

Microeconomic Foundations of Competitiveness and International Business

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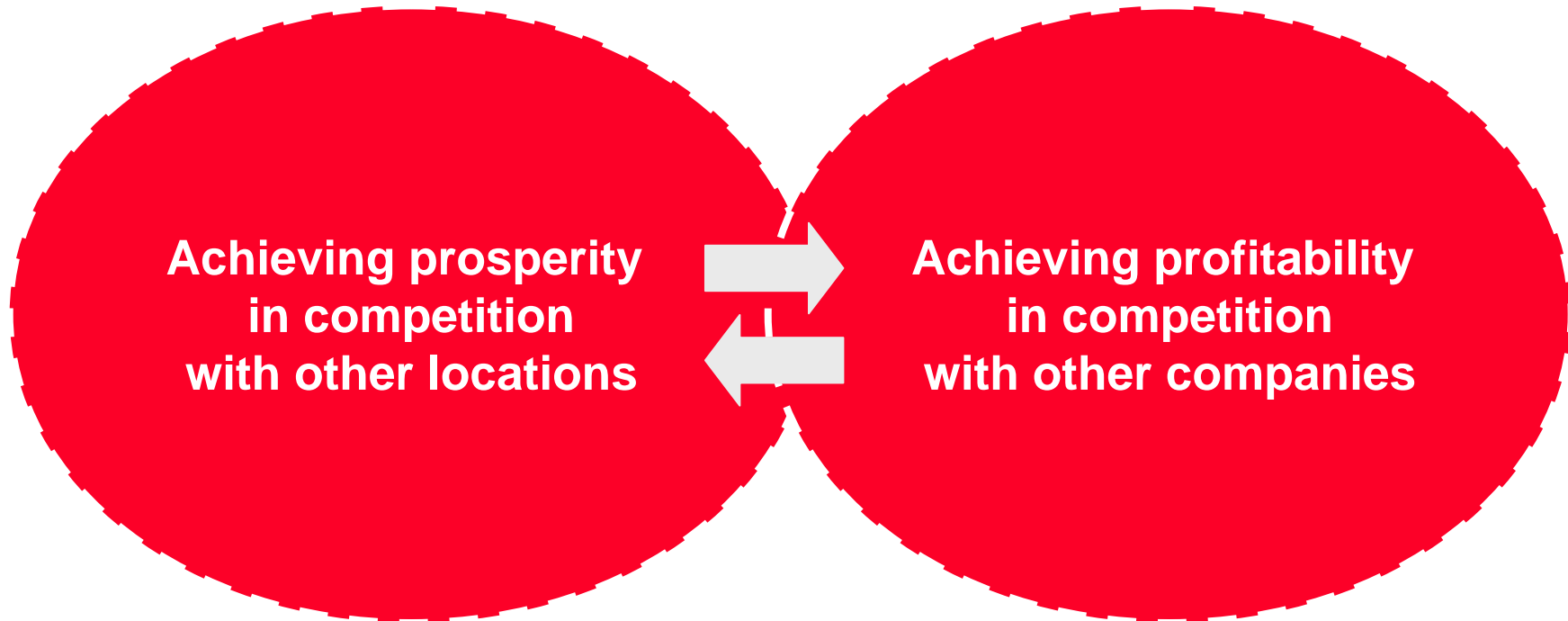
This presentation draws on ideas from Professor Porter's articles and books, in particular, The Competitive Advantage of Nations (The Free Press, 1990), "The Microeconomic Foundations of Economic Development," in The Global Competitiveness Report 2005, (World Economic Forum, 2005), "Clusters and the New Competitive Agenda for Companies and Governments" in On Competition (Harvard Business School Press, 1998), and the "Cluster Initiative Greenbook" by C Ketels, O Solvell, and G Lindqvist. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of the author.

