Porter’s Diamond – Determining Factors of National Advantage

Increasingly, corporate strategies have to be seen in a global context. Even if an organization does not plan to import or to export directly, management has to look at an international business environment, in which actions of competitors, buyers, sellers, new entrants of providers of substitutes may influence the domestic market. Information technology is reinforcing this trend.

Michael Porter introduced a model that allows analyzing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are, in his book *The Competitive Advantage of Nations*. This model of determining factors of national advantage has become known as Porters Diamond. It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition. Porter distinguishes four determinants:

- **Factor Conditions**: The situation in a country regarding production factors, like skilled labor, infrastructure, etc., which are relevant for competition in particular industries.

These factors can be grouped into human resources (qualification level, cost of labor, commitment etc.), material resources (natural resources, vegetation, space etc.), knowledge resources, capital resources, and infrastructure. They also include factors like quality of research on universities, deregulation of labor markets, or liquidity of national stock markets.

These national factors often provide initial advantages, which are subsequently built upon. Each country has its own particular set of factor conditions; hence, in each country will develop those industries for which the particular set of factor conditions is optimal.
This explains the existence of so-called low-cost-countries (low costs of labor), agricultural countries (large countries with fertile soil), or the start-up culture in the United States (well developed venture capital market).

Porter points out that these factors are not necessarily nature-made or inherited. They may develop and change. Political initiatives, technological progress or socio-cultural changes, for instance, may shape national factor conditions. A good example is the discussion on the ethics of genetic engineering and cloning that will influence knowledge capital in this field in North America and Europe.

**Home Demand Conditions**

- Describes the state of home demand for products and services produced in a country.

Home demand conditions influence the shaping of particular factor conditions. They have impact on the pace and direction of innovation and product development. According to Porter, home demand is determined by three major characteristics: their mixture (the mix of customers needs and wants), their scope and growth rate, and the mechanisms that transmit domestic preferences to foreign markets. Porter states that a country can achieve national advantages in an industry or market segment, if home demand provides clearer and earlier signals of demand trends to domestic suppliers than to foreign competitors. Normally, home markets have a much higher influence on an organization's ability to recognize customers' needs than foreign markets do.

**Related and Supporting Industries**

- The existence or non-existence of internationally competitive supplying industries and supporting industries.

One internationally successful industry may lead to advantages in other related or supporting industries. Competitive supplying industries will reinforce innovation and internationalization in industries at later stages in the value system. Besides suppliers, related industries are of importance. These are industries that can use and coordinate particular activities in the value chain together, or that are concerned with complementary products (e.g. hardware and software). A typical example is the shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as leather working machinery, design, etc.

**Firm Strategy, Structure, and Rivalry**

- The conditions in a country that determine how companies are established, are organized and are managed, and that determine the characteristics of domestic competition.

Here, cultural aspects play an important role. In different nations, factors like management structures, working morale, or interactions between companies are shaped differently. This will provide advantages and disadvantages for particular industries. Typical corporate objectives in relation to patterns of commitment among workforce are of special importance. They are heavily influenced by structures of ownership and control. Family-business based industries that are dominated by owner-managers will behave differently than publicly quoted companies. Porter argues that domestic rivalry and the search for competitive advantage within a nation can help provide organizations with bases for achieving such advantage on a more global scale.

Porter's Diamond has been used in various ways.
Organizations may use the model to identify the extent to which they can build on home-based advantages to create competitive advantage in relation to others on a global front.

On national level, governments can (and should) consider the policies that they should follow to establish national advantages, which enable industries in their country to develop a strong competitive position globally. According to Porter, governments can foster such advantages by ensuring high expectations of product performance, safety or environmental standards, or encouraging vertical co-operation between suppliers and buyers on a domestic level etc.

**Literature:**