SECTION 3
GENERAL ISSUES IN MANAGEMENT

The False Expectations of Michael Porter's Strategic Management Framework

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Abstract

Although Porter's framework for strategic management is the basis of a systematic approach to strategy, it in no way guarantees any scientific rigour. It is characterized by an environmental determinism, and a linear Cartesian attitude towards complex problems that assumes that a business is merely the sum of its parts, as opposed to a complex, uncertain and ever-changing relationship amongst its parts. This, along with a positivistic approach in the use of case studies of relatively limited realities, has resulted in generalizations and 'universal rules' which have simply served to legitimize three general trends inherent to the dominant financial capitalism: domination by large corporations towards situations of monopolies or oligopolies, the concentration of capital and an interdiction of any movement towards true participatory management. In addition, Porter's framework does not assure the achievement of a lasting, defensible and non-easily imitable competitive advantage, since it occludes the true role that employees play in the creation of innovation and value. Furthermore, within Porter's thinking, all activity sectors are viewed exclusively in terms of hostile relations between competitors, between businesses and consumers, and between businesses and suppliers. And yet, viable and profitable alternatives exist at both the inter-corporate and community levels which are based on co-operation and collaboration which can lead to strengthening social conditions, work opportunities, development of human potential, access to more skills and knowledge, increased differentiation and inimitability via complementary product innovation, an increase in size of the market "pie", as well as act as a catalyst for further knowledge creation and innovation.

Key words: Strategic management, environmental determinism, dominant financial capitalism, monopolies, oligopolies, competitive advantage, employees, innovation, resource based theorists, value, inter-corporate and community co-operation, collaboration.

Introduction

More than 20 years after its first publication, Michael Porter's *Competitive Strategy* (1980) is available in 17 languages and is in its 53rd printing. His *Competitive Advantage* (1985) has been reprinted 32 times, and the *Competitive Advantage of Nations* (1990) brought Porter's thought to the forefront of development theories. He has published a dozen other books and more than 85 articles in the most prestigious journals, and his ideas "quickly became the foundation of required courses at Harvard."[1] Indeed, Porter remains the field's most cited author. In a recent work, *La Stratégie des Organisations : Une Synthèse*,[2] Porter is mentioned 60 times in the index, far ahead of classics such as Andrews (22 times), Ansoff (9 times), Barnard (18 times), and Chandler (26 times). The same is true for a book published in late 2000, *Strategic Management*,[3] in which Porter is by far the most cited reference. Closer to home, the journal *Academy of*

[1] See the article on Porter on the ad hoc Web site.
[2] Hafsi, T., Séguin, F. and Toulouse, J. M., Les Éditions Transcontinentales, Montréal, second, reconsidered and enhanced edition, 2000.
[3] Published by Wiley & Sons by three Stanford professors: G. Saloner, A. Shepard and J. Podolny.

Management Practices published an interview of Porter and devoted several articles underlining the value of his contribution to administration science.

To what is this phenomenal success due? Brandenburger (2002) suggests that two factors account for the longevity and extent of Porter's influence:

1. His thought "gives a clear image of the essential activity of business. It depicts the whole vertical chain of economic activity running from suppliers (i.e., owners of resources) through businesses and on to the customers. It highlights the central role of business in creating value but also emphasizes how businesses are interdependent with their suppliers and customers" (Brandenburger 2002: 58). Brandenburger adds that in contrast to canonical economic models which assume atomized producers and consumers, Porter's model is more realistic in that it focuses on the reality of large businesses that dominate many industries, that is, on situations of monopoly or oligopoly.
2. The very limited number of generic strategies that he advocates (differentiation and domination by costs) is another element of clarity that attracts the attention of decision makers, consultants and teachers to Porter's model.

But it is unlikely that clarity and accessibility suffice to guarantee the wide diffusion of a given work on management, in that most of what is written about strategy is quite clear and accessible, without those elements resulting in an unparalleled success. Porter frames matters differently, in terms, he claims, of making a contribution to science and of scientific rigour. With regard to *Competitive Advantage*, he maintained in an interview which was quite revealing of the ins and outs of his thought: "There was an opportunity to bring industrial organization thinking into the study of strategy, and vice versa" (Argyres et McGahan, 2002B: 43).[1] As such, he was the first author to bring together two disciplines — industrial organization and strategy — to provide a better discussion of strategic choices by businesses. He went on to explain why this discussion also had to rid itself of classical economic thought: "Ceteris parabus assumptions don't work. Managers must consider everything. I concluded that we needed frameworks rather than models" (Argyres et McGahan, 2002B: 43). Lastly, with regard to scientific rigour, he added: "We also needed a more disciplined way to think about strategy. We needed a more rigorous approach, a systematic way to look at industries and where firms stood in their industries" (Argyres et McGahan, 2002B: 43-44).

In the following pages, we attempt to show that while Porter's framework is the basis of a systematic approach to strategy, it in no way guarantees the scientific rigour he claims for it and furthermore, does not assure the achievement of a lasting, defensible and non-easily imitable competitive advantage. In addition, we try to shed further light as to why his work has been attractive for so long to a significant proportion of western management, business consultants and academics. We discuss each of his three pivotal works — *Competitive Strategy*, *Competitive Advantage* and *The Competitive Advantage of Nations* — in order to draw out their foundations, to reveal how their purported scientificity is non-demonstrable, and to point to the epistemological and methodological insufficiencies which seriously undermine Porter's claims to academic rigour. We also visit two other schools of thought, namely the Resource Based View and advocates of co-operation and collaboration, which not only highlight practical and operational weaknesses in Porter's proposed framework, but also serve to reinforce our view of epistemological and methodological insufficiencies. We present our own arguments about the real reasons for the success enjoyed by Porter's thought. At the ideological level, we suggest that this success is due to an argument that legitimizes the current state of relations of force within businesses operating in advanced capitalism, between these businesses, and between nations. The legitimizing power of his thought makes it an ideal wellspring from which dominants can draw arguments and reasons of a scientific nature to justify the situations of domination from which they benefit. At the operational level, we suggest that his success is due to concepts that offer ease of comprehension,

[1] We cite this interview often because it is one of the rare documents in which Porter discusses the methodological and epistemological aspects of his thought, which are generally glossed over in his central works.

relative ease of implementation and subsequent gratification from initial (but very often non-lasting, nor easily defendable) operational successes.

Porter's theoretical structure is based on a 1979 influential article in the *Harvard Business Review* which focused on the analysis of the environment and corporate sector in order to determine strategic positioning (Porter, 1979). *Competitive Strategy* (Porter, 1980) was an extension of this article. *Competitive Advantage* (Porter, 1985), as we will see, was devoted to one of the gaps in the two preceding publications, namely, the microeconomic dimensions of his theory. Lastly, *The Competitive Advantage of Nations* (Porter, 1990) is a generalization of his theoretical corpus to national industrial policies and development.

Doctrine of Positioning and Legitimating Domination

In contrast to the authors who preceded him in the field of strategy, Porter is an advocate of the strategic positioning of a business in a given industry (Porter, 1979, 1980). This approach was novel in that previous authors in the area of strategy largely devoted their attention either to the elaboration of strategies or to strategic planning (Mintzberg et al., 1998). However, the notion of competitive advantage, which would come to occupy a central place in his work, was absent, only barely mentioned. According to Porter, strategic positioning derived from an exhaustive analysis of a certain number of factors which he baptized as "the five competitive forces": competitive rivalry, bargaining power of suppliers, bargaining power of buyers, threat of new entrants, and threat of substitutes. These five forces, which "[e]merged as an encompassing way to look at an industry," as Argyres and McGahan (2002B: 44) put it, are supposed to be the most relevant and most significant indicators for any business seeking to penetrate and make profitable the industry which suits it best.

