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Examining the competitive structure of Turkish tourism industry in comparison with diamond model

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Abstract

The aim of this study is to discuss whether Michael E. Porter's Diamond Model, which is developed to measure the competitive advantages of countries at the sectoral level, is an appropriate model to measure the competitive structure of the Turkish tourism. That is because Porter states that the diamond model he developed would not be an appropriate model for the analysis of bequeathed sectors of countries (such as oil and climatic characteristics). And when we look into the issue for Turkey, we see that the country has such elements as climate, natural formations and historical values, which could be regarded as inherited, in the emergence of its tourism sector. All data in diamond model is collected from secondary resources. The major resources are World Tourism Organization data, Ministry of Culture and Tourism data and data from other public institutions. In that sense, the study is a conceptual work.

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1. Introduction

Turkish Language Agency defines the term “competition” as “rivalry, competition, and race among people who pursue the same goal.” And as an economics term, competition can be defined as the process of relationship in the form of rivalry and contrast that occurs between the economic units in order to achieve certain economic objectives such as profit, sales volume and market share in market economies. For free market economy no other element has more strategic importance than competition because competition provides the actualization of economic activities and thus, economic, social and political benefits occur (Yardımcı, 2007). The economic benefits of competition are:

- Efficiency in production: Competition helps companies to produce at maximum level. Companies whose costs decrease will be able to compete in price.
- Efficiency in resource allocation: The production bases of companies are limited. This shows the necessary of using the resources in goods and services demanded to be produced.

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- Efficiency in Innovation: Competition will add value to companies' self-efficacy and help them focus on research and development.

Competitiveness is a situation identified and measured against a competitor. Porter states that competition power at national scale is concurrent with efficiency (Gürpınar, 2007). There are various definitions of the term competitiveness but there is not a common definition accepted by everyone. There are various reasons behind this (Atik, 2005). These reasons are:

- The definition of the competitive power changes according to the such levels as company, industry and country.
- The criteria to define competitive power differ.
- The definition changes according to perspective (macro and micro).

Accordingly, it would be good to analyze competition, which is a multidimensional term, at 3 levels; company, industry and country level (McFetridge, 2005).

In this study, the concept of competitiveness will be discussed. From Porter's strategic management perspective, there are different views on competitiveness. Porter researched the reasons behind the success of industries in one country compared to other countries and the factors that effect the competitive power of a country. In order to see Porter, conducted a study lasting 4 years and tried to explain these studies if the comparative advantage and which is based on the best industry factors are explained adequately by other variables or not.

According to Porter (1990, 1998) national success is not inherited but created. A country's competitiveness depends on the innovation and rising capacity of its industries. The base of competition changed into creating and internalizing knowledge and to the growing role of a country. Competitive power is created and kept alive through highly localized processes. Thus, those countries, which have dynamic and struggling local environment that looks forward, achieve in certain industries (Porter, 1998).

Porter also states that countries' development go through a series of processes. And he called this Competitive Development Model.

1. Diamond Model

Porter explains the success of a country in certain industries and fail in others in his diamond model. According to Porter countries will succeed in industries and industrial sectors where national diamond is the most efficient.

