

## NOTES AND VIEWS

# The Competitive Advantage of European Nations: The Impact of National Culture — a Missing Element in Porter's Analysis?

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This article uses as its starting point Michael Porter's model of the national 'diamond' to explain the role of the national environment in the competitive position of industries and firms. The authors believe, however, that the influence of national culture on the competitive advantage of nations is given too little attention in this model. In particular, strong or weak uncertainty avoidance behaviour in nations and their masculine/feminine characteristics are neglected.

The national diamond rests on the base of national culture, and the latter is exogenous to the firm. In a European context, managing the different diamonds that exist itself generates competitive advantage.

## 1 Introduction

Management, and especially strategic management, has the task of matching an organisation with its environment. Hofer and Schendel (1978) rightly define strategy as the characteristics of the match that an organisation achieves with its environment. However, international business is confronted with a diversity of national environments. Consequently, international strategic management primarily focuses upon differences in national environments and analyses how firms have both to cope with and benefit from these different national environments.

Until now, a coherent and theoretically-based framework for the analysis of the implications of different national environments for strategic management is

lacking. Porter (1990), in his book *The Competitive Advantage of Nations*, claims to contribute to this topic. This topic becomes more and more important. The mere mention of the worsening of competitive advantage of the European Community compared with the USA and Japan stresses this.

However, it is generally believed that one of the strengths of the European Community is its cultural diversity, roughly corresponding with the related national environments of the Member States. Hofstede states in his new book (1991) that the laboriously developed experience while working together with these different nations, generates a competitive advantage over other economic superpowers. In this connection, the growing importance of the internal EC market has stimulated the quest for European management (Thurley and Wirdenius, 1989). According to Van Dijk (1990, p. 478), a key element in European management has to be: 'Reading and interpreting the complex and diversified social, cultural and political European business environment'.

In this article, we discuss whether Porter's framework of explaining the competitive advantage of nations can contribute to this quest for European management. Here, we primarily focus on the impact of national culture on the competitive advantage of nations. The article is structured as follows. Firstly, we give a sketch of Porter's framework and pay some attention to the criticism. Thereafter, we try to augment Porter's framework by assessing the implications of national culture for the competitive advantage of nations. In the summary and conclusion we return to European management.

## 2 Porter's Analysis of the Competitive Advantage of Nations

Porter (1990) criticises existing explanations of the international competitive position of nations. These explanations stress mainly the importance of comparative advantage of nations with respect to factors of production. However, the international mobility of these factors is increasing and leads to 'fleeting advantages'. Moreover, in the existing explanations a role for firm strategy is missing. According to Porter, the behaviour of firms must become integral to a theory of national competitive advantage. That is why Porter proposes as the central question to be answered: 'Why do firms based in particular nations achieve international success in distinct segments and industries?' (Porter, 1990, p. 18). This question introduces the role of the national environment for the competitive position of industries and firms.

To answer this question, Porter proposes a framework of analysis consisting of four determinants. With the aid of this framework, he tries to explain the above-mentioned role of the national environments (see Figure 1). Factor conditions, as the first determinant, are the nation's position in factors of production. The nature of home demand for the industry's product or service is labelled as demand conditions, and forms the second determinant. The third determinant, related and supporting industries, deals with the presence or absence in the national environment of internationally-competitive related and supporting industries. The conditions governing how companies are created, organised and managed, as well as the nature of domestic rivalry, form the fourth determinant. Two additional elements are added to this framework: chance (exogeneous influences) and government. Porter considers his framework as a dynamic system of mutually reinforcing determinants and calls this system 'the national diamond'.

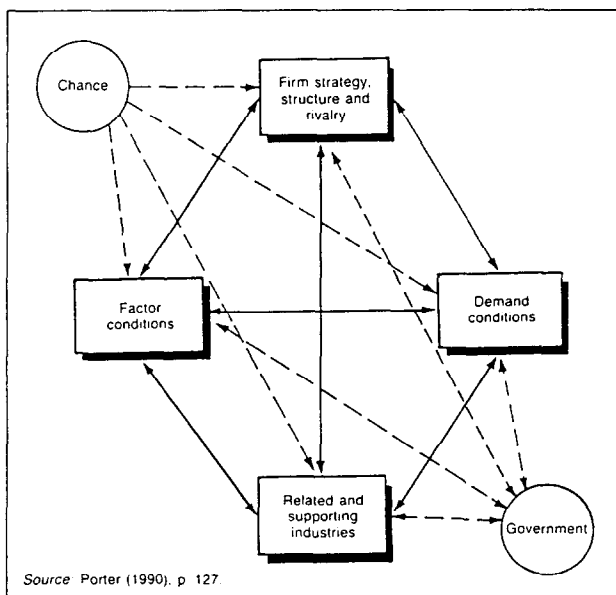


Figure 1 The determinants of national competitive advantage

It is precisely the attractiveness of this national diamond that can explain the presence or absence of the home base of internationally successful firms in countries. In this connection Porter makes clear, by way of case studies, why, for example, Germany is the home base of international leading firms in the printing press industry and Italy is the home base of international leading ceramic tile firms. Porter states that the attractiveness of the national diamond is not exogenous to the firms. On the contrary, the firm has a stake in upgrading the determinants. So firms must actively improve their home base, for example by investments in factor creation, stimulating the establishment of local suppliers and encouraging them to compete internationally. Another example is influencing government policies that enhance the national diamond.

