovation, otherwise the company has no choice but to move its home base to a country that stimulates innovation and that provides the best environment for global competitiveness by the help of management team.

The Role of Leadership:

Too many companies and top managers misperceive the nature of competition and the task before them by focusing on improving financial performance, soliciting government assistance selecting stability and reducing risk through alliances and mergers.

Today's competitive realities demand leadership. They energize their organizations to innovate continuously; they recognize the importance of their home country as integral to their competitive success and work to upgrade it. Most important, leaders recognize the need for pressure and challenge. That must be the goal, for both nations and companies: not just surviving, but achieving international competitiveness. And not just once but continuously.