

Introduction to Business 2

Competitive advantage of nations and regional clusters

International Business Management

➤ Prof. Dr. Joanna Ożga

➤ 28.04.2020

Hochschule Fulda
University of Applied Sciences



Recapitulation from the last week

- ✧ Explain basic modes of market entry strategies
- ✧ Define advantages and disadvantages of different modes of market entry
- ✧ Define insourcing
- ✧ Describe criteria for choosing an international partner (joint venture, merger, partnership)

Case Study Herrenknecht

- ✎ Herrenknecht uses different methods to sell its products to foreign countries. Describe the different distribution channels and discuss why the specific channels are applied. What are the main advantages and disadvantages of other direct and indirect distribution channels?
- ✎ Although the hidden champion concept is attracting increasing attention all over the world, its prevalence in Germany suggests it as a German phenomenon. Describe the **hidden champion** concept, discuss why Germany has so many of them, and elaborate some lessons other companies can learn from hidden champions.
- ✎ Exporting is usually the first step for foreign operations, and Herrenknecht was no exception. Analyze and describe why nowadays the company not only exports its products from its headquarters in Schwanau to China or India, but also produces there on site.

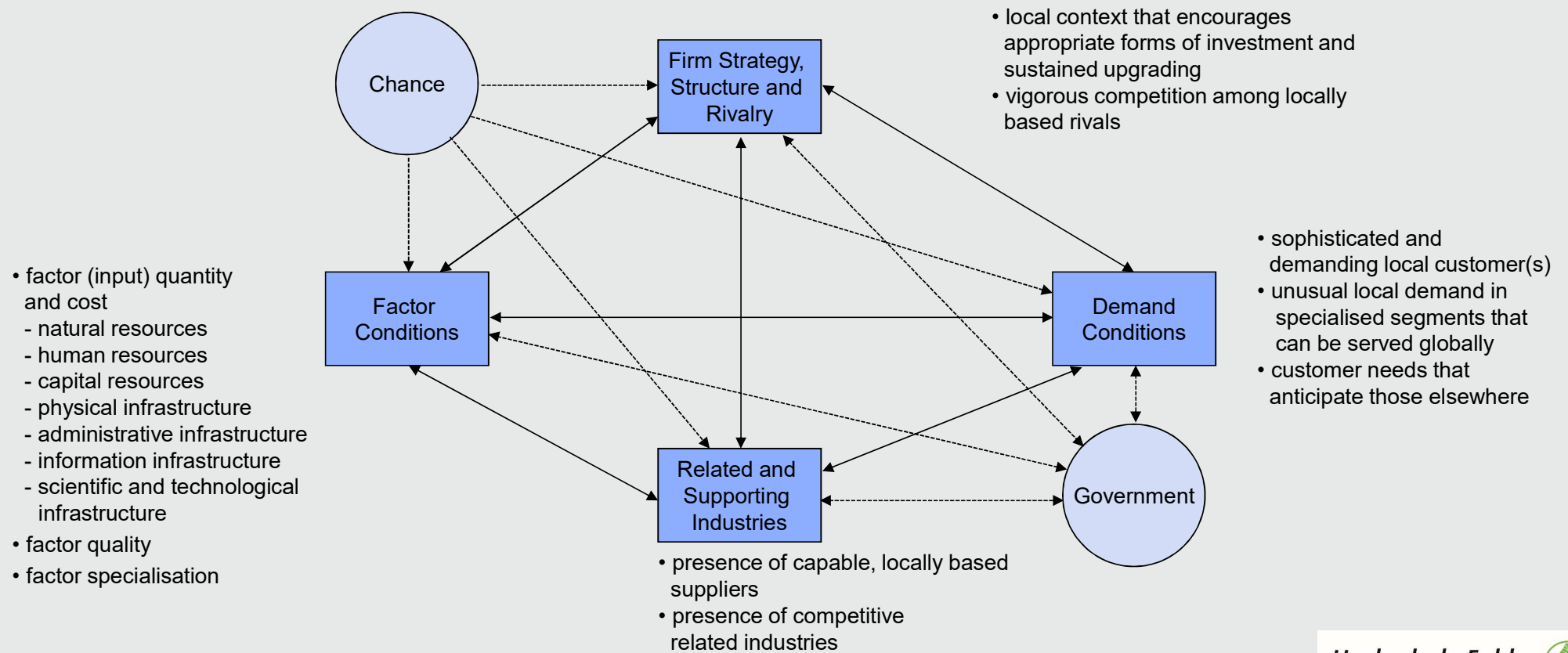
Learning objectives

- ↘ Explain the pattern of international competitive advantage
- ↘ Describe the role of regional clusters
- ↘ Explain the consistency between strategy and national conditions
- ↘ Describe determinants of geographical location

