Global Competition and the Peripheral Player:
A Promising Future

Taïeb Hafsi

Working Paper No. 55
April 2001

Taïeb Hafsi is a Professor of Organizational Policy at the Ecole des Hautes Etudes Commerciales, Montreal. He prepared this paper for the workshop entitled, “What Makes Your Firm Internationally Competitive,” organized by ECES for the Third meeting of the Mediterranean Development Forum held in Cairo on March 5-8, 2000.

Abstract

This paper argues that while globalization is hardly a new phenomenon, our conception of it has changed significantly over the years. While "globalization" once described an individual firm's decision to expand abroad, it now has more to do with the willingness of all firms to do the same. This means that modern firms must have a globalization strategy regardless of whether they intend to go elsewhere or not; as they can be sure that foreign firm will increasingly challenge them in their own territory. In addition to highlighting this change, the study further defines the phenomenon by distinguishing between firm, market, and industry globalization.

Based on this analysis, the paper argues that while modern globalization poses great threats, it also creates amazing opportunities. This is particularly true for small firms, which can exploit the many unattended and unsatisfied market segments in all industries. Yet, given the obstacles small firms face due to their size and limited capital, the paper confirms the importance of government support. It concludes that since it is among today's peripheral players that many of tomorrow's dominant ones will come, it is important for policy makers to worry more about peripheral games than about dominant ones.

ملخص

تبدأ هذه الورقة بمناقشة التغير الذى طرأ على مفهوم العولمة. وفى هذا الشأن، تزعم الورقة أنه على الرغم من أن العولمة لاتعد ظاهرة جديدة، إلا أن مفهومها فى الوقت الراهن يختلف عنه قديماً. ففى حين كانت العولمة سابقاً تعرف على إنها قرار مشروع بعينه بتوسيع نشاطه ليضم السوق الخارجية، يلاحظ أن مفهوم العولمة حالياً يرتبط برغبة كافة المشروعات بالتوجه نحو السوق العالمى. وهو ما يعنى أن المشروعات فى الوقت الراهن لابد أن تتبنى استراتيجية عالمية بغض النظر عن رغبتها فى الإنتاج للسوق العالمى، نظراً لأن هذه المشروعات ستتعرض حتماً للمنافسة الدولية من قِبل المشروعات الأجنبية فى السوق المحلى. وبعد توضيح التغير الذى طرأ على مفهوم العولمة، ينتقل المؤلف إلى التمييز بين مفهوم العولمة لكل من المنشأة والسوق والصناعة. ويرى المؤلف أنه على الرغم من أن المفهوم الحديث للعولمة يخلق العديد من التحديات، إلا أنه يتيح أيضاً فرصاً واسعة، خاصة للمشروعات الصغيرة. إذ تستطيع هذه المشروعات تلبية احتياجات تلك الأجزاء غير المشبعة من الأسواق فى كافة الصناعات. وفى النهاية يخلص المؤلف إلى ضرورة اهتمام الحكومات بالمشروعات الصغيرة من خلال تقديم الدعم اللازم لها فى ضوء ما تعانيه من مشاكل صغر الحجم وندرة رأس المال. وأخيراً يتنبأ المؤلف أن العديد من المشروعات التى توصف بأنها صغيرة اليوم من المتوقع أن تصبح من المشروعات الكبرى المسيطرة على الأسواق مستقبلاً.

I. Introduction

Globalization is both an old and a new phenomenon. In the past, a firm such as Exxon (or its predecessor, Standard Oil of New Jersey) could not consider its market but international (Chandler, 1962). Its strategy – and that of its competitors – to build a new and inter-connected vision of the world is not that different from today's concept of a global village. Yet, while adopting a global perspective may have set companies apart more than fifty years ago, today, "going international" is considered a natural phase in the development of all firms (Chandler, 1977, 1990; Vernon and Wells, 1976). This does not mean, however, that globalization is no longer an innovative and important aspect of competition.

As the standard practices of the world's markets have changed, so have the definitions of what it means to globalize. The market to which most modern firms refer is a wider market – even when they decide to concentrate only on a small part of it. Thus, 'globalization' is no longer so much related to the decision of a firm to go abroad, but to the willingness of all firms to do the same. This means that even when a firms does not intend to go elsewhere, it must expect others, from all over the world, to come and challenge it, in its own territory. In other words, globalization, which was once considered a firm's specific strategy, has become a structural element that has dramatically changed competition dynamics in many industries.

