Patterns of National Competitive Success

by Michael E. Porter

To investigate why nations gain competitive advantage in particular industries and the implications for company strategy and national economies, I conducted a four-year study of ten important trading nations: Denmark, Germany, Italy, Japan, Korea, Singapore, Sweden, Switzerland, the United Kingdom, and the United States. I was assisted by a team of more than 30 researchers, most of whom were natives of and based in the nation they studied. The researchers all used the same methodology.

Three nations—the United States, Japan, and Germany—are the world’s leading industrial powers. The other nations represent a variety of population sizes, government policies toward industry, social philosophies, geographical sizes, and locations. Together, the ten nations accounted for fully 50% of total world exports in 1985, the base year for statistical analysis.

Most previous analyses of national competitiveness have focused on single nation or bilateral comparisons. By studying nations with widely varying characteristics and circumstances, this study sought to separate the fundamental forces underlying national competitive advantage from the idiosyncratic ones.

In each nation, the study consisted of two parts. The first identified all industries in which the nation’s companies were internationally successful, using available statistical data, supplementary published sources, and field interviews. We defined a nation’s industry as internationally successful if it possessed competitive advantage relative to the best worldwide competitors. Many measures of competitive advantage, such as reported profitability, can be misleading. We chose as the best indicators the presence of substantial and sustained exports to a wide array of other nations and/or significant outbound foreign investment based on skills and assets created in the home country. A nation was considered the home base for a company if it was either a locally owned, indigenous enterprise or managed autonomously although owned by a foreign company or investors. We then created a profile of all the industries in which each nation was internationally successful at three points in time: 1971, 1978, and 1985. The pattern of competitive industries in each economy was far from random: the task was to explain it and how it had changed over time. Of particular interest were the connections or relationships among the nation’s competitive industries.

In the second part of the study, we examined the history of competition in particular industries to understand how competitive advantage was created. On the basis of national profiles, we selected over 100 industries or industry groups for detailed study; we examined many more in less detail. We went back as far as necessary to understand how and why the industry began in the nation, how it grew, when and why companies from the nation developed international competitive advantage, and the process by which competitive advantage had been either sustained or lost. The resulting case histories fall short of the work of a good historian in their level of detail, but they do provide insight into the development of both the industry and the nation’s economy.

We chose a sample of industries for each nation that represented the most important groups of competitive industries in the
The industries studied accounted for a large share of total exports in each nation: more than 20% of total exports in Japan, Germany, and Switzerland, for example, and more than 40% in South Korea. We studied some of the most famous and important international success stories—German high-performance autos and chemicals, Japanese semi-conductors and VCRs, Swiss banking and pharmaceuticals, Italian footwear and textiles, U.S. commercial aircraft and motion pictures—and some relatively obscure but highly competitive industries—South Korean pianos, Italian ski boots, and British biscuits. We also added a few industries because they appeared to be paradoxes: Japanese home demand for Western-character typewriters is nearly nonexistent, for example, but Japan holds a strong export and foreign investment position in the industry. We avoided industries that were highly dependent on natural resources: such industries do not form the backbone of advanced economies, and the capacity to compete in them is more explicable using classical theory. We did, however, include a number of more technologically intensive, natural-resource-related industries such as newsprint and agricultural chemicals.

The sample of nations and industries offers a rich empirical foundation for developing and testing the new theory of how countries gain competitive advantage. The accompanying article concentrates on the determinants of competitive advantage in individual industries and also sketches out some of the study's overall implications for government policy and company strategy. A fuller treatment in my book, The Competitive Advantage of Nations, develops the theory and its implications in greater depth and provides many additional examples. It also contains detailed descriptions of the nations we studied and the future prospects for their economies.