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## European management an emerging competitive advantage of European nations: a reply to Michael Porter

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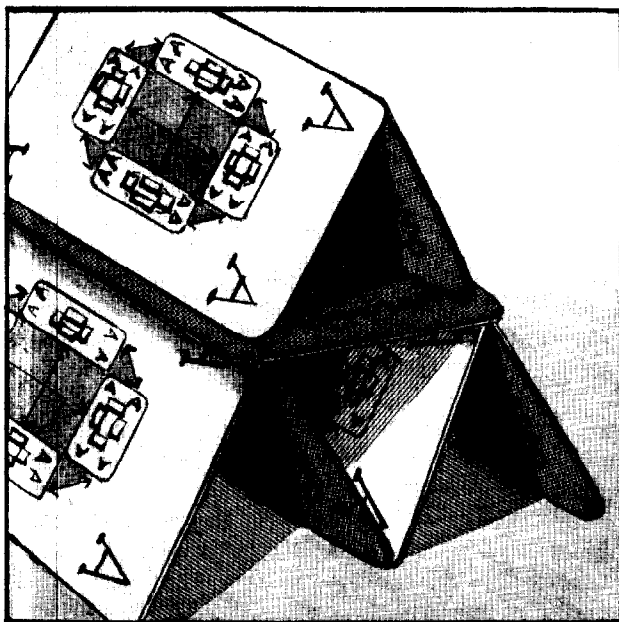
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## NOTES AND VIEWS

# European Management: An Emerging Competitive Advantage of European Nations\*

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This article extends the debate begun in the June 1992 issue of *EMJ* when the authors first criticized Michael Porter's explanatory framework in his *Competitive Advantage of Nations* (1990), over the role of national culture on the competitive advantage of nations. In this paper, Frans van den Bosch and Arno van Prooijen stress that Europe is a locus of competitive advantage if one is prepared to pay attention to the possibility of 'European Management' as a potential asset of European firms. In this connection, the transnationalization of European firms is of importance.



\* A reply to Michael Porter's article, *EMJ*, June, 1992.

## Introduction

This article deals with the influence of national culture on the competitive advantage of European nations and the possible implications for European Management. In an earlier contribution (van den Bosch and van Prooijen 1992) we criticized Michael Porter's explanatory framework in his *Competitive Advantage of Nations* (1990) with respect to this subject. We summarize our criticisms and discuss Porter's response to our article. His response contains one somewhat unsatisfactory element, at least to us. Porter claims that: 'Europe is not the locus of competitive advantage'. We elaborate on this view further by drawing attention to the continuing process of transnationalization in Europe. We then go on to discuss the development towards European Management as an interesting example of transnational management. The summary and conclusions emphasize the importance of national culture, as agreed by Michael Porter, for the competitive advantage of nations. However, contrary to Michael Porter, we will stress the importance of Europe as the locus of competitive advantage due to the advantages of European Management

## National Culture and Competitive Advantage

Michael Porter's explanatory framework of analysis of the Competitive Advantage of Nations consists of four so-called determinants: (1) factor conditions, (2) demand conditions, (3) related and supported industries, and (4) firm strategy, structure and rivalry. Two additional elements are added to this framework: chance (exogenous influences) and government. This framework forms a dynamic system of mutually reinforcing determinants and is called 'the national diamond'. We criticized

Porter's framework because it does not explicitly consider the influence of national culture on the competitive advantage of nations. We made plausible that national culture works through the determinants and not in isolation from them and concluded: 'Therefore we will not add a fifth determinant to Porters diamond. But we like 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' (van den Bosch and van Prooijen 1992).

In fact, Porter agreed with our conclusion by stating in his response that we, 'rightly raise the importance of cultural factors in setting the context for national competitive advantages' (Porter 1992, p. 178). Furthermore he mentioned six additional findings about the role of culture with respect to competitive advantage. By and large, we agree with these findings. In our view, one of these findings deserves special attention: the insight that 'cultural factors often lead to sustainable competitive advantage'. We disagree with Porter's view that: 'Europe is not the locus of competitive advantage' as he stated explicitly in his response to our article. If we are prepared to pay attention to the possibility of 'European Management' as a potential asset of European firms, Europe or the European Community could become indeed the locus of competitive advantage. In this connection the transnationalization process of European firms seems to be of importance.

