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Re-examining the Relevance of Michael Porter's 'Five Forces Framework': Business Strategy and Competitiveness in the Contemporary Globalised World

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Abstract:
This article examines the contemporary relevance and practical applicability of Michael Porter's 'Five Forces Framework' in the present day globalised business world. Porter propounded his 'Five forces framework' model in 1979 to enable business to assess their business strategy to create and maintain their competitive edge in their industry. This has been an influential model employed by businesses for decades and taught as a staple part of business management courses across the world since then. More than four decades after the popularisation of the model, using existing scholarly literature and detailed examples drawn from different industry sectors, this article analyses its continued significance in employing successful business strategy in a rapidly changing, fast-paced technologically driven globalised contemporary world.

Keywords: Michael Porter, Five forces framework, Business strategy, Business Management, Globalisation

In 1979, Michael E. Porter in his highly influential article entitled 'How Competitive Forces Shape Strategy' in the Harvard Business Review introduced what has come to be known as the "Five Forces Framework" model. This was followed by several books in which further expanded on this model propounded by him. According to Porter, this "Five Forces Framework" model demonstrates how the performance of a firm in any industry is affected by five generic forces (Porter 1979; 1980; Have et al. 2003). Porter believed that a firm could use this framework to gauge its market position and the sources of potential threats against it in the market, and then proceed to build its competitive advantage (Dibb et al. 2006; Kotler & Keller 2006; Porter 1985).

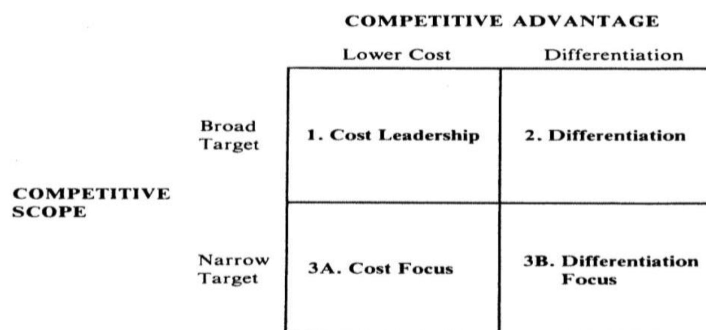


Illustration 1. Porter's Competitive Strategies (Source: Porter 1985:12)

Porter highlights that a company can adopt three primary generic strategies to gain competitive advantage in an industry:

a. Cost Leadership: involves securing a unique market position by offering products at the lowest cost. This cost effectiveness can be an effective strategy to attract customers. Such a strategy however requires economies of scale and the ability for long term defence on the part of the company.
b. Differentiation: this is achieved by offering the consumers a distinctive product, on varied bases like intrinsic qualities of the product , innovative marketing and advertising or offering free value added services.
c. Thirdly, a company can build its base by focusing on its expertise in fulfilling the requirements of a specific niche segment of the market (Dibb et al. 2006; Kotler & Keller 2006; Porter 1985). A small sports car manufacturer like Lotus in the Britain, for instance, has traditionally built its strong market position using these latter two strategies of cost focus and differentiation focus. It offers expensive but exclusive, hand-made and light weight sports cars targeting a very niche section of car market where the exclusivity of these sports cards holds a premium value for the target customer segment. Accordingly, its marketing effort has been solely concentrated on displaying of concept cars in motor-shows and editorial reporting in sports car magazines, unlike mass car manufacturers like Renault or Volkswagen who heavily depend upon television and billboard advertising.

For a firm to be able work out which of these strategies (or their combination) will be suitable, it must chart out the five forces that together determine the extent of profitability and market share for any product or service based firm in an industry sector. These forces are (Dibb et al. 2006; Kotler & Keller 2006; McGrath & Heiens 2003; Porter 1979; 1980):

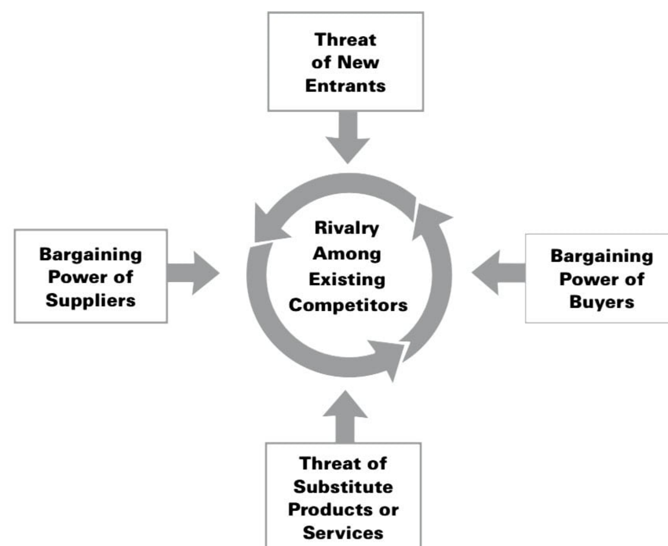


Illustration 2. Porter's Five Forces (Source: Porter 2008:27).