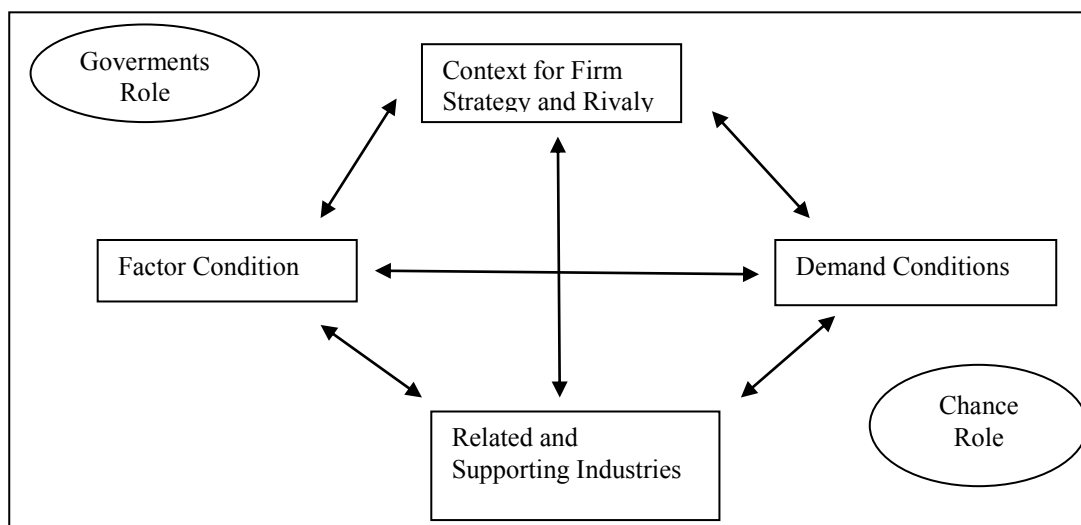


Figure 1: Porter's diamond model

For Porter, success is not achieved in industries which could not realize their external integration, but in business clusters. Business clusters are industrial zones where businesses, various public and private sector industries operate with their suppliers and other connections. Developing these clusters will increase the speed of getting competitive advantage (Porter,1990).

Porter explains the determining elements of national advantage with its “*Competition Diamond Model*”. In this model, Porter models four factors that have an effect in developing a competitive advantage for companies. The four factors on the four sides of the diamond are “factor conditions”, “demand conditions”, “context for firm strategy and rivalry” and “related and supporting industries”. Porter uses this diamond model to determine which firms and industries have competitive advantage; and the importance of related and supporting industries encourages the interest towards clustering. This model represents the areas that countries can set up for their industries (Bulut et.al ,2004).

In his book named ‘Competitive Advantage of Nations’ published in 1990, Porter states that in order to determine the competitive advantage of a country, four factors should be analyzed. These factors are:

1. Such factor conditions as infrastructure and skilled labor
2. Demand conditions in a country for goods and services in an industry
3. The existence or absence of supply industry in a country, which could support the competitiveness of an industry in global market.
4. The strategies of companies, industrial structure and the competition among themselves.

Such an analysis helps to identify how companies are established, organized and managed. The structure of competition also effects the competitive advantage of nations and industries.

Porter’s factors that determine national advantage have been criticized in a lot of ways. For instance, Lall who criticized Diamond Model says that the model explains only the success reason of certain activities at certain countries and that the industrial properties, named as the factor determiners, are not relevant with innovation, new product and process formation tendency (Lall,2001).

Although Porter’s model forms a useful framework for environmental analysis particularly from an economic aspect, it does not consider government and policy makers which could form competitive advantage for nations and develop alternative strategies to maintain it. Porter’s analysis of competition conditions is essentially more like a description and it does not provide the required results in forming alternative strategies.

Another criticism made against Porter’s Diamond Model is that in determining the country’s competitive power, it is not only the country of origin factors that should be considered but also factors occurring outside the country, particularly the factors of the countries which are the main trade partners of a country. As a result of this assertion, Rugman developed “Double Diamond” method and Dunning developed “Multiple Diamond” method (Brouthers & Brouthers, 1997).

One of the studies in this field in Turkey belongs to Öz (2002). According to Öz’s findings, in Turkey sample, Porter’s Model can explain the competitive power of developing countries in general. Among four industries that Öz analyzed, as a result of interviews he made with various experts and institution representatives apart from secondary data, he found that glass, flat steel and construction industries were “competitive” leather wear industry was “competitive” yet losing its influence, and automotive industry was “uncompetitive”. However, when “exporting capacity”, which is one of the most essential indicators of international competitive power, is considered, it is seen that Turkey’s automotive industry needed to open abroad with the occurrence of economic crisis and succeeded this as the second exporting sector in Turkey after textiles. Under these circumstances, it is obvious that the “factor endowment of countries” is not fixed and can be enhanced and that the fact that national strategies can show cyclical changes should be considered in the context of national competitive power.

Tourism sector, which has been growing in importance lately, is an important sector with regards to the competitiveness of countries. That is because tourism sector is a sector from which countries can get maximum outputs by using production factors and it has an essential role in export revenues. It is observed that some countries generate income only from tourism with the advantage of their geographical location while others are only competing with tourism.