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Related Concepts

Competitiveness

International Business



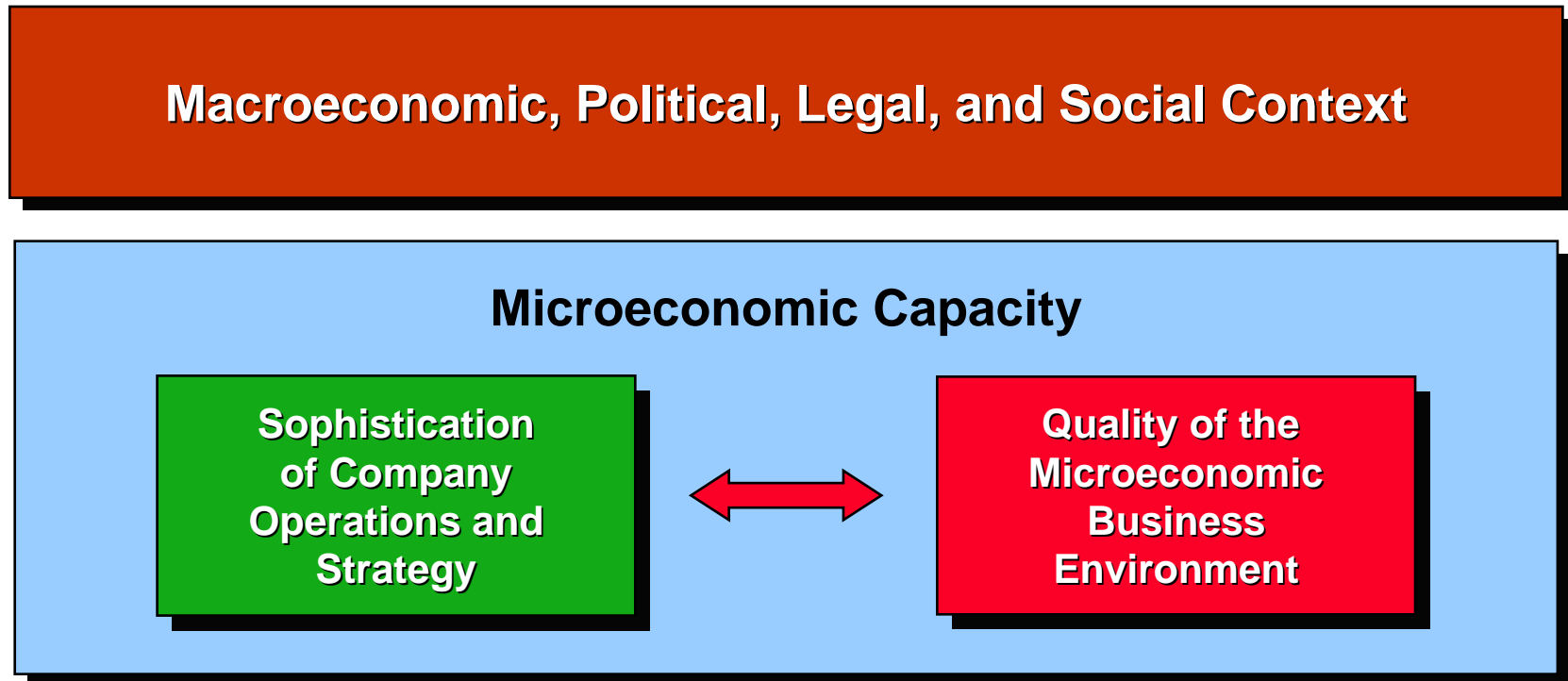
- Locations compete based on **business environment conditions** to support high levels of company productivity

- Companies compete based on **internal capabilities** and **access to specific locational environments**

Themes

- International businesses in the concept of competitiveness
- Strategy for locations and companies' locational choices
- Investing in the competitiveness of locations

Microeconomics of Competitiveness: The Core Concept



- Competitiveness is given by the **level of prosperity** a location can sustain based on the **productivity** of companies based there
- Company productivity is driven by **internal and external factors**
- A sound macroeconomic, political, legal, and social context creates the potential for competitiveness, **but is not sufficient**

Trends in the Global Economy

- Globalization of **markets**
 - Globalization of **value chains**
 - Globalization of **knowledge**
-
- **Innovation** and **skill** an increasing share of value added
 - **Services** an increasing share of value added