1. Threat of new entrants

Strong barriers to entry into a business sector make the environment secure and profitable for the established players. Six main entry barriers that can be used by an industry are (ibid):

a. **Economies of scale:** delivering goods at a cheap cost or bulk contracts with key players in the industry supply chain.
b. **Product Differentiation:** by securing a unique position and strong brand loyalty among the customers through strategic advertising and marketing.
c. **Capital requirements:** large capital requirements and time lag between initial investments and ROI.
d. **Cost Advantage:** benefits accruing to the players already established in the market irrespective of size, like experience curve and access to distribution channels.
e. **Government Regulations:** measures like licenses and import (Karagiannopoulos, Georgopoulos & Nikolopoulos 2005).

2. Bargaining of power of buyers

Secondly, when buyers buy in large volumes and the product is not crucial (in terms of either proportion of their costs or effect on their performance), they are able to exert greater pressure over their suppliers. Low switching costs, backward integration capability and undifferentiated products also allow buyers greater leverage.

3. Bargaining power of suppliers

Suppliers can augment bargaining power if they are numerically and/or geographically integrated. High switching costs, product importance and forward integration capability allow buyers greater leverage.

4. Threat of substitute products and services

Availability of alternative goods and services could drastically affect a firms business. The degree of threat they pose however depends on factors like customer relationships and brand loyalty of the firm. Buyers switching costs and propensities are also important.

5. Rivalry among existing competitors

Rivalries among the existing players are high when they are of the same size and offer undifferentiated product using similar strategies. It is also affected by the overall potential of growth in the market and costs associated with exiting it.

Although Porter's framework has been very popular, it has been realised that its applicability in contemporary times is limited. Coyne and Subramaniam (2001) consultants at McKinsey Consulting, argued that Porter presents a microeconomic model of industry which is based on three main assumptions. Firstly, it assumes that the buyers, sellers and substitutes in the industry have no mutual contact and the company can afford to operate by maintaining an objective distance from them. Secondly, the source of value depends upon the structure of the industry and hence a company can build profits by creating deterrents for competitors and new entrants. Thirdly, that the environment within which the industry is stable with low levels of uncertainty, allowing firms the leisure to accurately predict and plan strategies (Coyne and Subramaiam 2001: 30-31). Recklies (2001) notes that Porter's model reflects the economic conditions of the eighties which were characterised by cyclical growth in a relatively stable environment where value preservation through defensive long term strategic planning was the primary objective (Reckiles 2001; Bodily and Venkataraman 2004). Today, however, a company needs to actively seek to create value rather than simply preserving it (Ghemawat 1986).

The 'five forces framework' model also assumes a "perfect market" situation where actors have the freedom to enter and exit at will (ibid 2001). Technological factors like globalisation and digitalisation have revolutionised the manner in which business is being conducted (Downes 1997). Rapid effects of the technological revolution has meant that companies today are forced to compete with unknown forces which could be located anywhere in the global economy (Azzolini & Khare 2004; Grath & Heiens 2003). Outsourcing and delegating work to different regions of the world and e-commerce through virtual malls

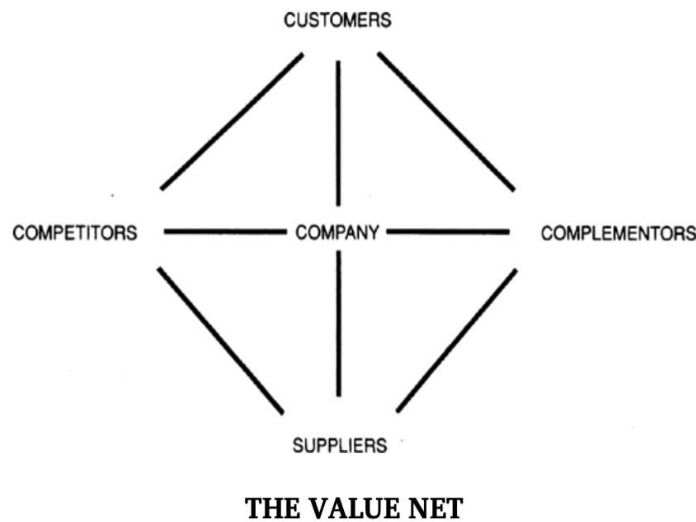
and internet banks has meant that most industries today operate on a 24/7 basis where actors and conditions are highly dynamic. Firms, therefore, are forced to have dynamic and quasi-emergent strategies which enable them to be proactive (Mintzberg & Waters 1985).
Further Porter's framework lays entire stress on exogenous factors and ignores the effects of the internal dynamics of the firm. Grant (2005: 102-103) shows that according to a series of studies conducted by various scholars, Firm-specific effects on a firm's profitability were consistently found to be more important than Industry effects (Illustration 3).

Percentage of Variance in Firms' Return on Assets Explained by :

Industry Effects	**Firm –Specific Effects**	**Unexplained Variance**	
Schmalensee (1985)	19.6%	0.6 %	80.4%
Rumelt (1991)	4.0%	44.2%	44.4%
McGahan & Porter (1997)	18.7%	31.7%	48.4%
Hawawini et al. (2003)	8.1%	35.8%	52.0%

Table 1 (Source: Grant 2005:103)

Scholars like Brandenburger and Nalebuff (1996) show that even within the framework of Porter's model, there is a need to analyse a sixth force, i.e. compliments along with substitutes and use the "*value net*" to show how availability of complimentary goods and services can have a vital impact on the success of a firm's products (Brandenburger and Nalebuff 1996; Grant 2005) .