## 3 Criticism of Porter's Framework

Although far less elaborated and theoretically based than Porter's contribution, rival explanations of the influence of the national environment on firms and industries exist, e.g. the so-called SEPT model. That model distinguishes four relevant segments of the national environment: social, economic, political and technological. Cultural factors such as social values are accounted to the social segment (Fahey and Narayanan, 1986). This means that besides economic factors, cultural factors are explicitly distinguished. Porter, on the contrary, states that although social norms and values are relevant, these cannot be separated from economic factors. According to Porter: 'Cultural factors are important as they shape the environment facing firms; they work through the determinants, not in isolation from them' (Porter, 1990, p 129). In this paragraph, we scan the criticism of Porter's framework by others and check whether the explicit omission of cultural factors, such as those noted by Thurley and Wirdenius (1991), gets attention. Although in a number of international scientific journals reviews of Porter (1990) have been published (e.g. Thurow, 1990), until now thorough investigations of the strengths and weaknesses of Porter's framework are scarce. To this category belongs the review article of Grant (1991). It appears that criticism does not pay specific attention to the question of why Porter's framework does not explicitly consider the influence of national culture on the competitive advantage of nations. That is the purpose of this article here.

## 4 National Culture and National Diamond

It is difficult to define culture. Multiple definitions are developed by different disciplines interested in culture. After an exhaustive critical review of concepts and definitions, Kroeber and Kluckhohn (1952) developed one of the most complete definitions of culture:

*'Culture consists of patterns, explicit and implicit, of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their*

*embodiment in artifact; the essential core of culture consists of traditional (i.e. historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of actions, on the other as conditioning elements of further action.'*

Schein (1985) developed a framework which helps to organise the information held by this definition. In his framework he distinguishes three levels within culture: (1) behaviour and artifacts, as language, technology and art; (2) beliefs and values; and (3) basic assumptions as time-orientation, relations between the group and the environment, and relations among members of the group. These levels are arranged according to their visibility. Like Harris and Moran (1987), we can compare culture to an iceberg; the tip (behaviour and artifacts) is visible but the largest part of the iceberg, the basic assumptions, is hidden beneath the surface.

In this article, we shall focus on national cultures. Although there are certainly cultural differences within nations, one can distinguish nations in ways of thinking that most inhabitants share, and that are to be considered as part of their national culture (Hofstede, 1980; Laurent, 1983).

Porter's diamond describes the national environment in which firms are competing. While national culture is an important part of the national environment, a description of this national environment cannot be made without paying any attention to national culture. Different authors have paid attention to the role of national culture. They focused on a broad range of subjects within the field of management: management style (Lindkvist, 1988), human resource management (Schneider, 1988), motivation theory (Hofstede, 1980), learning curves (Hayes and Allinson, 1988), technology transfers (Kedia and Bhagat, 1988) and, for instance, marketing strategy (Tse *et al.*, 1988). All these authors show that national culture has an impact, and therefore, using Porter's diamond, must have an influence on the competitive advantage of nations. Porter, too, agrees that national culture is an important factor in the competitive advantage of nations. But, while he points out the importance of national culture, he does not include national culture in his descriptive framework of the national environment.

To stress the importance of national culture to competitive advantage, Porter's diamond has to be combined with the dimensions of national culture found by Hofstede (1980). After a thorough research project into the influence of national culture within a particular multinational company including 50 countries, Hofstede developed four dimensions of national culture:

1. individualism versus collectivism,
2. large or small power distance,
3. strong or weak uncertainty avoidance,
4. masculinity versus femininity.

These four dimensions help to understand the under-

lying basic assumptions (Schein, 1985) mentioned before. By using these four dimensions, the impact of national culture on competitive advantage can be shown. Here we will limit ourselves to two of these dimensions: uncertainty avoidance and masculinity versus femininity.

The concept of uncertainty plays a major role in theories of the business environment. The way people and organisations cope with the uncertainty in their environment is found as an important dimension of national culture by Hofstede in his work *Culture's Consequences* (1980). It is the extent to which people in a society feel the need to avoid ambiguous situations and the extent to which they try to manage these situations. Describing the determinant 'demand conditions', Porter stresses the importance of the internationalisation of the home demand. If home buyers have needs that mirror or anticipate those in other nations, it confers a competitive advantage on its nation's firms. International sales by a nation's firms are facilitated if the nation can export its culture, practices and regulations abroad. But to be successful in the export market, first a nation must have an international orientation to sell products in foreign countries. Second, the receiving country must be receptive to new products from abroad which are often accompanied by habits, ideas and other parts of foreign culture which are new to them. The openness to new ideas and beliefs is strongly negatively-related to the extent of uncertainty avoidance (Hofstede, 1980). The more a culture avoids uncertainty, the less they are open to influences from outside and the less they are willing to leave their own safe environment. Therefore, a strong uncertainty avoidance is not a stimulant for openness to influences from outside. This dimension of national culture has an important impact on the internationalisation of home demand.