Logically, it is argued, the analysis of these indicators leads to a business's strategic positioning in an industry in which there is:

- little competition;
- suppliers and buyers with weak negotiating power;
- high entry barriers;
- few substitute products.

Under these circumstances, it is claimed, that a business can maximize profits: "I decided that fundamental to any theory of positioning had to be superior profitability" (Argyres and McGahan, 2002B: 44). It should also be noted that Porter seeks to situate his theory in a normative perspective, something which he takes pains to stress: "My work aims not to be descriptive but normative. What principles explain successful strategies? I believe strongly that managers can apply these principles prospectively, and that most do" (Argyres and McGahan, 2002B: 44).

Up to this point, businesses are a kind of black box in Porter's work, inasmuch as he chose to situate his analysis at the meso-economic level, that is, the industry level. The criticisms of this choice led him, in *Competitive Strategy*, to integrate the microeconomic level into his model via the notion of the value chain. We return to this point below. For the moment, we discuss two major issues – one epistemological in nature, the other dealing with the theory's normative dimension – raised by the part of his work focused exclusively on positioning.

Firstly, how does Porter justify his epistemological decision to set the level of analysis at the industry level? As we have learned from the science of complexity, the choice of the organizational level to analyze determines the scope of the results of the analysis. Why is the analysis of competitive forces more relevant in strategy? In canonical management terms, why should the strategist's interest be focused on the environment and only on the environment? To be sure, there was a real need in the field of strategy to go beyond existing models, such as the BCG portfolio model or models based on an analysis of advantages and disadvantages, which limited themselves to the microeconomic level. However, this does not suffice to justify the epistemological choice made by Porter, who does not develop his argument any further. The question remains, and leads one to believe that there is a certain arbitrariness to this choice. Moreover, one wonders what logic and which criteria underlie Porter's identification of the number and nature of competitive forces. The only argument invoked by Porter is that when he began his research he took his inspiration from industrial organization, which discussed phenomena such as monopsony (a situation in which there is only one customer for a company's product). He also acknowledges that the notion of substitution already existed in economic thought. But he maintains that it was necessary to go further by imagining a series of factors integrated within the same kind of framework for analyzing industries. In the same interview quoted above, however, he maintains two different arguments about the identification, the nature and the number of these factors. On the one hand, he argues that "[t]hese dimensions…have to be intuitively grounded" (Argyres and McGahan, 2002B: 46). A little further on, on the other hand, he corrects himself and claims that: "I didn't come to the conclusion that there were five forces until I'd looked at hundreds of industries" (Argyres and McGahan, 2002B: 46). Intuition and case studies are not mutually exclusive; they can even be complementary, with the case study confirming or invalidating the intuition. But this is not the problem. The real problem is at the level of generalization or more specifically, at the level of the argument supporting the generalization. However, Porter is silent on this point. We return below to the issue of the generalization of case studies since it is a problem that pervades all of Porter's thought. For the moment, we bring up another objection. Whether we situate ourselves with respect to Popperian falsification (Popper, 1972) or Habermas's (1990) communicative ethics, Porter's position is untenable.

According to Popper, a proposition is not true because it has been verified by one or several empirical experiences, as is claimed by rigid positivism. It is true for only so long as an example does not contradict it, that is, until it has been falsified. With respect to the number of competitive forces, it is simple enough to imagine a good number of industries in which other competitive forces are much more determinant than those identified by Porter: government in the arms and pharmaceutical industries; non-government organizations in the hydrocarbon industry, etc. This points to the extreme fragility of the universality of Porter's model. For Habermas, the morality of a given utterance depends on the dialogical exchange made up of a claim to validity by a speaker, objections to this claim by other speakers, and arguments by the speaker in response to these objections, all of which occurs within the framework of a space of free speech. The problem here is that Porter's positivism imposes the number and nature of competitive forces and the result of the ensuing analysis of industries as scientific and therefore non-debatable truths. It is in this sense that Porter's model is a formidable instrument of domination. There are no possible grounds of legitimacy for questioning the model's components and results within a given business. This domination is exercised by expert analysts and their constituents, senior management. This element appears as an unacknowledged foundation running throughout Porter's thought.

Continuing in an epistemological vein, Porter's thought is characterized by environmental determinism, in that he glosses over an enactment phenomenon which has for some time been viewed as central in the analysis of environment in management studies (Morgan, 1986). The process of enactment is the process through which we proactively shape and structure our realities in an unconscious manner. As Morgan states (1986: 130), "although we often see ourselves as living in a reality with objective characteristics, life demands much more of us than this. It requires that we take an active role in bringing our realities into being through various interpretive schemes, even though these realities may then have a habit of imposing themselves on us as "the way things are"…". This phenomenon appears to produce at least as many projections (from the point of view and the interest of those conducting the analysis) about the characteristics of the environment under study as those which are really "measured" or "observed." This is in addition to the inevitable changes brought about by any "sector study" in any environment when the study gives rise to strategies and the implementation of decisions that are likely to have an impact on the environment. *In this event, it is no longer the environment that determines corporate strategy, but the reverse*. Over 30 years ago, this position was seriously discussed, illustrated and confirmed with concrete, edifying examples (Galbraith, 1967). In particular, Galbraith showed how the (strategic) planning of certain GM and Ford car models (his analysis focused on the *Mustang*, for which six years elapsed between the design phase and the marketing phase) contributed to determining — in defiance of all so-called market laws — internal and external salaries as well as the price of products such as rubber, iron, coal, steel, etc., and this for a number of years. This analysis contributes to demonstrating how the policies of large corporations "manufacture" to a large extent domestic and international environments and completely distort the play of competition.

Secondly, for Porter's recommendations with regard to industry analysis to be normative and prescriptive, they have to permit an *ex-ante* identification of the industries which best suit the business seeking to position itself. As we have seen, this industry must display competitive forces that are favourable to the business. Is it possible to do this before the fact? It is possible but only in particular cases and given a condition which is impossible to fulfill. Positioning a business in an industry through the analysis of competitive forces can occur in the case of an entrepreneurial situation in which the business or the business division does not yet exist. For it is difficult to imagine an industry, that really exists, with such favourable conditions for a business to be able to exercise its domination, that is, with businesses that have never considered the possibilities offered by their industry. There can only be one explanation of this — these businesses have not received the services of experts and consultants trained in Porter's industry analysis. But in this case, how did these businesses make decision before the appearance of this model? This impasse brings us again to the true logical outcome of this mode: handing the lion's share of power over to experts and analysts.

In the event of a business already operating in a given industry, Porter's model will lead it either to exit (inasmuch as the competitive forces are unfavourable) or to remain in it because the analysis of the competitive forces reveals that it dominates the industry. But the analysis will never enable the business to know how to change its situation if it is precarious. As such, the claim that Porter's model is normative is without foundation. On the other hand, it will enable the *ex-ante* justification of a monopoly or oligopoly situation since the analysis of the competitive forces will show that it is quite normal for a business or businesses to have a monopoly or oligopoly in an industry in which they positioned themselves as a function of the nature of the competitive forces. It is for this reason that Porter's model should be viewed from the perspective of a legitimization of situations of domination by the most powerful companies with the help of a seemingly learned discourse. It also accounts for Porter's aversion to anti-trust regulations, which he expresses in, among other places, the chapter devoted to the United States in *The Competitive Advantage of Nations* (Porter, 1990: 728 ff.)

