

International Business Strategy

Week 11

International Competitive Advantage

Introduction

In week 10 we looked at the global supply chain, where we explore what it is, how it differs from domestic and the key players. In this week, we will handle international competitive advantage from a national/country and a company perspective.

Learning Outcomes

1. Understand the concept of competitive advantage.
2. Differentiate between international, national, and company competitive advantage.
3. Analyze factors contributing to competitive advantage at both levels.

International Competitive Advantage

This is what makes a firm, its products or services, more preferred by consumers than its opponents. It comprises of attributes that allow a firm to outperform its competitors. These attributes would allow a firm to charge higher prices and/or be more acceptable in the marketplace. International competitive advantage is therefore instances where a firm has a global advantage over its rivals. If a firm has an international competitive advantage, it will find it easy to enter different markets and perform in those markets as well. In the next section we will look at national competitive advantages before looking at how firms could achieve international competitive advantage.

National Competitive Advantage

In 1990s, Michale Porter in trying to explain why some countries are leaders or do better in production of certain products developed national competitive advantage theory. The theory posits that a country's competitiveness in an industry is dependent on the industry's ability to innovate and upgrade. He pointed out that there are four elements that are present in any country that is competitive in certain industries as depicted in **Figure 1**, usually called Porter's Diamond. In the next section we look at these factors:

Factor conditions:

- Resources such as labor, natural resources, and climate are important in what a country will produce and export, but Porter went further to note that *advanced factors* are even more critical.
- The advanced factors include the skills levels of the workforce and the quality of the technological infrastructure in a country.
- Sustainable advantage is gained through advanced factors.
- A country can develop advanced factors through deliberate measures and investments, you do not need to have iron ore to be a leader in manufacturing, this has been proven by Japan in manufacturing autos.
- It is important to note where factor conditions exist, they attract foreign investment, and more businesses are likely to flock in to enjoy such a business environment.

Demand Conditions

- The caliber of consumer in the home market is equally important in driving innovation among the companies operating in such markets.
- A country where consumers are sophisticated, they put pressure on firms to innovate and design new features (they keep the firms on constant innovation mode).
- This helps to establish the country as competitive in such a sector compared with other nations. The computer industry in the US is a good case in point.

Related and Supporting Industries

- For companies to have international competitive advantage, they cannot do it alone, they will need supporting industries to provide inputs required by the industry.
- This happens around the same geographic area, where firms dealing in related products or services are located. This is called a cluster.
- A cluster is a geographic concentration of related firms in a particular sector or field.

