DECISION MAKING FOR GAINING A COMPETITIVE ADVANTAGE FOR THE NATION WITH THE TOWS MATRIX – AN ALTERNATIVE TO PORTER’S MODEL – ILLUSTRATED BY THE PEOPLE’S REPUBLIC OF CHINA

Heinz Weihrich

ABSTRACT

Every nation is concerned about competing effectively in the global market. Competitiveness not only depends on the effectiveness of individual companies, but the industries and the socioeconomic system of a nation. The fast changing environments require nations to use its comparative advantage. This paper will explore a logical and efficient process of developing viable national strategies for competing in the global economy for the People’s Republic of China using the TOWS Matrix, an alternative to Michael Porter’s determinants of national advantage.

INTRODUCTION

One of the most important decision politicians and leaders of a nation is the determination of a strategy for the country that aims at gaining a competitive advantage. Competitiveness not only depends on the effectiveness of individual companies, but the whole socioeconomic system of a nation. The rapidly changing environment of the free world markets dictates that nations fully utilize their comparative advantages to remain or become prosperous in the future. Political and economic leaders must evaluate the external environment's opportunities and threats in order to formulate national strategies that take advantage of the country's strengths and shore up its weaknesses.

Professor Michael Porter at Harvard declared a need for a new paradigm with his book The Competitive Advantage of Nations. Although Porter made valuable contributions by identifying important economic factors that contribute to the national advantage, his model does not give sufficient attention to social, political/legal, and technological factors.

Another model, less deterministic than Porter's, is the application of the TOWS (threats, opportunities, weaknesses, and strengths) Matrix in the analysis of the competitive situation of a nation. The TOWS Matrix was originally introduced for companies' strategy formulation[1]. In this analysis, the framework will be used for developing strategies for identifying the competitive advantages of the nation. The approach will be illustrated by a situational analysis of China. Before conducting a competitive analysis with the TOWS Matrix, Porter's determinants of the national advantage will be briefly reviewed.

PORTER’S DETERMINANTS OF NATIONAL ADVANTAGE

Michael Porter identifies four determinants of national advantage in his book The Competitive Advantage of Nations[2]. They include:

1. The factor conditions of a nation are considerations and include, for example the infrastructure or skilled labor.
2. The demand conditions refer to the home country's demand for products or services within an industry.
3. The related and supporting industries are those supplier or related industries that are necessary for being competitive in the global market. Their presence or absence affect the nation's advantage or disadvantage.

4. The firms' strategies, structures, and the rivalry among companies, influence how they are established, organized, and managed. The nature of the rivalry affects the competitive advantage of industries and nations.

Porter's factor determinants of national advantage naturally relate very closely to a nation's strengths or weaknesses in industrial production and consequently its leading industries. Therefore, trends in these determinants also predict to some extent the direction of a nation's industrial competitiveness. They also influence the nation's strategy to take advantage of its opportunities in other countries and to guard against possible competitive threats.

Porter's analysis of the competitive situation of a country is strongly influenced by his background in economics. An alternative analysis of a nation's competitive advantage can be formulated using concepts from strategic management through the introduction of the TOWS Matrix. This approach is not meant to diminish Porter's analysis, but to compliment it. The TOWS Matrix approach is less deterministic than Porter's model and includes non-economic determinants. It provides a framework for the analysis of a broad range of the nation's strengths and weaknesses and integrates them with the global opportunities and threats.

THE SITUATION ANALYSIS WITH THE TOWS MATRIX

The proposed model will serve as a framework analyzing the nations internal situation as it competes in a larger, external, environment that poses threats and provides opportunities. These external threats and opportunities need to be integrated with the nation's weaknesses and strengths.

These factors, in turn, become the basis for four distinct strategies: (1) The most favorable situation is when a nation can use its strengths (S) to take advantage of opportunities (O) outside the country. Such a strategy is called the S-O Strategy (or maxi-maxi) because the nation exploits opportunities by using its strengths. However, in a competitive global market, there are also threats to the nation, which, in turn may be overcome by the use of its strengths. Such a strategy is designated as an S-T Strategy (or maxi-mini) because the aim is to maximize the strengths in order to minimize the threats. Every country also has weaknesses, which need to be overcome to take advantage of external opportunities. This W-O Strategy (or mini-maxi) is a developmental strategy that attempts to convert weaknesses into strengths. The least favorable position in the TOWS Matrix is the situation in which a nation is faced with external threats, but has many weaknesses which make it difficult to compete in the global market. This strategy is the W-T Strategy (or mini-mini). The discussion that follows shows the application of the TOWS Matrix to the analysis of the People's Republic of China.

ANALYSIS OF THE COMPETITIVE SITUATION OF THE PEOPLE'S REPUBLIC OF CHINA

Over the centuries, China has undergone many changes as a kingdom and a nation, but perhaps the most dramatic changes have occurred over the past two decades. In 1978, Deng Xiaoping began reforms aimed at stimulating foreign trade and investment and moving the People's Republic of China into the global economy. These reforms have allowed China to achieve average GDP growth of 9.3% since 1978 while running a trade surplus and keeping inflation under control [3]. China is now the tenth largest exporting nation in the world and is poised to become a major player in the global economy of the 21st century.