Theory of comparative advantage

- ✧ David Ricardo (<https://www.britannica.com/topic/comparative-advantage>)
- ✧ A country has a comparative advantage in those products that make use of those resources available in abundance within that country
- ✧ A country may have an absolute or competitive advantage over another. But, it often chooses to specialize production on a good or service which it can make most efficiently, relative to its trading partners.

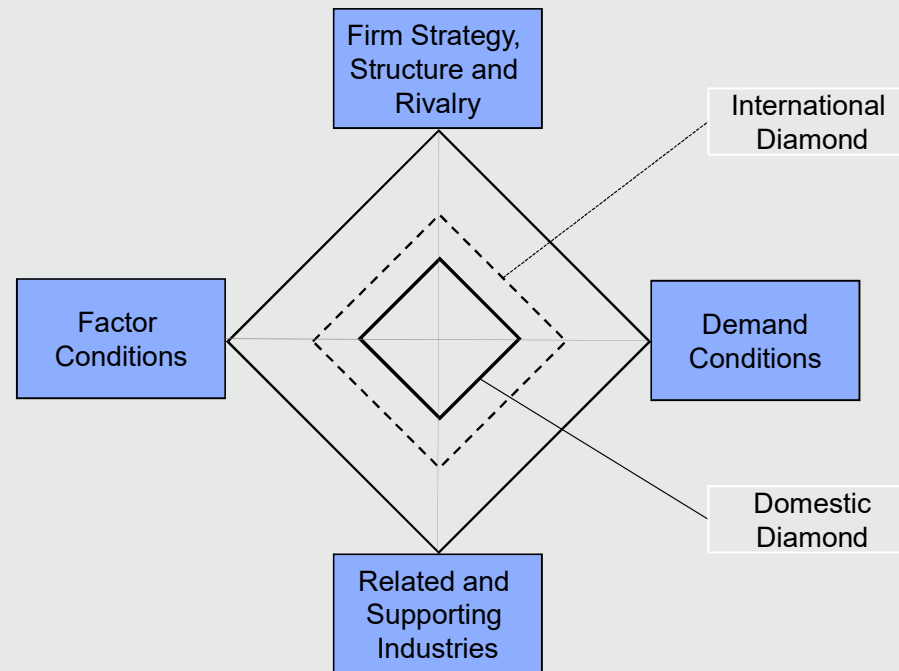
Determinants of National Competitive Advantage: Porter's Diamond Model



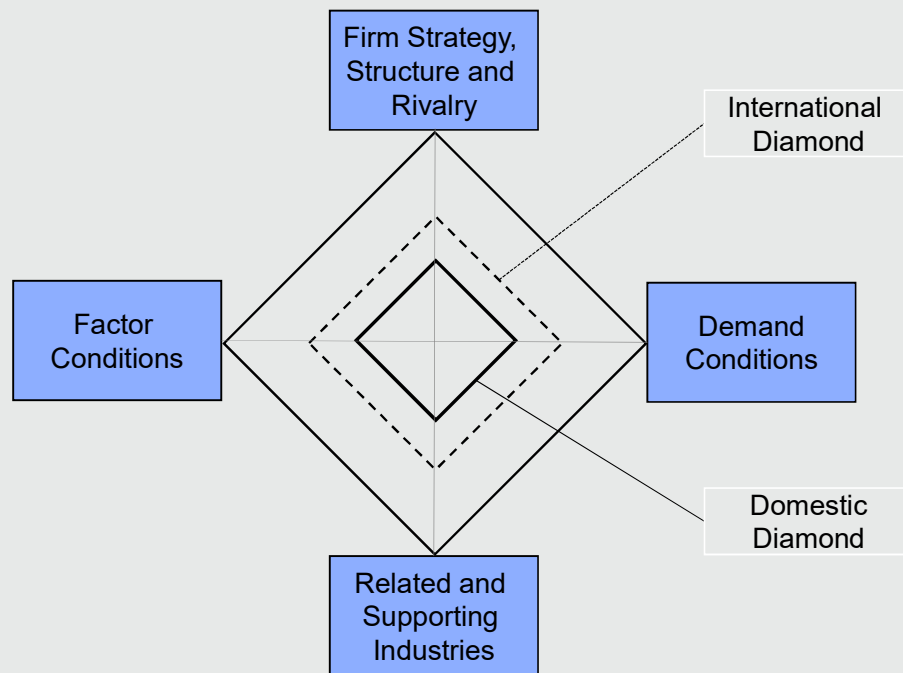
The Generalised Double Diamond

Managers build upon both domestic and foreign diamonds to become globally competitive in terms of survival, profitability, and growth.

