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From five competitive forces to five collaborative forces: revised view on industry structure-firm interrelationship

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Abstract

We believe that the M.E. Porter's famous analytical "Five competitive forces" tool should be modified for assessing today's dynamic industry's structure. In this paper, we introduce the dimension of time dynamics should be brought into the "Five forces" tool, as to enable managers to get clear(er) insight in the existence and nature of past, present and future (anticipated) interaction between firm and its industry environment. We also address critical analysis of the original concept, stating that it does take into consideration a firm's potential collaborative relations with determinants of industry environment. The empirical analysis of the enhanced M.E. Porter's concept by using the psychometric tool INDUSTRUCT, refined by introducing the additional dimensions of time dynamics and type of competitive forces influence on firm's efficacy in order to reveal potential positive impacts of industry structure. Our results confirm the validity and the reliability of "Five forces" framework and demonstrate relative stability of industry structure over the time, as well as significant level of positive impact of industry's structure determinants on firm's efficacy.

Keywords: M. E. Porter, Five forces, Industry analysis, Competition, Cooperation

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1. Introduction

At the end of 1970's and early 1980's when M.E. Porter (1979, 1980) presented and established his famous analytical "Five competitive forces" tool, world's economy was characterized by continuous growth trend. In such global circumstances the development of majority national industries was generally stabile and predictable. Consequently, the main prerequisite for business goals accomplishment could have been optimization of firm's strategic behavior in relation to external competitive environment. "Grabbing" for profits as the main business goal in combination with constant character of industry structure's determinants led to great success of Porter's analytic tool in terms of its relevance and applicability.

Static analytic tool for assessing today's dynamic industry's structure is no longer optimal. The dimension of time dynamics should be brought into the "Five forces" tool. It should become more practical from the perspective of

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changing environment trends enabling managers to get a clear(er) insight in the existence and nature of past, present and future (anticipated) interaction between firm and its industry environment.

2. Literature Review: From Five Static Competitive Forces to Five Dynamic Collaborative Forces

2.1. Literature Review

Opportunities and threats for the firm that are coming from the actual industry environment could be interpreted as implications for the future influences of industry structure determinants. This relation is in-line with the view of “New industrial organization” theoreticians regarding mutual interrelationship between the elements of “S-C-P” paradigm (Structure-Conduct-Performance) but adding it a dynamic time dimension.

The character of determinants of industry structure could be the result of: (1) past answer of the firm to the past and/or actual opportunities and threats coming from industry environment, (2) present answer to the present opportunities and threats coming from industry environment, and (3) present answer to the anticipated opportunities and threats. Therefore, firm’s past, present and future strategic behavior in combination with past, present and anticipated character of industry’s structure determinants create the basis for different *competitive position* of the firm (i.e. its position among its direct competitors, being result of the influence of industry structure’s determinants on firm’s performance). Thus, it is not only relevant to define present firm’s competitive position, but also to analyze its relation to competitive position being result of past and/or anticipated influence of industry structure on firm’s performance. Not being able to analyze and explain dynamic industry changes is one of the most criticized aspects of Porter’s “Five forces” analytical tool (Grant, 2002, p. 89; Sheehan, 2005; Karagiannopoulos, Georgopoulos & Nikolopoulos, 2005; Stonehouse & Snowdon, 2007).

Additionally, M.E. Porter (1980) implied that industry determinants are exclusively “profit extortionists”, calling them “competitive” forces. From the standpoint of modern business relations resulting from global market turbulences, author obviously did not bring into the model enough flexibility making it potent to access possible positive interactions between firm and industry environment. Therefore, another criticized aspect of the analytic tool was not taking into consideration firm’s potential collaborative relations with determinants of industry structure (Dyer & Singh, 1998). Collaborative interrelationship between firm and industry determinants could result in lowering the level of uncertainty and by turning them into “partnership forces” (Yong-Kim & Oh, 2004). It doesn’t mean that the industry profit wouldn’t be allocated between different industry forces as Porter claimed, but that its allocation would be more predictable due to lowering of uncertainty level as a consequence of various collaborative compromises between “five forces”. Accordingly, Dyer and Singh (1998) claim that resources crucial for the firm can be created by linking up with other firms through strategic alliances, joint-ventures, etc. In that way the firm could create competitive advantage by being a part of a bigger network of relationships with buyers, suppliers and direct rivals creating mutually beneficial “exchange net”.

2.2. Research Model and Hypothesis Development

There is no doubt that Porter’s framework is helpful tool for managers to cope with external environment. But there is an obvious need to enable modern managers to better detect industry changes enabling them to become faster and more precise in selecting optimal strategic alternatives. By taking into respect actual dynamism of global economy as well as potential eligible impact coming from positive effects of industry factors, “Five competitive forces” framework should be empirically improved. Adding it dynamic dimension that would allow tracking past, present and anticipated interrelationship between firm and industry structure components, managers would be able to detect the level of industry change. At the same time, making the framework potent to measure both positive and negative influences of industry structure’s determinants on firm’s performance, it would be possible to capitalize on potential positive interrelationship. Thus, empirically improved “Five forces” framework could serve as even more helpful tool for today’s tough competitive landscape (Figure 1).

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