Competitive Advantage and the Expert's Apology

Of all the inadequacies identified in *Competitive Strategy*, Porter is particularly, if not exclusively open to a single criticism: determining the positioning of a business in a given industry without inquiring into the business's fit (in terms of its capacities, its resources, its abilities, etc.) with the suggested position could in certain cases lead businesses to enter industries which do not suit them at all. In other words, Porter felt obliged to turn to the microeconomic aspects of his doctrine.

The reason for being of *Competitive Advantage* is specifically to respond to this problem. As such the notion of competitive advantage ceased to play a preponderant role in Porter's thought: "I decided I needed to say something about positioning…connected to competitive advantage" (Argyres and McGahan, 2002b: 47). However, profitability continues to play a pivotal role in his reasoning: "required competitive advantage, and fundamental to any thinking about competitive advantage was scope, or the breadth of the company's strategic target. That led to the generic strategies" (Argyres and McGahan 2002b: 44). Competitive advantage follows on the heels of the specific, unique value that the business produces to the benefit of different groups of consumers. It is for this reason that the business "needs to develop a unique set of skills that other organizations don't have" (Argyres and McGahan 2002b: 47). These abilities are supposed to be incorporated into the business's activities, but attaining them requires a detailed analysis of these very activities, which Porter groups under another fundamental notion in his thought — the value chain.

At first glance, Porter appears to have given a coherent response to a flaw in his earlier works. This at least is what is claimed by the mainstream literature in the field of strategy. However, a close examination of his discourse about competitive advantage, the value chain and generic strategies reveals several tensions, which, as was the case with *Competitive Strategy*, bring seriously into question the scientific worth of his theory.

We begin here with Jeremy Klein's (2000) opposite remarks in this connection. Porter's definition of competitive advantage is problematic, in that it is ambiguous, tautological or marred by a serious ontological confusion. Porter writes that "[c]ompetitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm's cost of creating it" (Porter, 1985: 30). As Klein notes, this in no way defines competitive advantage, unless, one might be tempted to suggest, one agrees to lump competitive advantage with value. In this case, and even if we ignore the problems engendered by this confusion, and bearing in mind that the question of value has divided theorists for decades, competitive advantage loses its relevance as a central notion in strategic thinking. Therein lies the ambiguity of this definition. Moreover, when Porter claims that "[c]ompetitive advantage is at the heart of a firm's performance in competitive markets" (Porter, 1985: XV), not only is the issue of the definition of competitive advantage glossed over, but Porter's claim is clearly tautological. In addition, as Klein points out, defining something exclusively in terms of its consequences logically means that the consequences are known *ex-ante* and must have emerged prior to the thing itself, something which is a logical impossibility, especially when the reasoning is empirical in nature, as is the case with Porter. As such, the notion of competitive advantage cannot be used before the fact to explain what occurs after the fact, namely, a business's competitive performance. In this light, Porter's claim that his theory is normative is devoid of meaning. It is for this reason that we feel justified in pointing to a profound contradiction pervading the entirety of the Porterian approach. His initial objective was to provide a normative framework for business strategy; however, its formalism yields an analytic approach which has no prescriptive power.

Let us take things further. For competitive advantage to be genuinely efficacious, it is absolutely necessary for it to be impossible to imitate it. However, for this condition to be met, it is necessary that competitive advantage be impossible to be identified, even, paradoxically, by the company that situates it at the heart of its strategy. Indeed, in the highly hypothetical case in which competitive advantage and the analytical process leading to its identification could be theorized as Porter claims, all businesses would be able to carry it out and thereby procure the same competitive advantages. In this event, "advantage" and "competitive" become instances of the abusive use of language. There is only one irrefutable way out of this impasse for Porter's theory. Its importance is crucial inasmuch as it clearly identifies both the implicit and never stated implications of this theory and the underlying reasons for its success; it is not because of the existence of a formal strategic analytic framework that all businesses manage to use it adequately as a means of identifying their competitive advantage. It is a field of scientific expertise in which only "high-powered" experts and consultants can operate effectively. Leaving aside for the moment the intrinsic limitations of this view of things (we come back it shortly), let us focus on how the scientific aura that Porter seeks to give his theory ultimately serves to legitimize the inordinate power accorded to experts and consultants, a group to which Porter himself belongs. We made the same discovery with regard to *Competitive Strategy*, and now we have come to the same conclusion with regard to *Competitive Advantage*. This observation strikes us as one of the most significant reasons underlying the success of Porter's work among consultants. The analysis of the value chain yields the same result.

Porter firmly argues that there are two generic strategies — domination by cost and differentiation. A fundamental question must be asked: What exactly does the notion of differentiation mean for Porter? What is differentiated, the business or the product? According to Porter, it is the business: "A firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price" (Porter, 1985: 120). The "beyond simply offering a low price" clearly refers to competitive advantage. But as we showed above, the concept of competitive advantage is too ambiguous to signify anything precise. At best, differentiation means something different depending on whether one is in the position of a company's directors (it is the business that is differentiated, which is Porter's point of view) or in that of the employees and the consumers (for whom "differentiated" only concerns the product). As for domination by cost, it is neither more nor less than the reuse of an old neoclassical economic notion, and largely concerned with minimizing costs with a view to maximizing profits.

Lastly, in limiting himself to two formal generic strategies, Porter excludes anything connected with emergent, creative and innovative strategic notions.

Lastly, the value chain is a schematic representation of business activities, broken down into main activities and supporting activities, each one likely to contain value enabling the business to acquire a competitive advantage. The task of the expert or consultant is to sketch this representation, study each activity on its own, and identify which one will give the business the value which will procure a competitive advantage. The analytic aspect of Porter's conception of strategy gains in strength and consolidates once again the influence of experts and consultants. In methodological terms, this way of doing things is akin to the Cartesian method of analysis, and suffers from the same inadequacies. A Cartesian attitude towards a complex problem (determining the source of a specific value within a business with countless activities) involves subdividing it into a number of simple problems (breaking down the business's activities into so many easy-to-study activities) and to examine each activity on its own, without considering the others. Once all these simple problems are resolved, it is only a matter of reconstituting the whole. We now know that there is no validity to this kind of reasoning, given that it presupposes that the whole (the business) is merely the sum of it its parts (the business's activities). This view, however, amounts to a major epistemological error. Twentieth century science has shown that the whole is made up of often complex relationships among the parts, and not merely the juxtaposition of the parts. In other words, it is less important to understand each part in its singularity than to understand the singularity of the relationships this part has with the other parts and the specificity of the relationships binding together the parts of the whole.

Returning to the analysis of the value chain according to Porter's teachings, it is quite likely that the activity identified, after having examined it on its own, as yielding the value which will procure a competitive advantage will not necessarily be identified in these terms if it is analyzed in relation to other activities. This indicates the extent to which Porter remains a prisoner of the linear, fragmented reasoning of classical science and the most simplistic elements it has to offer. However, if Porter's writings have been successful, it is because this simplicity is easy to present in the business and consulting worlds, neither of which are particularly familiar with epistemological reflection. It is thus not illegitimate to speak here in terms of the false representation of a current of thought, the scientific value of which stems from the ignorance of those for whom it is intended.

In a similar vein and for the same reasons, no one or almost no one has identified another very serious limitation of Porter's ideas. Porter explicitly assumes the omniscience and the absolute rationality of experts and consultants who are able to find, fit together and analyze a significant sum of data about competitive forces and about the components of the value chain. As such, Porter scorns the generally acknowledged observation in organizational theory regarding the limited rationality of individuals, namely, that there is a limit to the amount of information that human beings can process. Even computer simulations cannot resolve this problem. On the one hand, it is difficult to standardize, as we have seen, the determining factors common to all industries, and on the other hand, the simulation is the application of a computer program designed on the basis of an algorithm constructed by human beings, that is, the same human beings characterized by their limited rationality.