Globalization and the Competition between Regions

Impact on Clusters

The Context for competition between locations is changing

- More locations reach a high level of growth, making them attractive **markets** to serve
- More locations meet the minimum conditions to become potential **production sites**
- The environment locations provide become **more important** for company success as the their value creation logic is changing



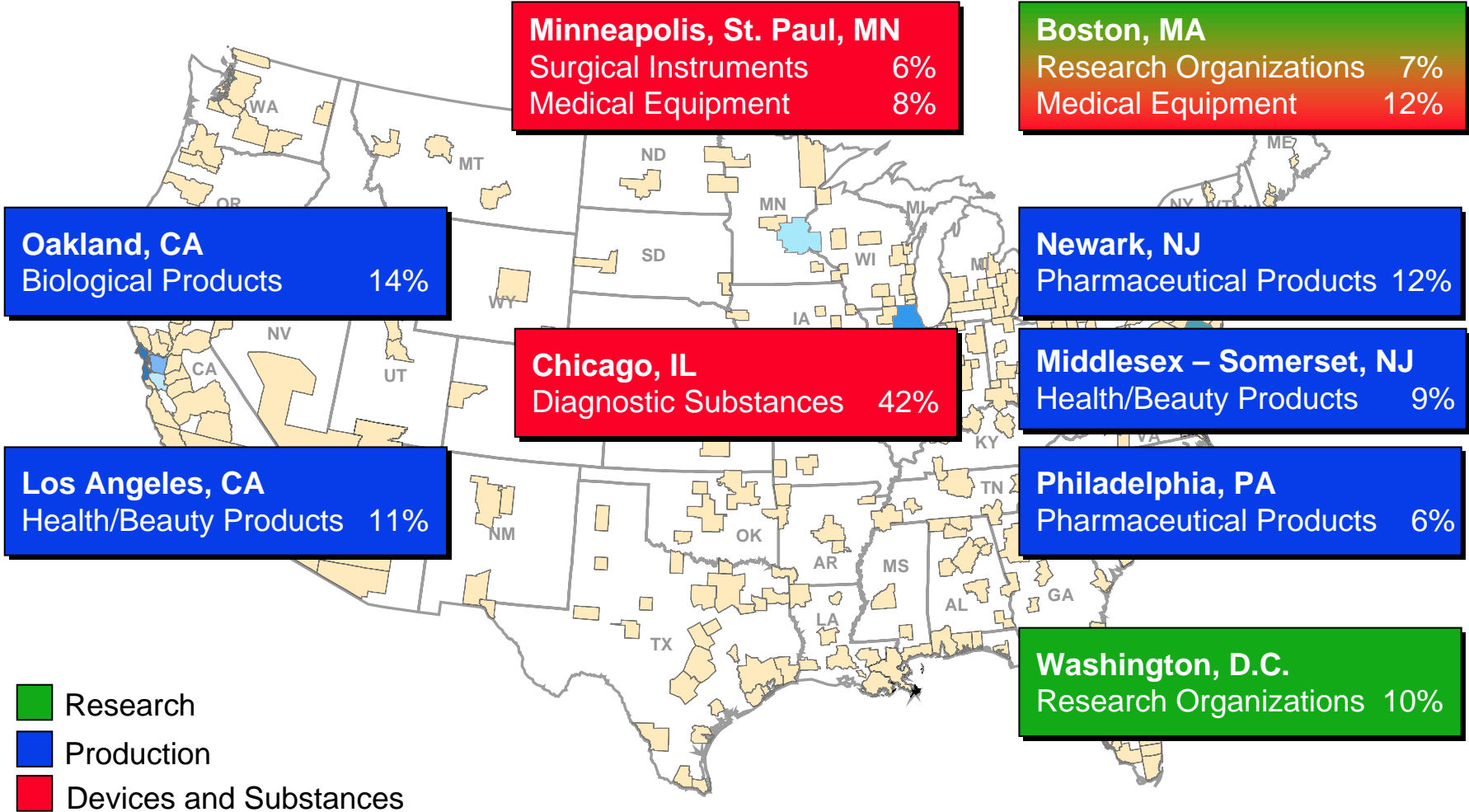
And thus the relationship between locations