Firms from small countries such as Korea and Singapore target resources and markets not just in a domestic context, but also in a global context. Therefore, a nation's competitiveness depends partly upon the domestic diamond and partly upon the 'international' diamond relevant to its firms.



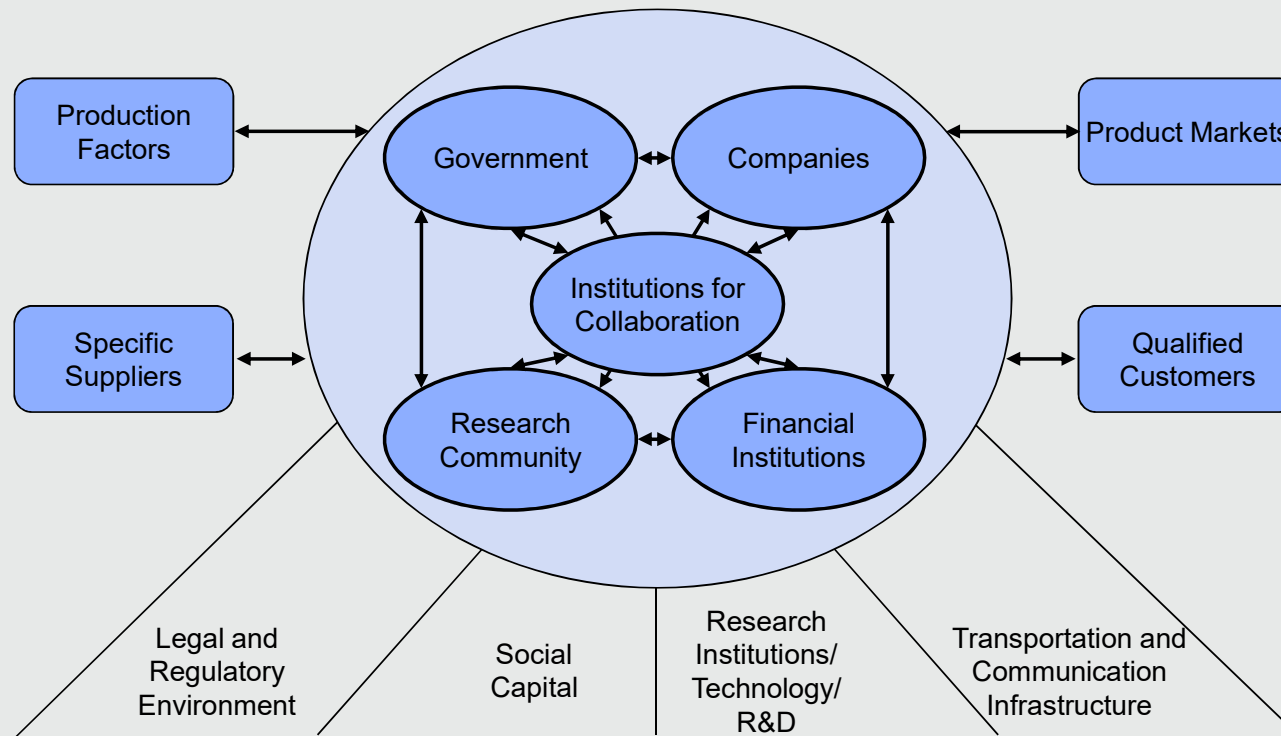
The Generalised Double Diamond



- The size of the global diamond is fixed within a foreseeable period, but the size of the domestic diamond varies according to the country size and its competitiveness.
- The diamond of **dotted lines**, between these two diamonds, is an international diamond which represents the nation's competitiveness as determined by both domestic and international parameters.
- The difference between the inter-national diamond and the domestic diamond thus represents international or multi-national activities. The multinational activities include both outbound and inbound foreign direct investment (FDI).