One last, ontological remark in this connection is necessary. Situating the value produced by a business at the level of its activities is not at all obvious, and requires an argument to this end. However, Porter is content to claim this phenomenon, limiting himself to decreeing it in a self-referential discourse. The consequences of this are significant. Firstly, it amounts to a reification of the business through its activities. Secondly, the fact of rooting value in activities occludes the role that employees can play in the creation of value, which is wrongly attributed to the "business." But this occlusion plays a highly ideological role, that of avoiding at all costs the social and political dimensions of the business that is the object of the strategic analysis. Furthermore, as we shall see in the following section where we visit the resource based theorists, it becomes evident that Porter's lack of attention on the role of the employee, worker morale, level of management leadership and interpersonal skills to bring out the maximum potential of employees, etc. poses serious limitations to the operational effectiveness of his framework in attaining a lasting, defensible and not easily imitable competitive advantage.

Porter vs the Resource Based Theorists

In Competitive Advantage (1985A), Porter's "value chain" model attempts to analyse the sources of competitive advantage by examining all the activities a company performs and how they are linked together. But intrinsic factors such as corporate culture, worker morale, level of communication and team spirit, level of management leadership and interpersonal skills to bring out the maximum potential of employees, etc. are not considered in his analysis. In Technology and Competitive Advantage (1985B) he uses a similar approach to Competitive Advantage in identifying all primary and supporting technologies a firm may be involved within the "value chain". He then states how a company should try to identify the core technologies that have significant impacts towards achieving a competitive advantage. Superficial attention is given to the significance of a company's internal resources when he refers to "relative technological skills", whereby he states that it is a function of many factors such as management, company culture, and organisational structure. He also adds "use acquisitions or joint ventures to introduce new technological skills to the corporation, or to invigorate existing skills". But as in Competitive Advantage, intrinsic factors that can lead to *creation* or further advancement of technology innovation is hardly mentioned. Furthermore, the complexities and effects of corporate cultures that are encountered on integrating new technologies in situations of acquisitions are not addressed in any meaningful manner.

The resource based approach emerged in 1990 with Prahalad and Hamel's article on "core competence" followed by Stalk, Evans, and Schulman's (1992) article on "capabilities-based competition". Supporters of the resource-based approach take the view that the competitive environment of the 1990's and beyond has changed significantly such that the structural approach represented by Porter's competitive-forces framework is no longer effective. Prahalad and Hamel's (1990) definition of core competencies is "the collective learning in the organisation, especially how to co-ordinate diverse production skills and integrate multiple streams of technologies". Prahalad and Hamel (1990) focused on corporate wide technologies and production skills in defining core competencies while Stalk, Evans, and Shulman (1992) took a broader value chain or business process view of the skill base in defining capabilities. According to Stalk, Evans, and Schulman (1992), the "war of position" was a strategy that a company could follow when the economy was relatively static, characterised by "durable products", stable consumer needs, well defined national and regional markets, and clearly defined competitors. They contend that "competition is now a "war of movement" in which success depends on anticipation of market trends and quick response to changing customer needs". They added "…In such an environment, the essence of strategy is not the structure of a company's product and market but the dynamics of its behaviour". In contrast to Porter (1980, 1985A), both their work examine the behavioural "how" a company chooses to compete rather than the "where" it chooses to compete and contend that competitive advantage should be found in resources and skills within the company, as opposed to the general market environment "outside" the company.

In Towards a Dynamic Theory of Strategy (1991), Porter acknowledges the resource based approach as one of three "promising" streams of research that attempt to address the challenge of developing a truly dynamic theory of strategy. He argues though that the resource based view is but an intermediate step in understanding the true source of competitive advantage and that ultimately "resources are not valuable in and of themselves", but "are only meaningful in the context of performing certain activities to achieve certain competitive advantages". For Porter (1991), "competitive advantage derives from more than just resources…It is the collective advantages gained from all sources that determines relative performance". He concludes that it is even questionable how far we need to go up the chain of causality to generate a truly dynamic theory of strategy, or as he puts it "we need to know how necessary or helpful it is to push even further back in the chain of causality…an important theoretical issue is where in the chain of causality to best cut into the problem…it should be said that understanding the ultimate origins of advantage may not always be necessary for thinking about how to improve future advantage". In his view, more emphasis should be put on "crafting empirical research to make further progress in understanding these questions". He seems to imply that understanding and harnessing the underlying fundamentals that foster competitive advantage is not as important as generating empirical models that may well work today, and surely he hopes will work tomorrow without need for radical modifications. But as Stalk, Evans and Schulman stated back in 1992 the environment is now a much more turbulent environment with unexpected perturbations. From a methodological point of view, it would seem that to deflect fundamental work and to only depend on continuous overlapping layers of empirical studies is a reactive strategy tantamount to increasing the magnitude of the "day of reckoning" when conditions will be so dynamic and unpredictable that all empirical work will be as good as useless while no fundamental work will have been done towards trying to truly understand, and subsequently co-exist with these conditions. In Porter's defence, at the time of his writing this article, one can say that the resource based view was still in its infancy and probably not advanced enough in trying to determine the true source of competitive advantage. In the ensuing years it suffered, as Nonaka and Takeuchi (1995: 48) point out, from a somewhat blurred focus because of the lack of agreed-upon and well-defined definition of terms, or as quoted by Teece, Pisano, and Shuen (1991: 17-18): "There resources, capabilities, skills…and the conceptual framework are overdetermined in that there are too many competing explanations for the phenomena identified". In looking at various resource based articles, we still see this fuzziness, although we will attempt to portray one type of philosophy within this view as being the fundamental building block towards competitive advantage.

In recent history many have identified a number of explicit attributes towards attaining competitive advantage. For example, there was Total Quality Management (TQM) from the 80's to the early or mid-90's, technology roughly throughout the same period extending into the late 90's, and knowledge management and innovation from the mid-90's to the present day period. But is there a more fundamental element which transcends all these attributes? If we look at TQM, many in the west lauded the Japanese mastery of quality and resulting competitive advantage, and in response, proceeded to implement TQM methods. A study by Powell (1995) however examined the effectiveness of TQM as competitive advantage and noted that "potential TQM adopters may not appreciate that TQM success depends not only on adopting the TQM attributes, but also on pre-existence of complementary factors apparently unrelated to TQM, yet more difficult to imitate than TQM itself". It appears to require a culture receptive to change, a motivation to improve, people capable of understanding and implementing TQM's peculiar set of practices as well as corporate perseverance. But more fundamentally, he reports in his literature review, that it appears to require a complete restructuring of social relationships both within the firm and between the firm and its stakeholders. He states "Under TQM, firms must reconstitute all these relationships among employees and between managers and employees. And they must reconstitute them more or less at the same time". We agree with him that this social re-engineering is usually beyond the capabilities of most firms. His study concluded that firms who implement TQM procedures do not produce performance advantages if they do not create a culture within which these procedures can thrive; namely, executive commitment, an open organisation, employee empowerment, and good reputation with suppliers and customers. His overall conclusion is that although TQM can produce competitive advantage, "adopting the vocabularies, ideologies, and tools promoted by the TQM gurus and advocates matters less than the underlying intangible resources that make TQM implementation successful". As Agayo (1990) illustrates in his book on quality implementation (chiefly inspired by the views and notions of W. Edwards Deming), much of what is required to implement quality within the work place has less to do with metrics or sophisticated gadgetry and more with, as Demings once stated, "pride of workmanship". The source of competitive advantage seems to be pointing towards people: by people, we mean *employees, management and the social-corporate environment in which they work*. Even Nonaka and Takeuchi's (1995) work on knowledge management, which is primarily interested with the *process* of creating, harnessing and managing knowledge and innovation, is really pointing back to the process of interaction and the managing of people. Thus our position is that people are the true source of competitive advantage.