- More **competiton**
- More **specialization** and regional **concentration**
- More **linkages**

Competition between locations can be **positive-sum**

Positioning of Life Science Clusters

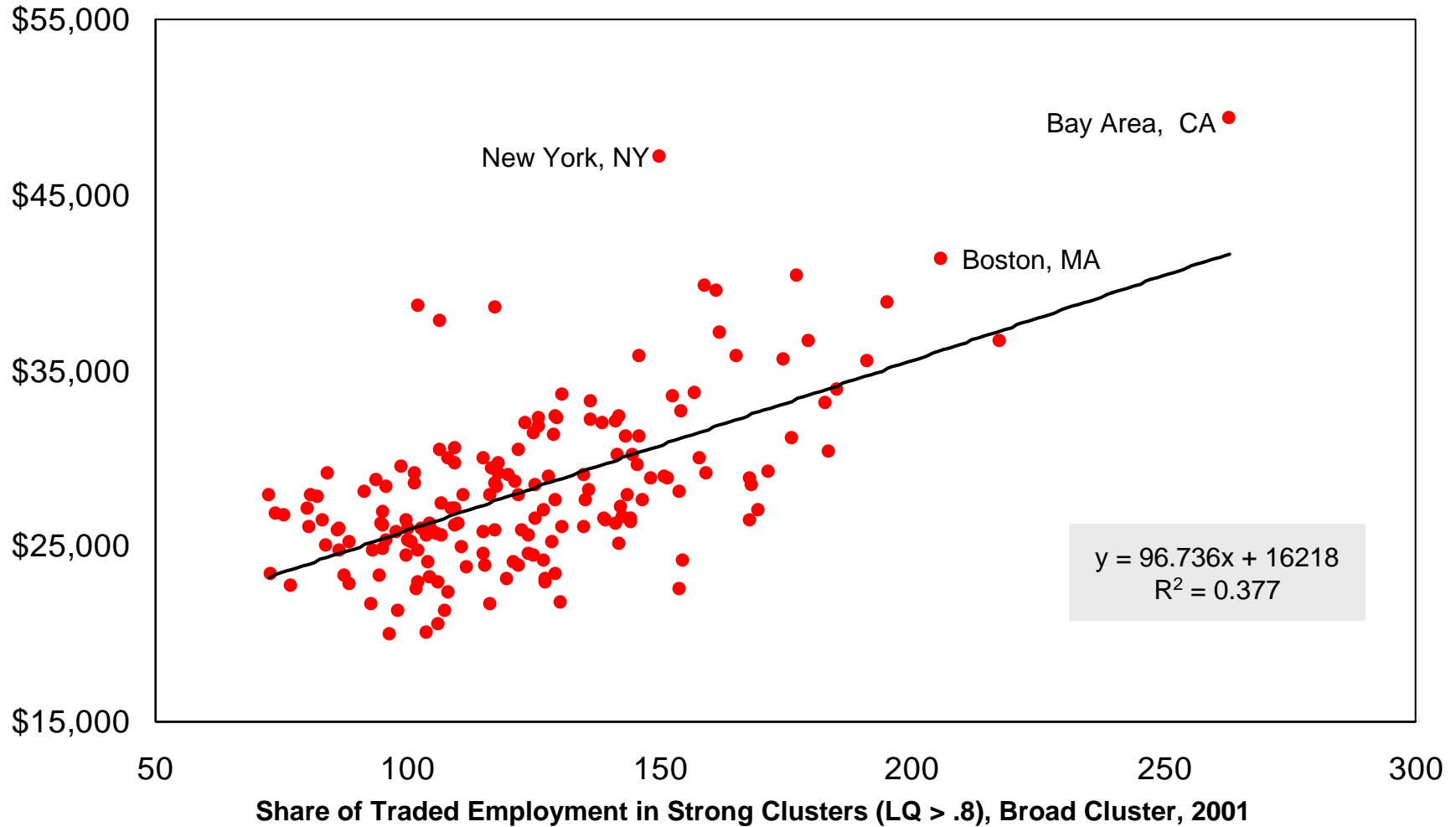
United States



Note: All 318 Metropolitan Areas are shown as shaded; includes subclusters in which the MA has employment rank 1 or 2 nationally, 1999 data
 Source: Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School