THE VALUE NET

Illustration 4: Brandenburger and Nalebuff's *Value Net*
(Source: Brandenburger and Nalebuff 1996: 23).

Others like Narayanan and Fahey (2005) demonstrate how Porter's Five Forces Framework is limited since it *apriori* assumes the characteristics of a developed economy and thus cannot be applied to emerging economies due to the, *existence of market supporting formal institutions in the former and their absence to varying degrees in the latter (Narayanan and Fahey 2005: 210).*
Dunning (1993) writes that Porter presents a "very ethnocentric US way of looking at the world" (ibid:

12) which positions government as 'indirect and partial' while the ground reality might be very different (Grant 1991; Narayanan and Fahey 2005; Rugman and Verbeke 1993).

Another crucial weakness in Porter's framework is that it does not identify the force of strategic alliances and their need and importance for success in any industry sector (Hamel, Doz and Prahlad 1989). He proposes that a firm which maximises its profit by bargaining and bullying its suppliers and buyers can only be successful in the very short term as in the longer term scenario they might lose their business or loyalty. Any firm that wants to achieve sustainable growth and profits need to be able to build network partnerships and relationships through an integrated supply chain using ERP and MRP systems where the performance of one partner is bound to affect the entire network (Slack, Chambers, Johnston & Betts 2006; Slack, Chambers & Johnston 2004).

Thus, there is a need to co-operate and not just compete, Sheehan (2005) notes that knowledge intensive firms like consulting and law firms often rely on referring clients and sub-contracting work to one another. Firms are often simultaneously competitors and partners on different projects which makes Porter's isolationist strategy impractical. For instance, in 2006, the British Aerospace (BAE) company worked with its rival French firm Thales on the 'Carrier Project' ('BAE Systems wins carrier deal' 2005). Similarly, Inspite of fighting a seven-year long legal battle against each other in court until 2018, Samsung and Apple have been collaborating on the iPhone with each other (The Irish Times 2019). Further, government regulations are no longer a credible deterrent to business operations due to force of globalisation where firms can strike multinational partnerships in order to enter new markets. Nokia, for instance, has recently signed a deal with Sanyo to expand its operations in the East Asian markets where it has traditionally been weak ('Nokia and Sanyo plan phone tie-up' 2006).

The speed of technology obsolescence and information spread has also meant that any product which requires a long R&D phase can be easily copied by competitors, for instance, Gillette invested 10 years and 1billion $ to develop and launch its Mach 3 razor, while Asda was able to launch Tri-Flex, its own version of the razor within the next few months ('Jager's Gamble' 1999). Thus, it is highly difficult to control substitute goods and services emerging from even within the same industry sector.

Moreover, even if one was able to manipulate substitutes and create barriers for new entrants, building a monopoly market in such a way would be considered illegal. Software giant, Microsoft for instance, has had to pay $775million as compensation to IBM and was fined $32 million by the South Korean government in antitrust rulings ('South Korea fines Microsoft $32m' 2005; 'Microsoft pays out $775m to IBM' 2005). It is also facing a similar charge in the EU after a complaint by its rivals like Oracle, IBM, Sun Microsystems, Nokia and RealNetworks and could face a penalty of 2 million euros per day if found guilty ('Microsoft rivals in new EU action' 2006).

Furthermore, Porter's 'Five forces framework' model completely ignores the soft aspects of a business, such as, organisational culture of a firm can often play a crucial role in determining the internal dynamics of the functioning of the firm and thereby its working conditions and employee output rendering a significant impact on building and/or maintaining an overall competitive advantage by a firm (Schein 1990). Another globally important aspect which is crucial in determining the competitive success of a business in the contemporary world is the customer's public perception of a company's image and branding related to ethical issues focusing on social, political, and environmental sustainability. Even the most successful companies the world over, such as Nike, Starbucks, Nestle etc., have suffered significant economic backlash due to negative public perception in this regard (Velasquez 1998).

In a novel attempt at a postmodern reinterpretation of Porter's framework, however, scholars like Knights

(1992) and Harfield (1998) point out that at the theoretical plane simplifying the complex matrix of reality into the simplistic framework creates a semblance of power in the Foucaultian sense (Foucault 1980; 1982).

Porter's work is attractive to management precisely because this expert knowledge provides 'some illusion of control, legitimacy and security in the face of uncertainty' (Harfield 1998: 9)

This is consistent with arguments that there is a possibility of viewing strategies as myths and narratives (Beeby 1992; Barry and Elms 1997; Harfield 1998).

In sum, although Potter's "Five Forces Framework" and the competitive conceptual advantage based on it, has been an influential and popular subject in management theory for decades, its present-day relevance and applicability in the contemporary business world has however has become restricted due to the serious caveats as demonstrated in this article.

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