Pfeffer (1994) seems to advocate this view in Competitive Advantage Through People where he looks at the 5 top performing companies on the stock market in North America from

1972 to 1992 (in ascending order Plenum Publishing with 15,689%, Circuit City with 16,410%, Tyson Foods with 18,118%, Walmart with 19,807% and Southwest Airlines with 21,775%). These companies would have met the exact opposite criteria of what Porter's framework of five fundamental competitive forces recommends. The industries in which these top companies are involved (retailing, airlines, publishing and food processing) were "characterised by massive competition and horrendous losses, widespread bankruptcy, virtually no barriers to entry (for airlines after 1978), little unique or proprietary technology, and many substitute products or services. And in 1972, none of these firms was (and some still are not) the market-share leader, enjoying economies of scale or moving down the learning curve". He goes on to show that what these five firms have in common is how they manage their work force. The reason why SouthWest Airlines achieved a cost advantage comes from a "very productive, very motivated and (by the way) unionised workforce". But as he explains, this cost advantage is not easily imitable by competitors due to the fact that the culture and practices that enable SouthWest to achieve this success are not easily obvious. "It is often hard to comprehend the dynamics of a particular company and how it operates because the way people are managed often fits together as a system. It is easy to copy one thing, but much more difficult to copy numerous things that fit together in a system. This is because the change needs to be more comprehensive and also because the ability to understand the system of management practices is hindered by its extensiveness". In his Putting People First For An Organisational Success (1999), he presents in detail seven practices of successful companies:

1) Employment Security
2) Selective Hiring
3) Self-Managed Teams and Decentralisation as Basic Elements of Organisational Design
4) Comparatively High Compensation Contingent on Organisational Performance (not individual performance)
5) Extensive Training
6) Reduction of Status Differences
7) Sharing Information

He states that, in general, companies have about a one in eight chance of succeeding at this since they often attempt "piecemeal innovation" and therefore fail, or many of the ones that do try to integrate all these practices give up before the results are forthcoming.

In Creating Advantage, Porter (1997) refers to the need and importance for innovation and how a company needs to master technologies such that it can apply and integrate it (and not just make the scientific breakthroughs). It is taken as a "given" that it can be done irrespective of the organisational environment within the firm once everyone at the executive and strategic level accept that this is an important attribute to strive for. But few companies which have adopted this approach have been able to distinguish themselves from the rest of their competitors in any significant or lasting manner in their respective industries. It is an easy-to-adopt concept which, as long as no extra effort is taken to instil the internal dynamics and conditions to make it happen, remains easily imitable. This internal or intrinsic ingredient is the non-imitable portion of the formula. And unlike Porter's view in Innovation: Location Matters (2001), it is primarily created by forces within the company as opposed to forces in the external environment. These forces are created by *people* within the firm. By primarily focusing on the external forces many managers have lost touch with people even though they know how important they are towards achieving competitive advantage. As Bartlett (2002) mentions, "most managers see the strategic implications of the information-based, knowledge-driven, service-intensive economy….They know that skilled people are key, and yet, a decade of delayering, destaffing, restructuring and reengineering has produced people who are more exhausted or cynical than empowered….developing internal resources and capabilities is more difficult to imitate….Senior managers must move beyond slogans, and develop commitment to a set of beliefs that not only are articulated in clear terms, but also are reflected in daily actions and decisions."

To simply generate a strategy at the level to which Porter advocated in his school of positioning in the 1980's and 1990's would be missing enormous fundamental issues which a firm needs to assess and harness in order to be truly successful in attaining a sustainable competitive advantage. But Porter's framework is attractive in both its relative simplicity to comprehend and, more importantly, relative ease of co-ordination to implement. A strategy of acquisition and positioning is much easier to implement (and imitate) than, as Pfeffer (1999) pointed out, trying to put in place a culture and organisation that seeks strength from within the firm. Ease of understanding and relative ease (not withstanding financial resources) of implementation is the reason why we believe many consultants to this day have been successful in attracting client-firms to the Porterian view. It is another question as to whether firms have been truly successful in acquiring lasting advantages from this strategy.

The Diamond Model and World Hegemony

In *The Competitive Advantage of Nations* (Porter, 1990), Porter seeks to generalize his theoretical corpus to encompass the global economy. His main objective is to answer the question: "Why does a nation achieve international success in a particular industry?" (Porter, 1990: 71). In light of this attempted extension, he establishes at the conclusion of the book a typology of national economies throughout the world and makes claims about what the future strategies some of them should be (Singapore, South Korea, Italy, Sweden, Denmark, Japan, Switzerland, Germany, United Kingdom, United States).

Porter's model, known in the literature on strategy as the "diamond model" has four interrelated "determinants", the schematic representation of which resembles the geometric form of a diamond (Porter, 1990: 72). These determinants are (Porter, 1990: 70):

- *Factor conditions.* The nation's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry;
- *Demand conditions.* The nature of home demand for the industry's product of service;
- *Related and supporting industries.* The presence or absence in the nation of supplier industries and related industries that are internationally competitive;
- *Firm strategy, structure and rivalry.* The conditions in the nation governing how companies are created, organized, and managed, and the nature of domestic rivalry.

Two other determinants are mentioned — government and chance — though neither is viewed as sufficiently relevant to be formally integrated into the model.

Porter concludes that businesses procure a competitive advantage in their industries and internationally in three cases:

- When their home base allows and supports the most rapid accumulation of specialized assets and skills, sometimes solely to greater commitment;
- When their home base affords better ongoing information and insight into product and process needs;
- When the goals of owners, managers, and employees support intensive commitment and sustained investment, (Porter 1990: 71).

Most of the book is devoted to presenting the model and the success conditions for the economic strategies of nations, with strong references to case studies. The book ultimately classifies economies into a linear typology that follows the evolution of national competitiveness since the Second World War. Four stages are identified: factor-driven competitiveness, investment-driven competitiveness, innovation-driven competitiveness, and wealth-driven competitiveness (Porter, 1990: 685). Each of the ten economies he studies is situated in one or another stage and must strive to move to the next stage, with the exception of two cases, for which the recommendation is that they move to a prior stage. In ascending order, Singapore, South Korea, Italy and Japan are at the first stage and must move forward; the United States, the United Kingdom and Germany are at the third stage and must move to the fourth; and lastly, Sweden and Denmark are also at the third stage, but should move back to the second stage.

Our objective here is not to examine each case and to test the validity of the analysis; that would amount to accepting Porter's diamond model and linear reasoning. What we must do here is see whether this model and this reasoning are on a solid footing.

We can begin by taking up the same discussion of this model and its results as we conducted in our effort to show the subjectivity, indeed, the arbitrariness, in the identification of the nature and number of competitive forces. Porter claims that he is filling a gap with a new integrated framework for understanding world economies. However, notions like factor endowment, level of local demand, degree of national integration and competition are commonplaces found in the vast literature on development economics. Porter appears to be ignorant of this literature since he does not cite any of its authors in his references, even the most well known, either at present or in the past, such as Celso Furtado, François Perrous, Samir Amin or Gunder-Franck. More importantly, he loses sight of the fact of the failure of development economics because it accorded too much importance to strictly economic factors like those which make up the framework of Porter's model. As for the notion of specialization, referred to so often in Porter's thought, it is surely the oldest and most outmoded notion of economics.