Figure 1 summarizes key elements of China's (1) economic, (2) technological, (3) social-cultural (including the education system), and (4) the political-legal environments. Based on these factors, four sets of alternative strategies will be developed. Specifically, strategies based on China's strengths and opportunities outside the country (S-O Strategy) and its weaknesses and opportunities (W-O Strategy) are highlighted.
### FIGURE 1: TOWS MATRIX FOR THE PEOPLE’S REPUBLIC OF CHINA

#### Country Culture, Values, Purpose, Objectives, etc.
- To become a powerful member of the international community (WTO).
- To move toward a market economy.
- To improve the living standard of its people.
- To unify a diverse culture.
- To gain political & economic power

#### Internal Strengths
- Aggressive Government Reforms
- Ability to change regulations (government intervention)
- Strong bargaining position with interested investors.
- Large domestic market
- Increasing strength in high tech, wireless & electronics
- Low labor costs & Confucian ethics (loyalty, duty, etc.)
- Vast natural resources (coal, iron ore, petroleum etc.)
- High Growth with Low Inflation
- Vastly improved socioeconomic conditions in last decade (health, nutrition, life expectancy & education).
- Acquisation of Hong Kong
- Competitive advantage in clothing, consumer goods, fabric, toys, electrical machinery, switch gear.
- Free University education. Scholars educated abroad.

#### Internal Weaknesses
- Unemployment – Risk of labor unrest
- High Poverty Level
- Regional Economic Development Gap
- Lack of trained managers
- Political uncertainty
- Poor legal system. Lack of copyright/patent protection.
- Unprofitable state-owned enterprises
- Despite natural resources, insufficient energy supply.
- Outdated banking system.
- Oversupply of expensive housing and office buildings
- Consumer demand dropping.
- Variety of dialects hinders communication.
- Excessive bureaucracy and corruption.
- High inventory with deflationary tendencies.

#### External Opportunities
- Export light industrial goods to high cost, high price markets and attract investors from abroad.
- Rapid technological developments. Demand for low-cost goods in high-priced & poor countries.
- **Asia & Pacific Rim** – traditional ties to these economies. Financing from Hong Kong, Singapore, other countries.
- **United States** – Eagerness to access Chinese economy allows Chinese business access to these markets with very little resistance. Improved political relations.
- **European Union** – Same eagerness as US. Hong Kong’s traditional tie to EU economies creates natural links for China especially in the banking industry.
- **World Trade Organization (WTO)** – membership would allow the PRC to have even more access to the US, EU and Japanese markets.

#### External Threats
- Asian financial crisis
- Competition for exports and foreign investment due to decreasing labor costs & devalued currencies in other Asian countries.
- Hesitation of foreign investors due to crisis along with political and legal uncertainties.
- Political pressure within US to discontinue China’s MFN status and block the PRC’s accession into the WTO.
- Antidumping investigations.

#### S-O: Maxi-Maxi
- Attract investment by reducing trade barriers and clear long-term policies.
- Continue policy of constructive engagement with US.
- Expand presence throughout Asia by bolstering the large and competitive SOEs.
- Protectionism – Setting up new trade barriers. Changing the rules.
- Playing foreign firms against each other.
- Export items where PRC has a competitive advantage (electrical machinery, toys, footwear, apparel, power generation equipment, textiles, iron & steel).

#### W-O: Mini-Maxi
- Improve Management Education – continue to establish & promote linkages with western universities & offer MBA at state universities.
- Provide a social safety net.
- Reform legal system & eliminate corruption. Strengthen and enforce laws protecting intellectual property (patents, copyrights).
- Assist transition of unprofitable SOEs - absorbed by larger SOEs or privatized (E. German model)
- Encourage Foreign Direct Investment in the lesser-developed western regions to promote growth and reduce migration into the eastern cities.
- Raise money from Asian countries for restructuring.
- Reduction of bureaucracy & government policies that reduce arbitrary restrictions for foreigners.
- Technology Transfer – attract companies that are willing to share technology.

#### S-T: Maxi-Mini
- Invest in high-tech industries
- Lower tariffs and other barriers to free trade.
- Provide a stable legal system for foreign investors.
- Continue to move towards a market economy and reforms of SOEs and govt. subsides.
- Consider investing in emerging countries.
- Consider devaluing Chinese currency as a last resort.

#### W-T: Mini-Mini
- Meet the requirements to join the WTO.
- Increase social reforms to decrease poverty and improve quality of life for workers.
CONCLUSION

Developing strategies for gaining a competitive advantage of a nation requires critical decisions by politicians and economic policy makers. The proposed TOWS Matrix framework integrates analysis and human decision making. Strategic decision making for the global environment is an art based on underlying analyses.

REFERENCES