Quite a few approaches can be discussed regarding competition in tourism sector. The first of these approaches, which is also analyzed in this study, is Porter's Competitive Power Analysis, Crouch and Ritchie's Conceptual Competition Model and Dwer and Kim's Integrated Competitive Model.

2. Porter's competitive power analysis in terms of tourism sector

The development of transportation in today's world enabled people to travel to distant places and as the countries began to generate more and more income from tourism, the concept of competition gained more importance. For, it is seen that in order to get the share they want from international tourism; countries began to carry out various sales and marketing activities. In this context, this study will examine the identifiers of competitive power in tourism industry and whether Porter's Competitive Power Analysis is adequate to explain tourism industry.

In order to explain the competitive structure of countries, Porter developed a comprehensive conceptual model. In his theory, Porter states that the competitive power of a country is formed of individual companies at micro level. In other words, having an international competitive power is possible if those companies with a success in domestic market carry these successes to international markets. Prosperity depends on companies' seizing a high level of efficiency and developing it.

Companies operating in any sector in the country should improve their total productivity by improving the product quality in their own industry, by adding demanded properties to the goods, by developing product technologies or by increasing product efficiency (Kim,2003).

Porter's model which redefines the limits of strategic management is named as 'dynamic diamond' or 'diamond' which provides the development of competitive power of a company and is composed of four main internal factors. One or two of these four main factors that determine national competitive power could be the source of competitive power. These are: Factor conditions, demand Conditions, related and supporting industries, context for firm strategy and rivalry.

However, for a continuous and more general success these four factors should exist in system integrity because mutual interaction of identifiers will effect their development and helps to strengthen a weakness and to form better competitive power. In addition to those four main identifiers, Porter talks about the existence of two external variables that effect national competitive power. These variables are the roles of government and opportunities; in other words it is luck. As a result, these two additional external variables help to gain a competitive advantage by effecting one of the internal variables. Having a competitive advantage will occur with the mutual interaction of these six factors as a whole.

According to Porter, these identifier factors form the national environment where they learn how companies were born and how they would compete (Porter, 1990). Each point on the diamond and diamond as a system effect the main inputs necessary for having national competitive success. The availability of resources and capabilities necessary for the competitiveness of industry and their shape, perceived opportunities in the companies that shape the knowledge, business owners executives and individuals to invest in innovation and forcing companies goals and most importantly pace.

As mentioned above, Porter added two external variables to the model. These are the role of government and luck. The role of luck does not depend on the situation of the country or on the control of the firm and government. For instance, such factors as new technologies, energy crisis, and diplomatic tensions between countries, war, epidemics and diseases are uncontrollable factors and the strategy for such kind of emergency cases that could occur at tourism business level or at national level should be predetermined at company or national level. Crisis management method can be used here.

Rather than a separate factor, government should be considered as a factor that has an effect on the other four factors. Porter states that commerce should not be interfered and added that such an intervention is only a market guarantee for ineffective companies. Besides, he said that the role of government is to act as a catalyst to encourage or even push companies to raise their aspirations and move to higher levels of competitive performance. Government should take a partial role but this only works if the conditions under the diamond are available. The role of government is an important one that grows and develops the role of diamond. Therefore, government policies

should be towards creating an environment where government does not intervene companies directly and companies can have competitive advantage. In other words, government should have an indirect role instead of a direct one.

Porter's model has a structure which is valid for all industries and sectors in economy theoretically. Therefore, the model could be applied to tourism industry and can explain the factors that effect the competitive power among national tourism industries. However, it can not be said that the model explains the sector fully.

According to Porter, these below mentioned four properties form national advantage diamond both one by one and as a system. These properties are:

Factor conditions: The condition of such factors as human resources or the infrastructure necessary for competition in industry.

Demand conditions: The quality of market demand for goods and services in the industry.

Related and supporting industries: Existence or non-existence of related and supporting industries which can compete.

Firm strategy, structure and rivalry: The way companies are created, organized and managed; and the existence of competition within the country.

3. Adaptation of the Diamond Model to the Turkish Tourism Sector

From this point on of the study, whether the Diamond Model is sufficient to explain Tourism Sector or not will be examined.

4.1 Factor conditions

Factor Conditions are divided into two factors: source-based factors and usage-based factors. Source-based factors have roots in historical, cultural, mineral, agricultural and forest resources. These are found in nature naturally.