There are many issues related to such a situation. As competition is becoming much more sophisticated, traditional industrial organization concepts have simultaneously become more relevant, as when economies of scale dominate an industry (Caves, 1980), and challenging, as when increasing returns to scale create new monopolistic or oligopolistic situations (Arthur, 1993). Governments, as much as firms, are also being put to the test. They are supposed to "manage competition" within their sovereign boundaries in order to avoid predatory behavior and restraint of trade or commerce. Such management is generally as much formal as it is informal, involving negotiations among all parties concerned, including competitors, customers, suppliers, etc. In global competition, the overall logic evades any government's willingness to intervene. It requires that all governments act in concert, which is hard to conceive and hard to organize. Governments are therefore obliged to think more in terms of national competitiveness to fit their logic into the firms' logic when involved in global competition, which means that they have to understand better the global competitive game and work at bending the firms' competitive logic to take into account the country's interests.

Globalization is therefore a new version of an old game that opens up the field, involves all relevant players, local, international, private, public, governmental, and transforms completely

their traditional behavior. Such a game generates incredible threats, but also amazing opportunities, the stakes of which are not only the prosperity of firms but also of nations. How can different players deal with globalization and the resulting competition? What choices do each of them, in particular the smaller and weaker, have? Which of these choices is best? These are the key questions dealt with in this paper.

In responding, we intend to provide an overview of the realities and challenges of today's globalization and of the responses that firms and governments have developed or are implementing. In Section II, we clear the language of 'globalization' and propose that there are various levels of globalization. In the Section III, we describe the strategic responses of firms to the realities they are now facing. In Section IV, we show how governments can get involved and how they are responding. Section V addresses more specifically the situation of smaller firms based in smaller countries and suggest that their strategies need not be the same as those of well established firms. Finally, we conclude in Section VI with a discussion of what the future is holding both for firms and governments of smaller and developing countries.

II. Globalization: Multiple Realities

The word globalization is often used to describe differing realities. For example, one can speak of the globalization of markets or industries, as if it were imposed on the actors and unrelated to their actions (Porter, 1986). The TV market or the piano market are said to be global. One can also speak of the globalization of the firm and of its strategy (Doz, 1986; Porter, 1986). IBM and Ford are said to be global, but what about a small firm in Canada that exports 70 to 100 percent of its output? In an attempt to clear up this ambiguity, we offer in this section a way of speaking about globalization that takes into account the various meanings of the word and that hopefully helps capture the rich reality of today's competitive world.

In recent studies, globalization appears to be the result of changes in the environment, in particular in the structure of the industry, in which firms and governments operate.[1]

In the auto industry, for example, which considered is to be the typical global industry (Doz, 1986), globalization has been facilitated by three groups of factors:

1. The emergence of the European Union, that increased dramatically trade among European countries;
2. The successful penetration of Japanese firms, spurred by productivity and quality advantages; and
3. Converging consumers' preferences in the main markets, facilitated by the 1973 energy crisis and the evolution toward more advanced technologies everywhere.

[1] See Doz, 1986; Porter, 1986; Prahalad and Doz, 1987; Bartlett & Ghoshal, 1989; Rugman, 1990.

To these, one should add the fundamental characteristics of the auto industry: economies of scale in production, distribution and marketing; productivity differences among nations; and the trend toward free trade, which have all pushed firms to develop strategies that link markets. Most industries follow these patterns.

At first, governments resisted this trend. But as globalization persisted, some finally agreed to relax some of their protectionist restrictions on the condition that social considerations, in particular employment, were taken into account by the firms concerned. All governments were then obliged to follow suit, imposing a few rules to protect social balance and national interests. The end result was not a total globalization, but an “administered globalization”.

Globalization is also the result of firms’ actions. Porter (1986), for example, bases his definition of globalization solely on firms’ strategies, stating that “an industry becomes global when a firm finds a way to achieve a competitive advantage by relating its activities in several countries.” According to him, if such an advantage cannot be ignored by competitors, they will all do the same, thus generating a global industry. Porter further suggests that the dispersion of the value chain constituents should be an indicator of globalization. Dispersion of the value chain is however constrained by co-ordination capabilities. The combination of a degree of dispersion and of a degree of coordination, to achieve either a lower cost of differentiation, is then called a global strategy. Doz, on the other hand, went a little further to suggest that different industries might require different international strategies. For example, when the industry is fairly global, with limited external constraints, the strategy that firms tend to follow is a g*lobal integration strategy*. When there are many barriers to globalization, the most appropriate strategy is a *national responsiveness strategy*. Intermediate situations require a *multifocal strategy*.