Regional Specialization and Prosperity

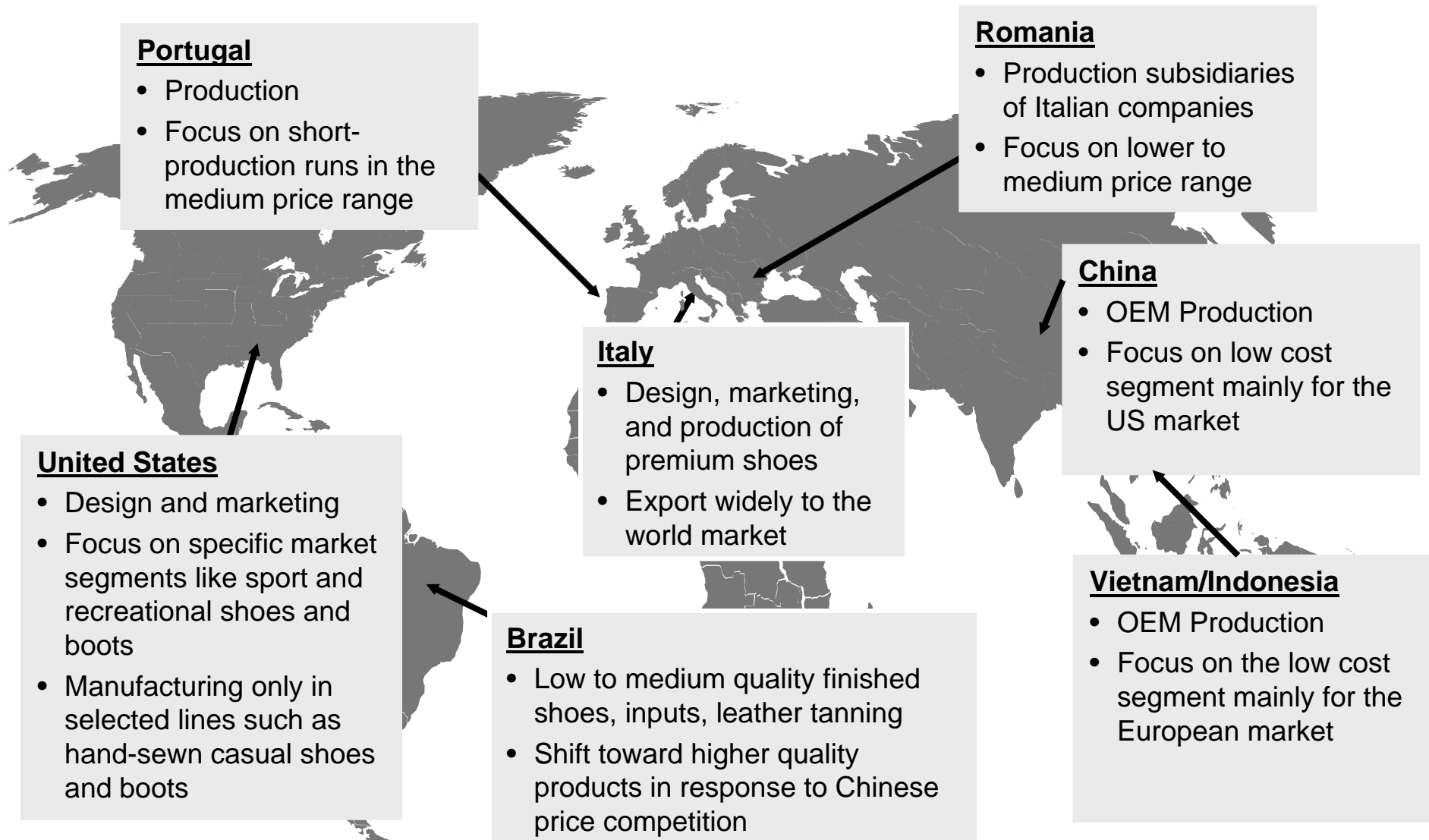
Average Regional
Wage, 2001



Source: County Business Patterns; Michael E. Porter, "The Economic Performance of Regions", *Regional Studies*, Vol. 37, 2003