## Transnationalization

In both the International Management and International Business literature the opportunities and threats of the management of diversity are an important topic (Buckley and Brooke 1992). In this connection the gradual evolution in management thinking with respect to foreign operations is usually divided into a number of stages. Recently Bartlett and Ghoshal (1989 and 1992) propose to add a new stage called 'transnational' to the already existing stages of management thinking like 'international', 'multinational' and 'global'. The gradual internationalization of the business environment gives rise to a search for complex mechanisms to coordinate the differentiated and interdependent units of multinational enterprises. In this connection, the transnational solution with an integrated network as organizational structure emerged, according to Bartlett and Ghoshal. The strength of these integrated networks springs from their fundamental characteristics: dispersed assets, specialized operations, and relationships between units or divisions of the multinational enterprise built on interdependence. However, underlying this organizational structure is a so called transnational management mentality: 'Transnational management acknowledges the complex, diverse, and changeable nature of its environment and reflects these characteristics in its organization's multidimensional perspectives, dispersed capabilities, and flexible process' (Bartlett 1986, p. 399). In their latest book Bartlett and Ghoshal (1992, p. 14) elaborate this view. The trans-

national management mentality recognizes the importance of different national environments and of flexible and responsive country-level operations, hence the return of *national* into the terminology. Porter's diamond model is of great importance for the analysis of the managerial importance of these different national environments (van den Bosch and van Prooijen 1992). The prefix *trans* stresses the importance of intensive organization, wide coordination and, due to the interdependence of the units of the MNC, shared decision making. From this short overview it may be clear that especially transnational management is suited for taking seriously cultural diversity among nations. That is why we propose transnational management as an important building block for a conceptual model of European Management.

However, transnationalization of firms in Europe is more a process than an easy to obtain result. Acquiring, adapting and implementing the transnational management mentality takes time. Van Dijk (1992) stresses transnationalization as an open process of development consisting of a number of stages. Ranging from the initial stage of increasing awareness for and openness towards the diversity in Europe to the final stage as a continuing learning process. This learning process involves searching for and making strategic use of synergistic possibilities and opportunities of transnationalization in Europe. During all these successive stages the management of European firms has to be aware of the fact that national cultures have a major effect in generating different 'diamonds' with respect to a certain industry for different countries. Transnational management acknowledges this fact and seems thereby to be of special importance for European Management.

## European Management as an Example of Transnational Management

Management of diversity, which is fundamental to European Management, has a strong relationship with innovation. To stress the importance of Europe's cultural divergence and its implications for both European management and Europe as a locus of competitive advantage, we focus in this paragraph on a very important driver behind competitive advantage: innovation. Innovation plays a key role as well in the upgrading of Porter's diamond aiming at a sustainable competitive advantage of nations.

Innovation is the generation, acceptance and implementation of new ideas, processes, products or services (Moss Kanter 1984, p. 20). It can occur in any part of a corporation, but just as well may not. Innovation depends on the conditions that facilitate the creation of a supportive atmosphere. Moss Kanter (1984, p. 148) concludes that to produce innovation, more complexity is essential. More relationships, more sources of information, more angles of the problem, and more

ways to pull in human and material resources are needed. Through wide coordination, intensive organization and shared decision making, European Management adopting a transnational management approach creates such a supportive atmosphere for innovation. This could contribute to Europe as a locus of innovation and thereby as a locus of competitive advantage. The currently accelerated European Integration process could reinforce this development (Thurrow 1992).

We could illustrate both the gradual development of transnational management in Europe and the interesting role of different national environments and in particular different national cultures as well as its impacts on innovation by the case of a successful European company with a real transnational character and an example of high-tech European cooperation: Airbus Industrie. The case highlights some behavioural issues at micro-level; according to Stopford (1986) the most important subject with respect to improving the international competitiveness of European industries. Some twenty years ago Airbus Industrie started as a consortium of French, German, Spanish and then British firms. From the beginning Airbus Industrie sought an edge against US rivals such as Boeing and McDonnell Douglas through superior technology. After a lot of trouble especially with the various functional areas of management, e.g. manufacturing parts in different countries with final assembly centralized, and facing the intense internal difficulties of managing such activities, now Airbus Industrie is a serious threat, in terms of the growth rate of new orders acquired worldwide, to its major US rivals (Labrich 1992). This case illustrates the possibility that European Management can overcome in time severe managerial difficulties with respect to the divergence of national cultures and thereby can benefit from increased innovation. This development could result eventually in 'Europe as a locus of competitive advantage' in certain internationally oriented industries.

Hofstede (1991, p. 145; p. 229) stresses this point as well, as he states: 'The EC can be considered the biggest laboratory in intercultural cooperation of today's world' and: 'Europe is learning about intercultural cooperation the hard way, but what it has learned will become a competitive advantage over the other economic superpowers'. It is interesting to note in this connection that a 'federated' European company, Germany's Volkswagen AG, stated: 'Europe is also the world in microcosm . . . What works in Europe will equip us to reach beyond it' (Advishai 1991, p. 104). These quotations stress the necessity of a transnational management attitude as well.

## Summary and Conclusion

In our reply to Michael Porter's criticism we have focused on his view that: 'Europe is not the locus of competitive advantage', because acceptance of this view has consequences for the quest for European Management. We tried to show that the European Community (or Europe) could become the locus of competitive advantage, at least in certain internationally oriented industries. This could be the case if the threat of differences of the national environments involved and especially of the divergence of national cultures can be transformed into a sustainable European opportunity. In this connection we propose both transnational management and Porter's diamond model as important building blocks for a conceptual model of European Management. In that way European Management can be considered as an emerging competitive advantage of European nations.

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