As we can see, the language is far from clean. Authors speak of globalization of markets, industries and firms without really distinguishing among them. We would therefore like first to clarify the concept and offer that there are levels of globalization, with three distinct though interrelated ideas:

1. The globalization of national markets;
2. The globalization of industries or competition; and
3. The globalization of firms.

The Globalization of National Markets

A national market is global when it is open enough to the presence of international competitors, that in all majors industries, most of them are present and compete with one

another. One could say, for instance, that the American market is fairly global. In contrast, the Japanese market, because of numerous non-tariff barriers is not really global. Thus, it is generally more appropriate to talk about a degree or level in globalization. To make the judgment about such a degree, one could use the guideline put forward in Table 1.

Table 1. Globalization of National Markets

Degree of Globalization	Tariff Barriers	Non-Tariff Barriers	Competition dynamics	Examples
HIGH	Zero	Zero or low	Many competitors in main industries	The United States and Canada
AVERAGE	Low	Average but little visibility	Several competitors in main industries	France and the European Union in general
LOW	Medium to High	Medium to High	A few competitors and little rivalry	Countries in transition

Source: The author.

The Globalization of an Industry or the Globalization of Competition

The Globalization of an industry or the globalization of competition takes place when the competitive situation in a country is related to that in many other countries. This happens when some firms try to relate their activities across countries to achieve a competitive advantage. For example, if an automobile firm was able to sell the same car in several countries, but produced in only one of them (as was the case with Toyota until the middle of the 1980s), it would benefit from a cost advantage difficult to match by others. In such a case the only alternative is to do the same. As mentioned earlier, there are many factors that may facilitate such a process, in particular uniform training protocols (as in medicine), access to technology, access to information and more importantly, convergence of consumer tastes and preferences. Table 2 suggests a means to evaluate the degree of globalization of industry and competition.

Table 2. Degree of Globalization of Industry and Competition

Conditions	HIGH	AVERAGE	LOW
Inter-market links	Numerous	Many	Few
Production integration	Important	Partial	Small
Customer tastes	Similar	Close	Diverging
Relevant technical training	Similar	Close	Different
Access to technology	Easy	Licensing	Proprietary
Access to information	Total	Important	Average
Examples	Autos	Software, Designer clothing	Prescription drugs, Banking services

Source: the author.

The Globalization of a firm

Finally, the Globalization of a firm is related to the decomposition of the firm's value chain and its dispersion around the world. The more dispersed the value chain activities, the more global the firm, as suggested by Table 3.

Table 3. Degree of Globalization of Firms

Conditions	HIGH	AVERAGE	LOW
Main activities*	Dispersed	Some dispersed	Concentrated
Procurement support activities	Dispersed	Dispersed	Concentrated
Technology support activities	Dispersed	Partially dispersed	Concentrated
HRM support	Dispersed	Concentrated	Concentrated
Top management superstructure support	Dispersed partially or totally	Concentrated	Concentrated
Examples	IBM, Nestle, McDonald's	GE, GM, Sulzer, Bombardier	Spar aerospace, Cineplex Odeon

Note: * Contributing directly to the production of goods and services.
Source: the author.

In conclusion, one should not talk about a global strategy but rather about *a strategy that takes into account the globalization of one or several markets, or the globalization of an industry or the globalization of the firm.*

III. Dominant Strategies in Situations of Globalization

In situations of globalization, the competitive field is much more open, more extended, and one in which each firm can expect to see new actors appear in its traditional markets. Outside, one should expect to meet many more actors than usual. As a result, heterogeneity and turbulence of market, and thus uncertainty for all, are expected to increase. However, one should not infer that power balances are necessarily different than in less global environments. As a group, the dominant firms are still going to be dominant in situations of globalization, even though relative position among them may change.

The strategies of firms in situations of globalization have generally not been different from traditional tactics. However, as globalization reduces the relative size and strength of each firm, cost-based strategies have become more risky and harder to sustain. Accordingly, differentiation and focus are becoming more pressing strategic concerns. Differentiation is in particular favored by the forces that drive globalization. Such factors as increasingly homogeneous tastes have lead to the development of world segments for similar populations across nations. In the auto industry, segments are the same everywhere, even though their

relative importance may differ from one country to another. This is also true of consumer electronics and of designer goods.