Forty years ago, notwithstanding the success it enjoyed, Rostow's theory of growth stages was severely criticized for its linearity (Rostow, 1960). Rostow imagined that there were economic stages going from subsistence economies to industrialized economies, through which all countries go through with varying degrees of success. This same linearity can be identified and equally criticized in Porter's work. The only future horizon that it offers to countless economies is the current state of the American and British economies. There is a certain element of perversity in this vision, in that if an economy manages to develop in a way that differs from the patterns of Anglo-Saxon economies, it will inevitably be required to abandon the policy that enabled this success and take the path defined by the American or British economy. We are merely pushing Porter's logic to its extreme and noting its perversity. Porter himself, in the chapter devoted to Korea, says as much when he recommends that it abandons all forms incentive planning, that it hands over strategic investment decisions to the private sector, that it orients education towards employability, and, to be sure, that it accords special attention to specialization (Porter, 1990: 688 ff.).

Among other things, the determinants in the diamond model are a necessary reduction to enable the continuity of Porter's reasoning, in that he attempts to compare different economies without having to concern himself with their differences. It is not easy to compare the maximalist financial logic of the self-regulated, American-styled capitalist market (which in recent times has moved towards unimaginable and irrational summits of speculation since the heady rush engendered and maintained by Internet businesses and the Enron and Worldcom scandals) to the kinds of "state-regulated, social-market" industrial capitalism found in Germany and Japan. Michel Albert (1991) made very important distinctions between the behaviour of shareholders (and therefore stock market systems) in the United States, Japan, Scandinavia and Germany. The latter economies are financed by banks rather than by market speculation, and the financial-capitalism kind of speculation (which "valued" a business like Yahoo at more than $75 billion on the stock exchange even though it was losing money) is "structurally" impossible in them because dividend payments are limited to the real value of the business's assets and performance, in addition to the emphasis on capital gains as the mode of share payment rather than on maximal, short-term profit. It is thus productive investments, efforts to maintain jobs, job qualifications (which are viewed as a socially recognized "right" rather than a privilege that each individual has to fight for), and research and development become sources of gains and competitive advantages, and not the inflation of fictive values based on savage cuts (downsizing, dis-investments, *synergetic* mergers-redeployments and other forms of outsourcing), unpunished pollution and financial manipulations.

Is it possible to imagine a model other than Porter's to understand economic systems, both national and business, that does a better job of treating their complexity? The limits of the present article prevent us from providing a detailed answer to this question. However, we would like to cite the example of the French school of regulation, which in our view provides a framework for the analysis of socio-productive systems, which is much richer than Porter's model, and which is far removed from his linear simplicity and ideological tendencies. This model is present in Boyer and Freyssenet (2000). A socio-productive system is defined as "a largely non-intentional process for determining the external relevance and internal coherence of technical, organizational, management and social changes in response to new problems of economic profitability and social acceptability, which emerged out the previous model and the changes in the competitive, macroeconomic and social context" (Boyer and Freyssenet, 2000). The absence of intentionality and the effect of composition in the creation of socio-productive systems significantly reduce the significant weight Porter's assigns to strategies. And it is not merely chance, as Porter would have it in linking it with unlikely, rarely occurring events, but the element of uncertainty and subtlety that all complex systems go through during their development. Within the context of national systems, this can, for example, refer to the role of the imaginary or of mythology in the articulation of national economies and agents such as businesses (Aktouf, 1996) or to the role of family structures (Todd, 1988), etc.

What comes next are the innumerable organizational, social, political and other factors detailed by Boyer and Freyssenet while discussing choice of indicators that enable them to be taken into consideration. As such, several socio-productive systems can co-exist without any one of them necessarily and ineluctably representing the future of the others. More fundamentally, this model of socio-productive systems enables the examination of economies confronted with enormous economic, social and political problems, that is, most of the world's economies in Latin America, in Africa, in eastern Europe and in Asia, which Porter passes over in silence. This silence conveniently allows him to side-step the core of the problem facing the world economy and globalization, namely, the domination of the rest of the world by industrialized economies and their managerial prescriptions. Similarly, he can also avoid discussing the issue of the structural adjustment plans ordered by the IMF and the inextricable situations they engender in indebted countries. As such, and once again, Porter's thought serves in reality to justify why the dominant groups dominate and how they have to continue to dominate, both at the national and the business levels.

Two other points are worth discussing in The Competitive Advantage of Nations. The first is methodological in nature and concerns the case method used by Porter. The second concerns the use he makes of the notion of competition.

Porter has in effect a serious validity problem in going from his hypotheses to their empirical verification in the field. He notes in this regard that a good number of explanations are based on assumptions that are far removed from the reality of competition, and that he encountered some difficulties in making the majority of his hypotheses fit the experience he acquired studying and working with international businesses (Porter, 1990: xvi). In addition, Porter displays a positivism in the abusive use of case studies as the only means for inferring his theories. It is in fact a *supposedly heuristic approach* which consists, as is often done with the case method in management teaching (once again, in an abusive manner, and not in itself), in *induction followed by deduction* on the basis of situations limited to and narrowly situated in space (generally American space and, much less often, other so-called advanced countries), in time (post-war and during the triumphal ascension of scientism in economics), and ideologically (the ideology of the neo-liberal market, managers and those with financial interests, to the exclusion of all others). What is induced here are the *purportedly universal rules and laws for governing decision making and the behaviour of institutions in general*. It is worth recalling here that the sample of countries used to establish the general theory of the competitive advantage of nations consists in ten countries *made to fit* into categories *deduced from even more limited realities, namely, businesses in previously studied industrial sectors*. Indeed, as Porter himself admits, he merely *transposed* onto nations what he had *deduced* and written based on "case studies" of businesses ten years earlier in his work on the competitive strategies of companies.

As for competition, Porter raises it the rank of a paradigm. In the following section we digress back to the corporate level to briefly examining both direct and indirect critics of Porter who advocate various degrees of co-operation and collaboration as a means to achieve competitive advantage. The subsequent sections then look at the limitations of competition with respect to regional, national and global economies.

Porter vs Co-operative Dimensions of Corporate Strategy

Various academics began to consider the possibilities of collective and collaborative strategies. For example, Astley (1983), in considering the growing complexity of the business environment states "firms must consider a new level of planning – collective strategy…The collective approach helps enhance the awareness of organisational nuances that are so important in controlling the environment". Ohmae (1989), in looking at globalisation states "the simultaneous developments involved in globalisation make alliances necessary… are not tools of convenience, but are critical instruments for serving customers in global environment… This convergence of customer needs, together with a relentless dispersion of technology, has changed managers' logic. To compete in the global arena, firms must find partners that can help amortise the immense fixed costs".

Collaboration also began to be considered by proponents of the Resource Based View. Hamel and Prahalad (1989) in their study of 15 strategic alliances see collaborations as a means to acquire new technologies or skills, and "…collaboration as competition in a different form…learning from partners is paramount. Successful companies view each alliance as a window on their partners' broad capabilities. They use the alliance to build skills in areas outside the formal agreement and systematically diffuse the knowledge throughout their organisations". Aguayo (1990: 83-92), in his work on Quality Management, "…is not preaching an end to competition but more co-operation – competition in the framework of greater co-operation". He argues "quality cannot be obtained, and improvement is impossible without co-operation: co-operation among workers, among managers, between the company and its suppliers, and even between the company and its competitors". For example, he denounces Porter's position on dealing with suppliers by first quoting him from Competitive Strategy (1980: 123-124):

Spread Purchases. Purchases of an item can be spread among alternate suppliers in such a way as to improve the firm's bargaining position. The business given to each individual supplier must be large enough to cause the supplier concern over losing it – spreading purchases too widely does not take advantage does not take advantage of structural bargaining position. However, purchasing everything from one supplier may yield that supplier is too much of an opportunity to exercise power or build switching costs. Cutting across these considerations is the purchaser's ability to negotiate volume discounts, which is partly a matter of bargaining power and partly a matter of supplier economics. Balancing these factors, the purchaser would seek to create as much supplier dependence on its business as possible and reap the maximum volume discounts without exposing itself to too great a risk of falling prey to switching costs.