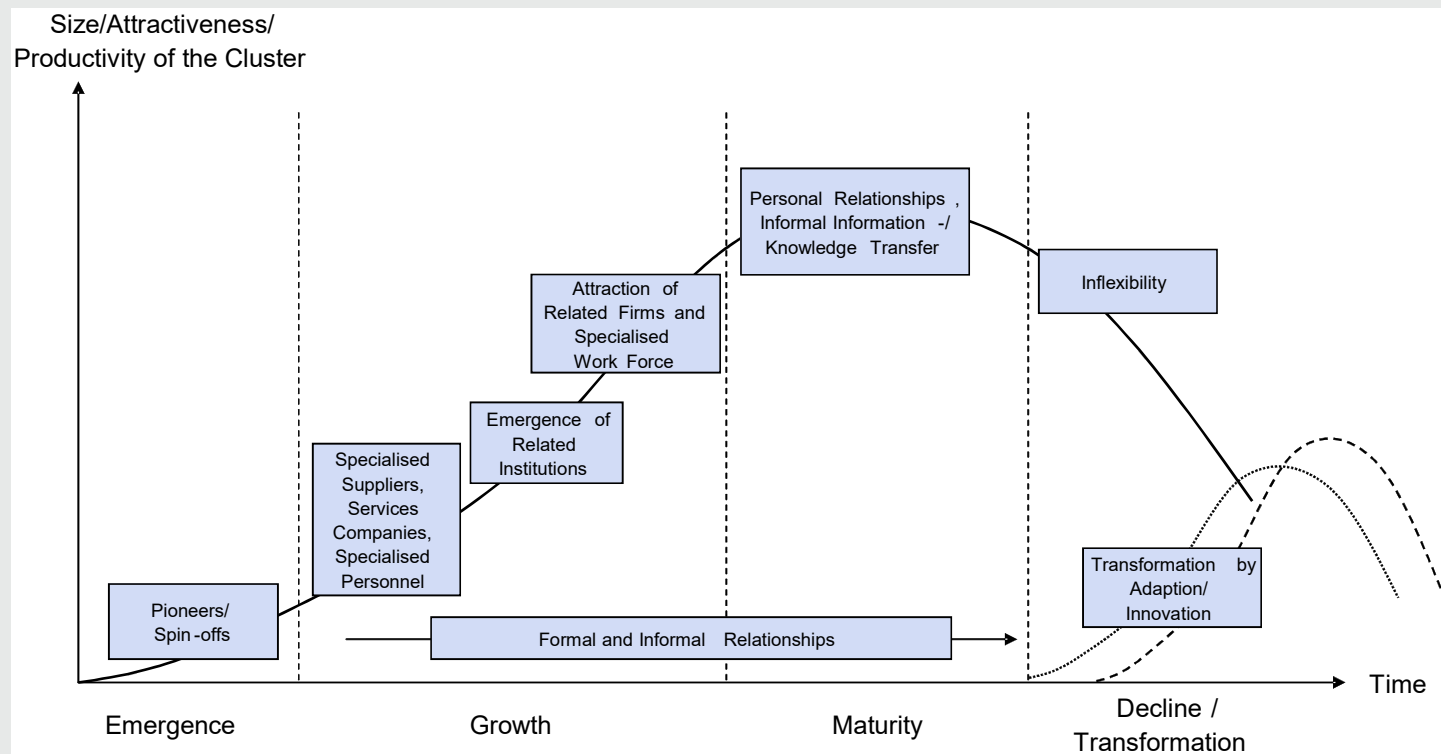
Actors in Regional Clusters



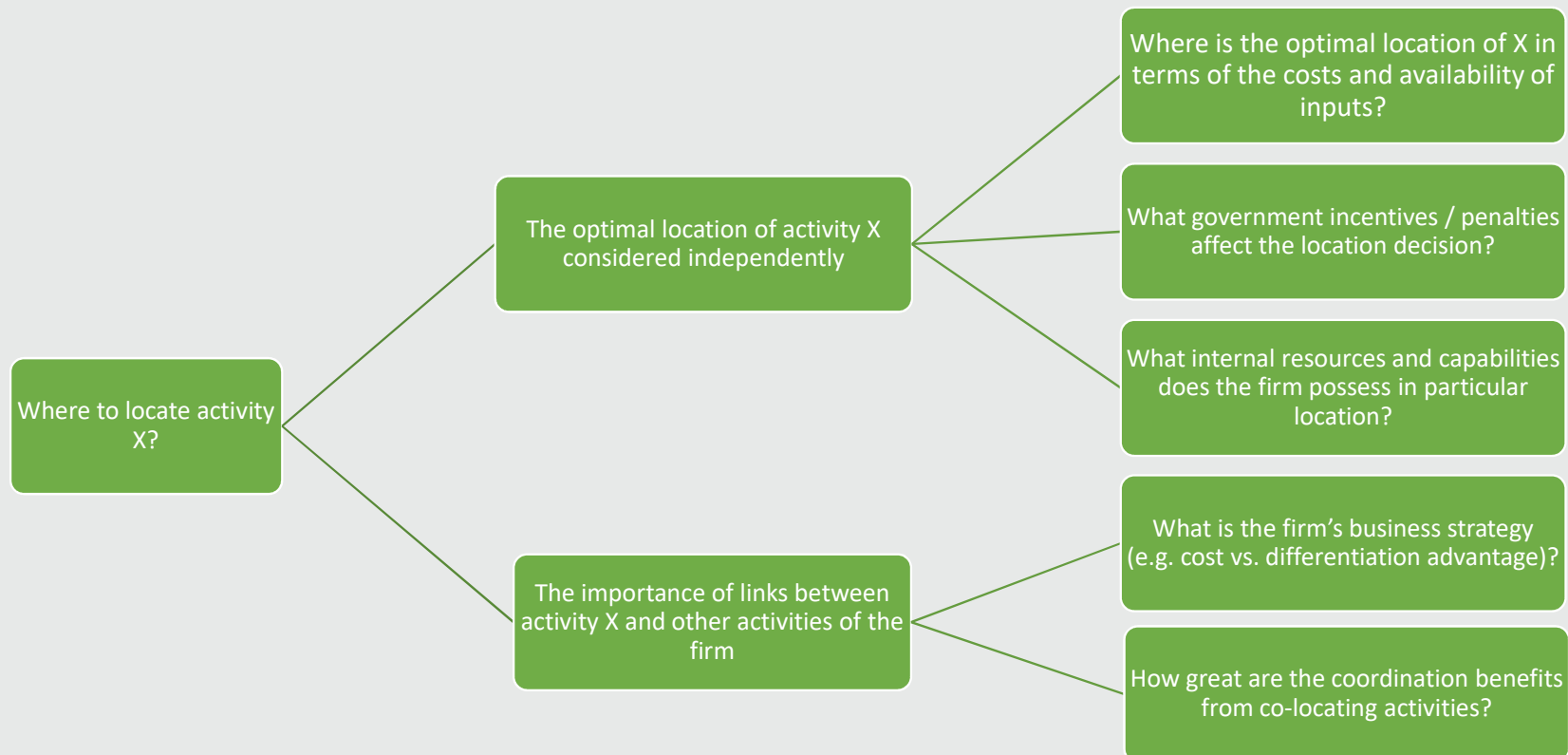
⁹ Credit: Morschet et al. 2015, p.184, adapted from Sölvell/Lindqvist/Ketels 2003, p. 18; Andersson et al. 2004, p. 31.



Cluster Lifecycle



Determining the optimal location of value chain activities



Global Production: the Hewlett Packard Pavilion 8000 laptop computer

Component / Process	Provider and Location
Design	HP, California; also HP design studios in Taiwan and China collaborate with third-party manufacturers
Assembly	Contracted to Quanta (Taiwan); assembled in China by Quanta and by third-party contractors
Microprocessor	Designed by Intel in California; manufactured at Intel plants in Oregon, New Mexico, and Israel
Graphics card	Designed by ATI Technologies in Canada; manufactured in Taiwan
Screen	Manufactured by LG Philips LCD Co. (a joint venture between LG of Korea and Philips of the Netherlands). Manufactured in South Korea
Hard disk drive	By Seagate. Designed in California; manufactured in Malaysia
Lithium ion battery	Manufactured by Sony in Japan
Logistics	Contracted to 40 third-party providers (some global such as Federal Express, DHL, and TNT; others local)
Telephone sales and customer support	Contracted to third-party providers in Canada, UK, Ireland and India

Determinants of geographical location

- ↘ Availability of resources
- ↘ Firm-specific competitive advantages
- ↘ Tradability

Thank you!

joanna.ozga@w.hs-fulda.de