Figure 1: Porter's Diamond



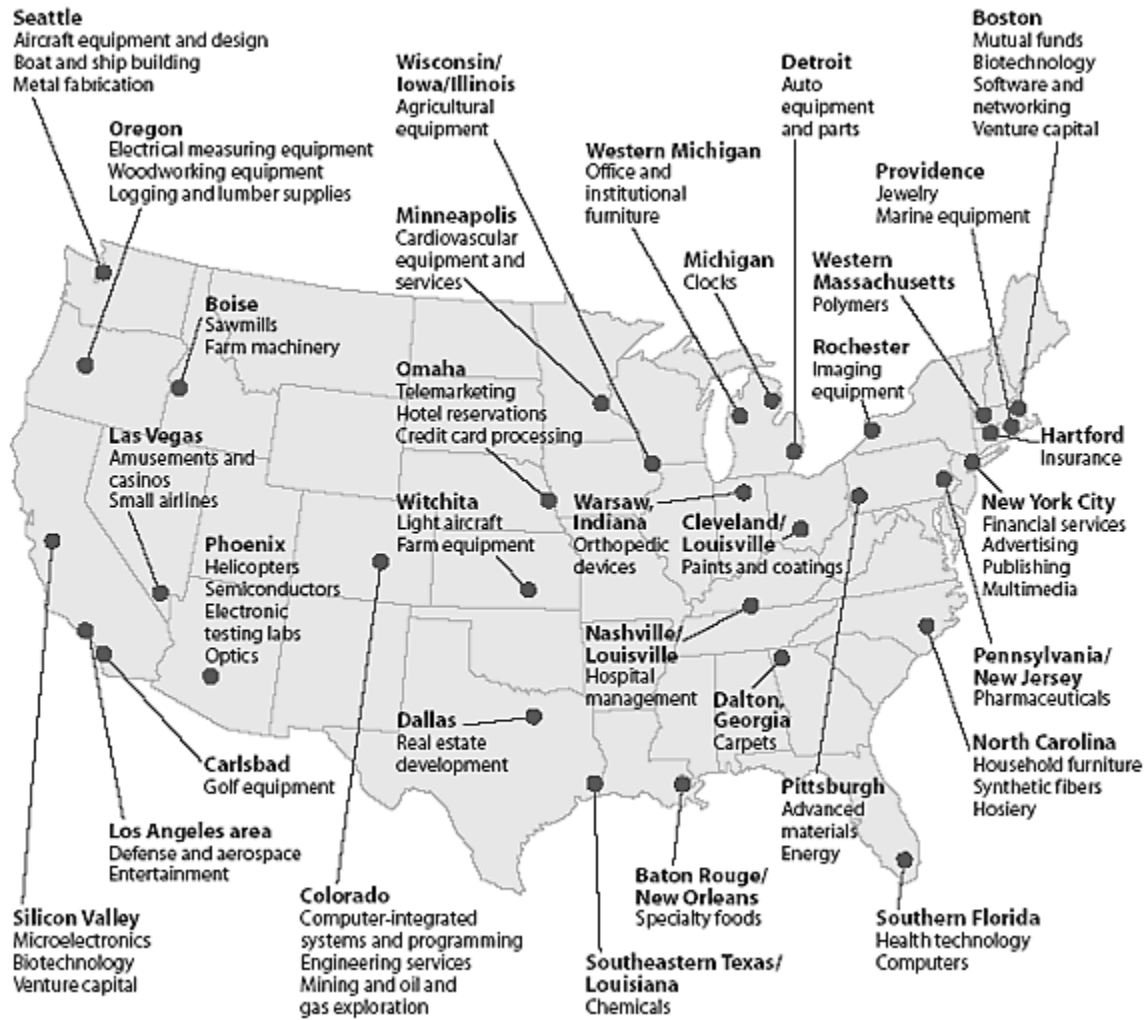
Source: <https://thienvienchannguyen.net/michael-e-porters-diamond-model-explains-the-competitive-advantage-of-nations-porters-diamond-model-%E0%B8%84%E0%B8%B7%E0%B8%AD/>

Industries Clusters in U.S

A cluster may include suppliers, providers of specialized skills, universities, colleges, government agencies, trade associations among others. Some good examples would be Silicon Valley with technologies related industries, Wallstreet with finance, Japan with consumer electronics, and Hollywood with entertainment industries. The issue of cluster points to the fact that what happens in the immediate business environment is vital to determining a firm's competitiveness. **Figure 2** shows clearly the clusters of industries in the US, and this shows what each state is competitive in. The clusters in a country or state usually account for a major share of regional economic activity as well as what is exported from that state or area. Cluster boosts both cooperation and competition, which are both vital for success of a cluster.

The members of a cluster know very well that the performance of individuals player determines the success of the cluster. Though competitive advantage driven by location has been questioned in the wake of possible global sourcing with just a click of a button, we continue to witness clusters across the globe. In Italy we have the fashion industry, in California we have the Wine cluster, a testament to the competitiveness that location could give to a firm.

Figure 2: US Industry Cluster



Source: <https://hbr.org/1998/11/clusters-and-the-new-economics-of-competition>

Firm’s strategy, Structure and Rivalry

Important to the spirit of competitiveness both at the national and international levels is the strategies that the firm has adopted to compete as well as the caliber of management in the very firm. In addition, the level of competition in each industry or country will determine competitiveness. In an industry or country where the rivalry is high it means the struggle to survive is intense. In such a scenario there will be heightened competitiveness.

Government and Chance

Beside the four factors, Porter recognized the role of government in enhancing the national competitiveness of industries. Government can competition in their territory through actions such as privatization or licensing more foreign firms to venture in the local market. Chance such as an outbreak of a diseases or phenomenon could also work for an industry and change their competitiveness. Global happenings such as the September 11th bombing of the twin towers in the US brought immediate need for security infrastructures and this changed so many industries including insurance.

How Firms can Achieve International Competitive Advantage

Besides the need to have national factors for a firm to achieve competitiveness, there are strategies and approaches that businesses can use to be competitive in the international arena. In the next section we look at some of the possible strategies.