According to Porter, by using the proper strategy we can obtain the lowest possible price of supply. But as Aguayo states, "…no mention is made of quality, reliability or improvement. Implicit in this view is a win-lose view of the business process". He paraphrases Deming's view in that "price is meaningless without reference to quality. What appears cheapest in price when coming in the door may actually end up being more expensive at the end. The point should be to lower total cost". He goes on to "urge companies to work toward using one supplier for each part purchased. This will lessen the variation for each part and improve overall quality and costs…He (the supplier) can devote time to working with the buyer, understand the buyer's needs, and find out how his product is being used, which allows him to continually improve and lower costs for both of them. Through mutual co-operation they both win. Competitive strategy offers no such possibility".

Brandenburger and Nalebuff (1995), use game theory to illustrate certain similar ideas brought forward by Aguayo. Here they look at co-operation with certain businesses to expand the size of the market "pie" and competition with others to get as large a slice of the market "pie" as possible. Unlike Porter's five forces model, their "Value Net" model explicitly considers businesses whose products complement other businesses from a resource and knowledge standpoint – otherwise known as complementors. In their view, not only do these complementors make it easier to sell a given product, but also to push technological development forward due to the sharing of resources and knowledge. Moore (1996A, 1996B) goes further along these lines by indicating that a mix of collaboration and competition is required for innovation to flourish. He uses the term coevolution which in his words "means cultivating innovation in an organisation and in others". He specifies that the "lead" company with a novel idea or product requires it to work with other companies' products and services such that they evolve in concert with each other. He calls the resulting relationship an "ecosystem". The competitive or dominant twist in his thinking is that he sees the lead company taking leadership of the "ecosystem". If we look at Porter, his pursuit of "a taylored value chain or series of activities required to produce and deliver a product or service in a unique and defensible manner" is done purely through his five forces model (i.e. existence of direct competitors and purely dominant relationships with suppliers and customers). For Porter, any hint of alliances or collaboration is viewed as a potential source of erosion to long term competitive advantage. His position is understandable in the event that the resultant collaboration creates nothing new and unique (Porter, 2001B). But not all collaborations are like this. We agree with Moore's view that what is required to produce a unique and defensible competitive advantage is collaborative community – like linkages to produce inter-company *innovation,* which in turn, *creates* cross-supportive products and services that are unique, hard to imitate and therefore defensible. The inter-company community-linkage and coevolution which Moore speaks of are similar to certain key elements of the knowledge creation model developed by Nonaka and Takeuchi (1995). They illustrated how socialisation, which is essentially a sharing of experiences, is a key step in cultivating tacit knowledge. The ensuing step which is called externalisation is where tacit knowledge is converted to explicit knowledge. This externalisation step requires group interaction and discussions such that a tacit mental image is converted into an explicit concept. This knowledge conversion process, as Nonaka and Takeuchi point out, is how new explicit knowledge is *created.* This in turn is the basis for competitive advantage via innovation which Moore refers to.

In summary, we see that co-operation can lead to lower costs, access to more skills and knowledge, an increase in the size of the market "pie" via product complementors, increased differentiation and inimitability via complementary product innovation ("ecosystems"), as well as act as a catalyst for further knowledge creation and innovation.

Limits of Competition with regard to Regional and National Economies

We can trace the genesis of the notion of competition and the self-regulated market (via the invisible hand) to Adam Smith (1973) in the 18^{th} century. But we had to wait for later economic "science," with the neo-classics, for the emergence of a less poetic concept and the possibility of integrating this concept into calculations intended to be as learned and as exact as those in physics. This was the objective set by Léon Walras. In seeking a solution to the simultaneous equilibria among quantities, prices and values necessary to the functioning of a "pure" economy, he simply and uncritically posited the existence of the equivalent of a *celestial mechanics of society* (from which we get pre-econometric formulations of equilibrium problems in Newtonian terms) and the *intervention of an "auctioneer"* (a kind of equivalent to Maxwell's demon in physics and Quesnay's "secretary general of the marketplace") who *announced the equilibrium price of all products and services*, while remaining neutral relative to the poles in the gravitational play between suppliers and demanders (Walras, 1952). However, there remained a significant problem to be resolved, that of mathematically and scientifically accounting for this kind of simultaneous equilibria in a given market while avoiding embarrassing "celestial mechanics" and "auctioneer" assumptions. It was Kenneth Arrow and Gérard Debreu, two Nobel winners, who tackled this formidable problem. They maintain that if there is a mathematical solution to Walras's problem, it is so highly probabilistic that *the state of the market's simultaneous equilibria can only be an extraordinary accident* (Arrow, 1983; Debreu, 1966). Moreover, Lipsey and Lancaster's theorem, which until that point had not been refuted, says that *the market obeys a kind of law* of all or nothing, *that there cannot be two market states*: either it is fully a pure and perfect competitive economy (100%) or not at all (0%). *But* we know that the pure and perfect economy is at best wishful thinking; therefore, there is only one solution: we are in a 0% market situation. As such, we can ask a number of questions: Who is manipulating this market, which cannot under any circumstances be self-regulating? What emerges is that Porter's praise for competition has an ideological function; it advocates deregulation and privatization to the benefit of the most powerful players.

At the operational level, we also see the ineffectiveness of competition as sole notion to embrace. For example, if we look at Porter's (1995A) proposed strategy for America's inner cities we hear the familiar message:

> *"A sustainable economic base can be created in the inner city only through private, for-profit initiatives and investment based on economic self-interest and genuine competitive advantage. An economic model must begin with the premise that inner city businesses must be profitable and positioned to compete on a regional, national, and even international scale".*

In a rebuttal to his critics, Porter (1995B) states:

> *"We must stop trying to cure the problems of these distressed urban areas by perpetually expanding social programs and hoping that economic activity will follow. Our nation's urban policies and programs have fallen into the trap of only redistributing wealth. The necessity and the real opportunity is to create income and wealth, by harnessing the power of market forces rather than trying to defy them. The private sector must play a leading role…. Government, community organisations, and inner-city residents cannot realistically and economically revitalise inner cities alone – they lack the management skills, technology, capital, and appropriate incentives".*

But Porter's notion of "harnessing the power of market forces rather than trying to defy them" is based on using his 5 forces positioning model which, as we illustrated earlier, does not capture the true nature and mechanisms of achieving competitive advantage. His strategy is too macroscopic in nature (to his defence, Porter clarifies that his strategy should be one component of a larger strategy, albeit the leading one). If we accept that modern strategy is based on perpetual innovation, then as we illustrated in earlier sections this can only be achieved via practices that truly acknowledge people as being the true sources of competitive advantage and understanding that co-operation/collaboration can be a key catalyst in achieving knowledge creation and innovation. We thus see affinities with Haynes and Nembhard's (1999) proposal of using "co-operative enterprise development as a viable economic strategy for inner-city redevelopment". They cite successful examples around the world producing "goods and services for the market and providing social conditions and work opportunities capable of responding to human needs and developing human potential". One notable example includes the Mondragon Co-operative Corporation (MCC). The "corporation evolved from a small co-operative firm built in the economically depressed Basque lands of northern Spain, in the 1950s, into a modern-day multinational corporation with over $8 billion in assets and $3.5 billion in sales in 1993". In 1999, MCC was operated "by almost 30,000 worker-owners organised into financial, industrial, and distributional groupings. The MCC has become a powerful force in shaping regional development strategies and is a model of economic collaboration which is highly respected throughout the world". They question the validity of neo-classical economic theory, which is at the root of Porter's and other urban development analyses:

> *"The narrow framework of mainstream economic theory upon which Porter's ideas are based does not respond to the broad dimensions of community needs, nor does it capture the value of the activity (labour) expended in the service of bettering community, with the profit motive tangential. The sterile mathematical models of the modern economic theoretician are not synchronised with or reflective of the policies and activities of the practitioners who are attempting to respond to the needs and assets of inner city communities… Porter's call for private enterprise development is actually industrial policy under the mistaken assumption that the building of industry is community economic development. Even among his critics, many of the solutions manifest themselves in economic policy built around one component of the economy-Industry. We acknowledge that building effective industry is a critical component of community revitalisation, but argue that the current methods of organising private enterprise through sole-propriety, partnerships and corporations are too limited to fulfil community needs for empowerment".*

They carefully remind the reader that "there is little connection between work and better outcomes for ghetto dwellers or for their communities…. To move up economically requires moving out. As a result, the link between job and social betterment is lost collectively as achievers move out of the ghetto rather than pass on social and networking skills to the community or act as the magnets for community human resource recovery. Porter does not suggest ways to capture this social capital in the community as it is developed". Co-operative enterprises are a viable, self-sustaining and profitable alternative which offers the opportunity to re-invest profits back into the community.

This is not to say we prone for the elimination of competition altogether. Otherwise we risk drifting into complacency and possible mismanagement. For example, Nonaka and Takeuchi

(1995) explain how the Japanese tendency for consensus at all cost carries the risk of generating knowledge concepts to the level of the "the lowest common denominator". In their study of knowledge creation they showed how lively conflictual discussions tended to challenge the status quo so as to continually improve explicit knowledge concepts.

It is with a somewhat sympathetic ear that we listen to Porter's (1999) objections to corporate and national alliances where he cites specific examples of government mismanagement of funds and the use of subsidies to prop up ailing industries. But unlike Porter, we believe the solution lies in further improving the effectiveness of these co-operative measures, not eliminating them altogether. We must ensure that all stakeholders (including the individual employee) not only participate but understand that they *must* participate and have a say in co-operative initiatives. This should be coupled with the harnessing of the competitive spirit that is within all of us towards more continuous *self-improvement* and less directed against each other. These two measures conducted in tandem will bring out the best of all people as well as ensure that we collectively reach the "highest common denominator" in a profitable manner.

Limits of Competition with regard to the Global Economy

As an assumption, international competition is as improbable as competition in national markets, due to the undeniable fact of the domination of the planet's economy by multinationals. The considerable weight of multinationals cannot foster healthy competition; rather it fosters concentration, mega-mergers, quasi-monopolies and oligopolies. Indeed, if there is competition, it is *monopolisitc competition*, an expression which, according to linguistics and the philosophy of language, is a contradiction in terms. It is difficult to imagine fair competition between partners displaying enormous power disparities, such as is the case between the powerful American and European economies and the fragile economies of Mexico, India or Tunisia. Indeed, according to "Decade of Executives," a detailed study available on the Internet, for companies like GM, Ford, GE and IBM, NAFTA (North American Free Trade Agreement) has only resulted in real gains for American and Canadian Presidents and CEOs (who have had raises ranging from 400% to 600%), while productivity and labour force gains have been around 18%-25%. For Mexico, however, the result has been bankruptcies, declines in local products and systematic wage reductions.

As it appears to be viewed by Porter, free trade is no more than a sort of race for domination, a "competitiveness" which only assumes rivalries and struggles, in a context of globalization viewed above all as expanding beyond national boundaries to encompass the entire planet – battles between businesses? – the whole of which is conceived in terms of the American model, which is largely invoked and treated as a managerial and economic summit, an indisputable fact worth studying and generalizing, for the good of all.

By way of a Conclusion: the Inter-business effects of Porterism

We have attempted to reveal the inadequacies of Porter's strategic thinking from a methodological and epistemological point of view. We have also sought to show that the praxiological promises of this thought are impossible to realize given its dubious, impossible-to-operationalize normativity as well as it missing enormous fundamental issues (as pointed out by the Resource Based theorists) which a firm needs to assess and harness in order to be truly successful in attaining a lasting, defendable and not easily imitable competitive advantage. Lastly, guided by the question of why this perspective has enjoyed so much success among academics, consultants and management, we have suggested that the reason is not only to be found in its content (i.e. ease of understanding and relative ease of implementation) but also in the ideological role it plays in legitimizing situations of domination at the business, industry and global levels. At the business level, a specific model of governance emerges from Porter's thought, in which domination is exercised by managerial spheres due to the exorbitant power accorded to experts and analysts. The degree of analytic, quantitative and empirical expertise required by strategic positioning, competitive advantage, the value chain, and so on reinforces the image of the consultant and management as "the only" experts and denies the legitimacy of the participation of all of the business's other human components in the process of conceiving strategy or in questioning the strategy advocated. Indeed, experts are *a priori* immunized from criticism because of the supposedly “scientific” nature of their reasoning, analyses and decisions. As a result, employees are reified as blind system drones, confined to the role of performers, “implementers” of strategies, which leads one to think that Porter’s thought is merely another episode in the long history of orthodox management theories. In the final analysis, therefore, it is a movement intended to reinforce centralized and hierarchic characters, with their array of exclusive privileges and dominant role, one that is in line with the most conservative managerial ideologies. By the same token, and given the highly specialized character and the high-level position accorded to expert-strategists, it is also an interdiction of any kind of movement towards participatory management, something which deprives organizations that adhere to Porterism of a significant competitive advantage enjoyed by organizations operating within the embrace of the Resource Based View who seek strength from within the firm by acknowledging the importance of employees, management style employed and the social-corporate environment that is cultivated.

At the level of industries, Porter’s theory justifies and legitimizes three general trends inherent to the dominant financial capitalism: domination by large corporations, the concentration of capital, and excessive hierarchization-centralization. As we have seen, Porter offers no help to small actors in a given industry, or to companies that want to draw more on their employee’s knowledge and field experience in formulating their strategies.

In addition, in his thought, all activity sectors are viewed exclusively in terms of hostile relations between competitors, between businesses and consumers, between business and suppliers, and, by the very features of its process of formulation and implementation, between management and employees. This conception is based largely on relations of force in which the final word goes to the strategist-analyst-expert, who leaves no room for any other kind of relation. The war of all against all and its corollary, the quest for domination, are the foundation of the entire Porterian edifice. The same logic is found in Porter’s discussion of the industrial strategies of nations. At the global level, the ideological thrust of Porterism is illustrated by the fact that the only pathway implicitly offered to emerging economies consists in reproducing apparently proven ways of doing things. We say “implicitly” because only dominant economies are of interest to Porter, in that his thought is ultimately limited to justifying the current state of relations of force in the global economy, be it at the level of markets and relations of businesses or at the level of labour relations within a given business. But operationally, we have seen alternative options at the inter-corporate level that are based on co-operation and collaboration which can lead to lower costs, access to more skills and knowledge, an increase in size of the market “pie” via product complementors, increased differentiation and inimitability via complementary product innovation, as well as act as a catalyst for further knowledge creation and innovation. We have also visited a viable and profitable alternative for developing communities via cooperative enterprises whese prime mandate is to cultivate and strengthen social conditions and work opportunities capable of responding to human needs and developing human potential.

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