In his third determinant, Porter stresses the importance of the relations between related and supporting industries. Relations between people are known to be influenced by national culture. Speaking in terms of uncertainty avoidance, in countries which are to be characterised as strong uncertainty avoiders, people tend to stabilise the relations they form. In countries with less need for uncertainty avoidance, relations are much looser and hesitation to change is smaller. For example, Hofstede found that the difference in uncertainty avoidance between Japan and Western and Northern Europe is large. Japan is, compared to Western and Northern Europe, a very strong uncertainty avoider. The effect of this can be illustrated by analysing the relations between supplier and producer in the car industry in these parts of the world. In Japan, each part is made by a single firm and often designed together by supplier and car maker. Contracts last the life of a car model, often much longer. In Europe, cooperation is not that close. The producer develops a new car almost without the assistance of suppliers. Suppliers have to compete for a contract which often does not last longer than one year. This is just one example of the difference in relations between related and supporting

industries in different parts of the world. National culture has an important impact on these relations.

Competition is an item of great importance to Porter. In his description of the determinant 'firm strategy, structure and rivalry', he stresses that competition must be fierce. Real competition will create innovation and innovation will create competitive advantage. By saying so, Porter does not hide his origin. It is that of the United States. The ingredients for competition are bounded by culture. With his fourth dimension of national culture, masculinity versus femininity, Hofstede showed that, for instance, achievement of visible and symbolic organisational rewards, acquisition of money, but also the importance of performance and growth, are characteristics of a masculine society. A feminine society is much more service oriented, quality of life is important, 'small and slow are beautiful' (Hofstede, 1980). In a masculine society, the ingredients for competition are present. So culture also has its impact on the rivalry between firms. Hofstede found that the USA can be characterised by masculinity. Thus, it is important to realise that Porter and his diamond are a product of their own culture too.

Using the dimensions of Hofstede, the influence of national culture can be shown for every determinant of Porter's diamond (van Prooijen, 1991). Here, we only gave three examples of the impact of national culture on the determinants of competitive advantage. These examples made clear that national culture works through the determinants, and not in isolation from them. Therefore, we will not add a fifth determinant to Porter's diamond. But we want to stress the importance of national culture when explaining the differences in international competitive advantage. National culture is the base on which the national diamond rests. There has not yet been thorough empirical research as to the impact of national culture on international competitive advantage. The findings here are derived from the literature. To strengthen the understanding of national culture's consequences on the competitive advantage of nations, more research is needed.

## 5 The Competitive Advantage of European Nations and European Management

The competitive advantage of European nations can be analysed with the aid of Porter's framework, leading to different national diamonds favourable for the home base of certain industries. For firms in Europe, the selection of the home base for each distinct business is becoming more and more important. Porter's framework can be of help. As explained in section 2, the national diamond is not exogenous to the firm. On the contrary, firms have to upgrade their home base actively by amplifying their home base advantages and offsetting home-based disadvantages. National culture, the base on which the national diamond rests, is nevertheless exogenous to the firm.

As one of the European founding fathers of management rightly observed, an important part of the management function (now labelled as strategic management) deals with relating an organisation to its environment (Fayol, 1949), at that time primarily the national environment. Now, for firms in European nations, the European environment becomes more and more important. When strategy is formulated in a European context, it is important to realise that the environment consists of different national environments. There is a broad diversity in Western European nations. Basic assumptions, as defined by Schein (1985), differ within Europe. As we have shown in this article, differences in basic assumptions and so in national cultures do affect the diamond developed by Porter. They have a major effect in generating different diamonds in different countries. Knowing that Porter's model is a tool for analysing the strengths, weaknesses, opportunities and threats to a company in a particular nation, one has to realise that in a European context different diamonds exist. Managing these differences in formulating a European strategy is one of the most important parts of European management. Experience generates a competitive advantage over other economic superpowers.

## 6 Summary and Conclusion

In this article, we have given both a sketch of Porter's framework for the analysis of the implications of different national environments for strategic management, and have criticised the lack of attention given to the role of national culture in his framework. We stress that the determinants of his framework, the so-called national diamond, in fact rests on national culture.

European management has to cope with different national environments based on different national cultures. These different national environments give rise to differences in competitive advantages between European countries. In this respect, European management can benefit from Porter's contribution and augment it by paying attention to Europe's diversity in national cultures.

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