When evaluated through the eyes of tourists, factor conditions are the physical, historical, cultural, and recreational resources that push the tourist to that region or destination. That is, the attractiveness of that region or a destination is the most important factor in the decision of the tourist to travel. These resources that already exist in that country are the elements that create a direct impact on the competitiveness of the region or destination without any need to strive. In terms of geothermal resource and the richness, Turkey is among seven countries in the world with 1300 thermal sources, and the second country in Europe. There are 20 ski resorts 14 golf courses and about 40 marinas in Turkey. Within the framework of "Convention on the Protection of World Cultural and Natural Heritage" entered into force in 1983, there are 878 cultural or natural assets throughout the world registered in World Heritage List by the end of the year 2008. Our nine assests (Historic Areas of Istanbul, City of Safranbolu, Hattusha (Boğazköy) – the Capital of Hittite, Nemrut Mountain, Xanthos-Letoon, the Great Mosque and Hospital of Divriği, Archeological City of Troy, Pamukkale, Hierapolis and Göreme National Park-Cappadocia) are on the list of Unesco Natural Heritage (www.kultur.gov.tr).

Usage-based factors are factors that subsequently made manually. These factors include the number of qualified people who are employed in the tourism sector in the country, their working hours and work ethic, the infrastructure, accommodation facilities, transportation network, and so on which have been especially aimed for the benefit of tourists, and also the use of skilled labor-oriented products.

Factors which mostly affect the competitiveness can be grouped as human resources, physical resources, knowledge resources, capital resources and infrastructure investments (Porter, 1990).

The above factors allocated to five different groups show different features for each country or region. And this affects the shape competition, its contents, thus the competitiveness. Many touristic country in the world either does not have sufficient production factor, or cannot handle its resources effectively and efficiently. As a result, destinations' competitive forces differ from each other. What is important in gaining national competitiveness strength in the international tourism market is not the amount of production factors and increasing them but to be able to provide the development of them and to use the existing ones in an effective and sustainable way (Bahar, 2004).

For example, Turkey and Singapore are two countries with different factor conditions in that though Turkey has rich physical, cultural and historical assets, its activities of using these assets for the tourism sector are insufficient; Singapore, which has much less resources in terms of tourism when compared to Turkey, has outscored Turkey

significantly from the point view of factor conditions only by using its resources effectively. The image and reputation that Singapore has drawn especially in the service of the hotel and the airlines has made Singapore competitive.

In summary, destinations which are not rich enough in terms of factor endowment can tip the scales in their favor by putting forward a different product via changing the shape, the format or the location of the existing resources. That factor endowment is different among countries will affect international trade, and ultimately the competition in different ways from the viewpoint of each country (Han and Kara, 2002).

4.2 Demand Conditions

The second determinant of Porter's dynamic diamond is demand condition. Demand conditions contain a variety of variables and arrangements related to the demand of product in the industry, and define the competitiveness in this term (Lall, 2001). The presence of an existing domestic demand for the leading sectors of the country will create a positive impact on the competitiveness of these sectors in the international arena. The structure of domestic demand will lead buyers to act more rigorously on the subjects like quality, design, service quality and so on, what is more the firms to achieve competitiveness by further efforts. For example, the British passion for gardening has enabled the country's firms to achieve a worldwide competitiveness (Altınay, 1995).

Domestic demand structure, demand concern and size are very important. As in the example above, the increase in domestic demand in Turkey and that more people join the tourism activity enable a product or service to be presented to the world market in a better form and on the most appropriate time. The first design of the product or service should be presented to the domestic market; after that the reactions of buyers should be analyzed and then product or service should be prepared for the international market.

4.3 Related and supporting industries

The presence of marketing, distribution, interaction and other economic relations across companies and businesses that are supportive, supplier and connected in tourism sector is another important factor for destination to gain competitiveness and to develop. Unless there is a well-functioning support unit behind tourism activities, the phenomenon of tourism, and therefore the power of competition cannot be talked over. Because if the inputs such as labor and raw materials needed by the industry cannot be provided, there is not a concept of tourism product. However, the presence of an effective network of support and supply will be benefit greatly to those companies and businesses that want to make profit economically and desire to gain the competitive strength in the sector (Bahar,2004).