Positioning of Footwear Clusters

Selected Countries



Source: Research by HBS student teams in 2002 – Van Thi Huynh, Evan Lee, Kevin Newman, Nils Ole Oermann

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The Role of International Firms

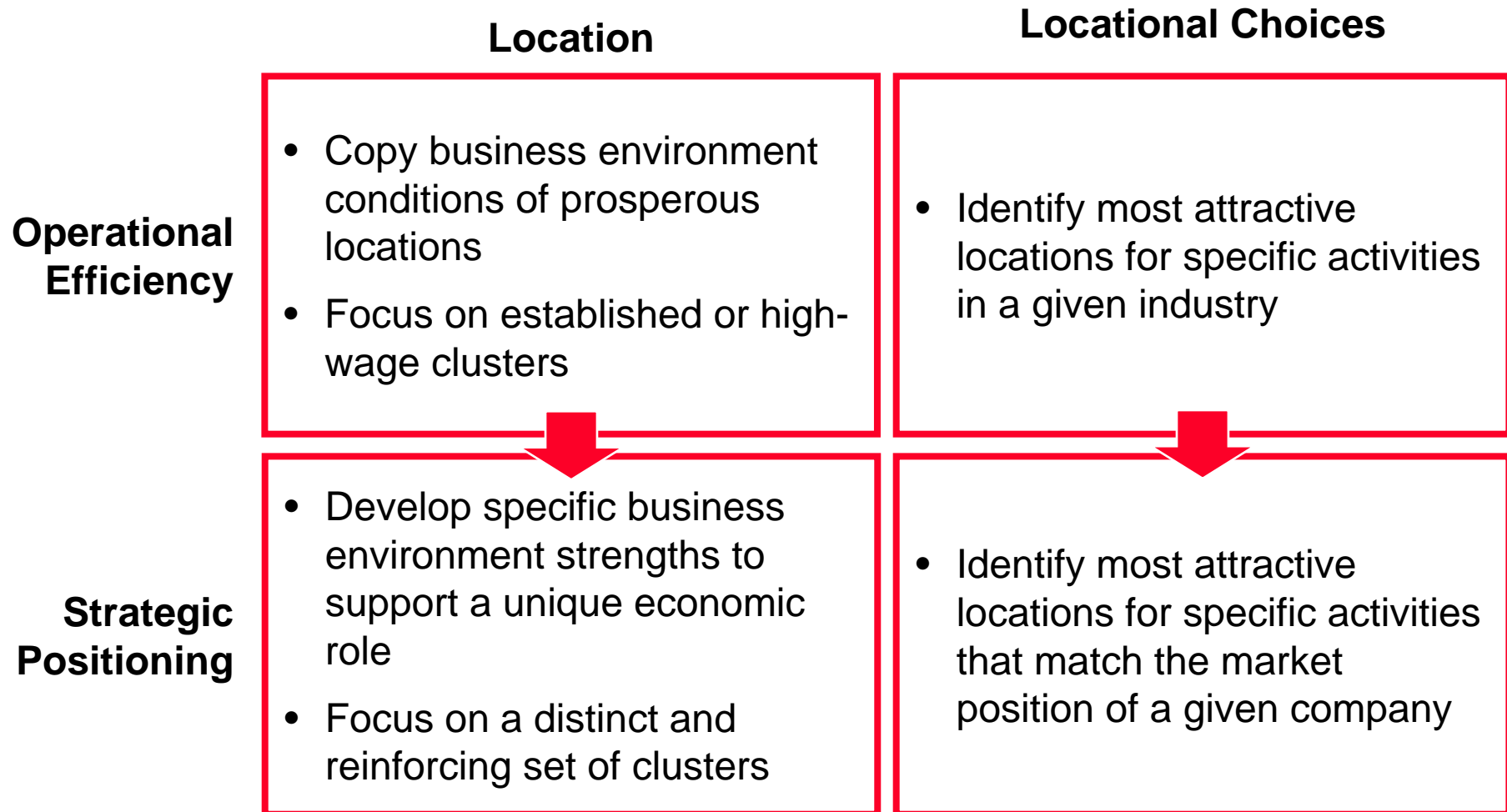
- Driver of **specialization**
- **Linkage** between regional clusters