1. **Quality Management-** There are firms that have continued to be leaders in their industry through quality management or differentiation. Such companies are always pursuing high quality standards for their customers. For example, Gucci and Luis Vuitton have set themselves apart from others based on high-quality standards.
2. **Innovation-** Through research and development, a firm can seek to be the leader in innovation. Having new and better products or features could set you apart from your peers. This is the case with Apple Inc., which is always leading in innovation in its markets.
3. **Cost leadership-** In our earlier lecture, we said seeking to be the leader of low-cost production could put you ahead of your peers. This could indeed give a firm an international competitive advantage if it manages to produce at the least cost possible. Toyota has over the years managed to keep its production efficiency.
4. **Market expansion -**Where a firm can achieve consistent growth in its markets, it will be building power to fight off competition. When we discussed foreign entry theory, the need to have power in your industry was pointed out as one of the key drivers of

firms wanting to expand their reach. It is therefore possible for a firm to be competitive internationally due to the mere fact that it has the widest reach across the globe. The number of countries an airline flies to is always a bragging point when they are marketing themselves.

5. **Partnership and Alliances** -It is possible for a firm to gain international competitiveness through joining hands with other firms that complements its resources and capabilities. This signifies that a firm need not have everything, but linking up with strategic partners could elevate its competitiveness in the industry. Airlines are known for route/code sharing
6. **Local adaptation-** If a firm masters local market adaptation better than its competitors in the respective markets that it operates in, then it might be way apart from its rivals. Though this may be expensive, it will give firm mileage in weeding out competition. Unilever, which has hundreds of products, is one such company that has mastered the art of localization and you are therefore likely to find it in most homes across many countries.
7. **Effective supply chain management-** In week ten lecture we looked at global supply chain management, where we saw the fact that technology and indeed globalization has enabled firms to globally source. A firm that can manage its supply chain will be in a better position to compete in the global arena. Walmart is known as one store that has stayed ahead because it efficiently manages its supply chain.
8. **Top notch competitive intelligence-** For a firm to stay ahead of its competitors it must have a way to gather and decipher intelligence from the environment. You must be proactive about the changes that are likely to hit the industry, changes likely to come from the consumers, government and the likes. This failure is what saw Kodak go down, and this capability is what has kept companies such as Apple and Samsung alive.
9. **Sustainable environmental, social & governance (ESG)-** In today's business environment, every stakeholder is concerned about how the business operations are affecting society and the environment. Transparency of firm's operations is becoming a concern not just for the government but also consumers and other stakeholders. Therefore, firms must chart a path that is sustainable as far as these issues are concerned.

Frameworks to Evaluate Competitive Advantages

There exist several frameworks that firms can use to evaluate their competitive advantage. There are three such frameworks: Porter's five forces, SWOT analysis (we have talked about this in our earlier lecture), and VRIO framework. In the next section we will briefly look at the five forces and VRIO frameworks.

1. **VRIO Framework-** This is an acronym for Value, Rarity, Imitability and Organization.

VRIO Framework Questions

- Does competitive advantage add value to the firm and customers?
- Is the competitive advantage rare?
- Is the competitive advantage difficult to copy or imitate?
- Is our firm ready or organized to exploit this advantage?

The ideal answers should be affirmative yes, meaning whatever is keeping you ahead of your competitors be it a resource or capability, will continue to do so in the future.

2. Porter's Five Forces

- **Threat of new entrants:** This can either be high or low. If there are high capital requirements and brand loyalty to enter the industry, then the threat is low as many firms may not afford such.
- **Bargaining Power of Suppliers:** If a firm is so dependent on a single supplier of raw materials or key components, the supplier will be powerful thereby diminishing your power and competitiveness.
- **Bargaining Power of Buyers:** Where there are availability alternative products to your products, the buyer will have higher bargaining power, and this is not good for a business.
- **Threat of Substitutes:** This is usually high where brand loyalty is absent or low and consumers are price sensitive. Instances where customers can switch from your product to competitor's are not desirable in competition.

- **Industry Rivalry:** This denotes the fight for market share and being number one in the industry. Where the rivalry is high competition is likely to be high and as we noted in the cluster this will increase competitiveness as the firm seeks to innovate.

Topic Recap

We have looked at what competitive advantage is both at the national and international levels. We have also looked at Porter's Diamond that gives the necessary ingredient for a country to be competitive as compared to others. We have explored different strategies that a firm can use to gain international advantage and we have concluded by looking at two frameworks that can be used to assess a firm's competitiveness. In the next topic we will explore some of the emerging trends in international business.

References

- Wild, J., Wild, K., & Han, J. (2010). *International Business* (5th ed.). Pearson Education, Inc.