4.4 Firm strategy, structure and rivalry

Most of the features that determine how the firms were managed and organized are peculiar to countries. These features vary as to the lifestyle of people living in the country. Namely, the attitudes of people working in the country toward authority, their interactions with each other, their behaviors as an individual and with a group will take up organizational culture. The education system of the country people, their social and religious history, their family structures and many of spiritual and unique country conditions directly affects the structure of business. For example, small-scale family firms in Italy represent a high degree of individualism and a suspected authority, if not comes from the family.

Italy is a country where family ties are strong and even today people prefer to live near their places of birth. Generally all members of the family work in the same firm, and the Italians prefer for their children to establish new firms instead of extending the existing companies (Porter, 1990).

Those who invest in Turkish tourism sector which has grown up with the incentives of the state after 1980 have seen it more as a secondary job, and this has led the sector to be managed with an unprofessional management approach which has nothing to do with the job. That is to say, the view that "anyone can do tourism" has led not to make up of professional cadres, and this has led our country's quality of service to be low. For the last 10–15 years of period, even the business owners are aware that to work with business-trained staff has a considerable benefits for

the enterprise. In addition, the presence of international chain enterprises in our country is somewhat a guidance to businesses of our country.

4. Discussion and Conclusion

Michael Porter states that the countries can only increase their competitiveness as long as they provide the level of industrial development. Besides, according to Porter, the success is not inherited but are provided with innovation and development. Thus, to Porter, competitiveness of a country does not lie in the plurality of its resources but in how effectively it uses these resources.

The most important element for a country to be preferred as a destination in the dynamic tourism industry is the bequeathed natural and cultural assets to that country. From this angle, Diamond Factor Model Conditions (Conditions of Input) formed by Porter is the most important condition to start tourism event.

Another factor that creates the model is the Demand Conditions. According to Porter, industries develop in line with the needs and desires of the people in any country. Namely, the demand structure in a country directly contributes to the development of an industry and / or industries. In addition, the presence of a potential domestic demand is essential for innovation and development of that industry. Therefore, the more the mobility of domestic tourism in Turkey, the more the sector will meet the demands and needs; in this case, the response for foreign demand will be given, so it will increase competition in the international arena. Therefore, the early booking in Turkey recently is an important step to inspire domestic demand. As is known, the tourism sector is a dynamic sector that requires cooperation of many sectors and organizations, affecting to and affected by many of them. Strong relationships between organizations such as TÜROFED and TUROB also enhances the sector.

In our country, many businesses operating in the tourism sector are family-owned ones. This shows that tourism enterprises in our country are mostly small and medium enterprises. For this reason, professional management structures cannot be formed in many of these companies and thus institutionalization cannot take place. Another issue that must be addressed for most of these businesses is that they not put out a strategy for the future. This causes the businesses to remain in the same structure and size, thus they cannot grow.

There are two more elements supporting the Diamond Model to talk about. These are the Role of the State factor and the Factor of Chance. According to Porter, the state should only intervene to support development of emerging companies. Porter's this idea complies with sectoral sense. For instance, that the state decreases the VAT rates from 18% to 8% for tourism enterprises, that it is forming touristic regions to ensure regional development are positive developments for our country. That the areas are leased by the state to entrepreneurs for 49 years so as to speed up the development of underdeveloped or developing regions and to encourage investments there are among positive developments.

The tourism sector is a very fragile. Any kind of national or international event to the media immediately affects it in a positive or negative way. For example, the increase the number of sunny days in our country will increase the demand for sea-sand-sun tourism, what we call the 3S sector, which is the most important type of tourism. In addition, the tensions that Turkey has experienced by its neighbors and other countries (i.e. the One Minute Event with Israeli President Shimon Peres in 30th January, 2009 in Davos), natural disasters, valuation of Euro over TL and so on affect the tourism sector in a positive and / or negative way. Although it is not possible to eliminate the Chance Factor, it is useful to take necessary measures to minimize the bad effects of results by developing methods such as crisis management.

In conclusion, it can be expressed that Porter's Diamond Model, when adapted to tourism sector, explain this sector but it is not sufficient enough.

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