- Locations have to understand the **motivations of international firms** to attract their investment
- The successful **internationalization of domestic firms** becomes and increasingly important driver of locations' economic success
- International firms increasingly become the **managers** of linkages between clusters, not just of their own operations in different locations
- **Cluster organizations** increasingly aim to also provide services in the development and management of linkages between clusters

Locations and Companies' Locational Choices

The Role of Strategy



National Strategic Positioning: The Case of Ireland

- Ireland has been one of the most **impressive economic growth** stories of the last decades



- Ireland has been successful by positioning itself as a very **efficient location for multinational companies to serve the European market**
- Ireland has supported this positioning through strengthening the relevant dimensions of the business environment
 - Focus on **education** to provide a well-educated workforce at competitive wage levels
 - Focus on **communication and transportation infrastructure** to provide an efficient platform to reach other European markets
 - Focus on a **highly professional investment attraction agency** to smoothly manage all contacts with potential and established investors
 - Focus on **activities and investors** for which the selected positioning has the strongest appeal

Location and Strategic Positioning of Companies

Example of Interactions

Location driving strategy

FAST Search & Transfer

- Norwegian software company producing internet search technology
- Location has strong skill base but small demand and limited marketing capability



- Company has decided to position itself as a supplier to customer-facing internet companies, not as a second Google

Strategy driving location

BMW

- German premium car producer that was looking for a new production site in Europe
- Strategic position based on German technology and up-to-date product portfolio



- Company has decided to place the plant in Leipzig (Germany), not in nearby Central European locations as many competitors

Related But Different Concepts

Competitiveness

- Aims to **improve** the quality of locations

International Business

- Takes the quality of locations as **given**
- Aims to improve companies' ability to leverage barriers between differences across locations

Company-Driven Competitiveness and Cluster Efforts

**Dow Chemical/BMW/...,
Mitteldeutschland (Germany)**

*Ensure attractiveness for further
investments by headquarters*

**Danfoss,
Southern Jutland (Denmark)**

*Ensure availability of skills as
company reduces manufacturing
operations*

**Magna Steyr,
Styria (Austria)**

*Ensure capabilities at
regional supplier network*

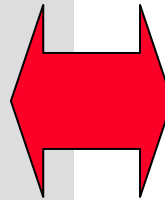
**Philips,
Eindhoven (Netherlands)**

*Increase innovative capacity in an
open innovation-model*

Strategic Corporate Philanthropy

Where to Focus Corporate Philanthropy

- Social and economic goals can be addressed simultaneously by **improving a company's competitive context**



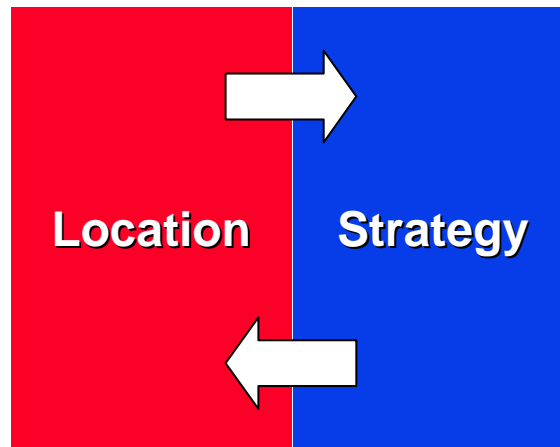
How Companies Should Invest in Philanthropy

- Companies should give not just money but leverage the company's unique capabilities in support of social causes, far exceeding the impact possible by individuals

Location and Strategic Management

Traditional roles of locational analysis

Picking a location:
Where do we locate which activity in sync
with our strategic position?



Leveraging a location:
How do we derive strategic benefits from
the characteristics of our location?

Improving a location:
How can improve the value of our location
in supporting our strategic position?

New roles of locational analysis