Globalization also creates many opportunities to focus, which is one of the few strategies available to smaller firms. However, this is effective only when focusing shields them from competing with larger more powerful firms.

Of course, as shown by Doz (1986), globalization does not do away with governments. In fact, there is no such a thing as completely free competition. While, this may not be very significant for smaller actors, it definitely is for larger ones. They have to constantly balance the competitive situation with the various demands of governments, which can lead to a number of different responses, as summarized below and in Table 4.

Table 4. Globalization and Strategy

Degree of intervention	**LOW Degree of Competition**	**AVERAGE Degree of Competition**	**HIGH Degree of Competition**
Low	Opportunism	Differentiation or integration	Integration or differentiation
High	National responsiveness	Focus or mixed strategies including alliances)	Mixed (including alliances) or focus strategies.

Source: Author's interpretations.

As shown in Table 4, ***when government has a hands-off policy and competition is local***, the main actors are in a situation where opportunistic strategies are appropriate. They tend to use their local position to strengthen their global position, but have to be cautious to avoid retaliation that could increase global competition.

When the government follows a hand- off policy, but competition is becoming more globalized, the most common strategies are those that take advantage of the global dynamics to justify integration. This includes specializing plants and integrating their activities across countries. As long as the globalization is incomplete, firms proceed cautiously, because integration leads to major commitments and rigidities. The best strategy in situations of transition to a global industry is differentiation. It does not require integration and allows more flexibility.[2]

When governments intervene a little and global competition is strong, we have an accentuation of the preceding trends. Global competition justifies integration and makes it more possible. In fact, cost (thus, economies of scale) is a critical advantage in generalized globalization. Cost effectiveness is important regardless of whether a firm can concentrate on a specific segment or is compelled to deal with the whole industry.

[2] as shown by the Becton Dickinson case (Cvar, 1986).

Again, the auto industry is a good example. In such an industry, economic scales for components are so huge that no national market is sufficient to justify a plant of the right economic size. One is compelled to build plants for several national markets. Yet, one has to take into account the pressures exerted by governments. This has led Ford to build a Gear box plant in Bordeaux, France; an engine plant in Germany; a small pieces plant in Elmusafes, Spain; and assembly plants everywhere. As one can see in this example, despite competitive dynamics that favor integration, most automobile companies do not integrate totally. They integrate within the limits of the constraints, formal and informal, exerted by governments. In some cases, when the fashion or status content is high, differentiation is dominant and firms tend to produces in one location to serve a global segment. This was the case of German and Japanese automobile firms in the 1980s.

When government pressures are strong, and legitimately so, the most appropriate strategy is a *national responsiveness strategy*. This happens in industries where national stakes are high and international competition is low, with firms mutually adjusting to each other. This was the case in the oil and in the tobacco (especially cigarettes) industries until the mid-1980s.

When government pressures are strong but competition is intense and increasingly globalized (as was the case of the computer or telecom industries until the mid-1980s), the best strategy is either a *focus* or a *multifocal strategy* mixing integration and differentiation. Doz has described the 1980s telecom industry in Europe as multifocal, responsive to government demands, yet giving attention to the technological development imposed by competition all over the world. Multifocal strategies may involve alliances with varying degrees of involvement among the partners.

When a government's stakes in a global industry are high, strategies are unclear, thus necessarily multifocal, with multiples alliances and concentration strategies whenever possible. The clothing industry provides good examples, especially in Europe, where firms have developed alliances with their governments and other important actors of the industry. Similarly, the two major aircraft manufacturers (Airbus and Boeing) are increasingly made of many firms related on a permanent or semi-permanent basis.

IV. Competition Among Nations: The Formal Diamond

The globalization of markets, industries and firms has considerably reduced the ability of governments to directly influence the behavior of firms. They are now obliged to act indirectly by trying to create the conditions that lead firms to favor their policies, such as

creating employment, developing local technology, etc. As a result, firms become the government's "critical customers", and they compete to attract their favors. The competitive advantage of nations is therefore a useful concept to consider.

To measure the competitiveness of nations, Porter (1990) proposes first to do an industry-by-industry evaluation using the simple model known as the *Diamond of National Competitiveness.* This method defines the competitive capacity of a nation in a specific industry as its capacity to entice firms to use the country as a platform from which to conduct business. The diamond describes the four major factors that affect firms' decisions:

1. Demand characteristics, keeping in mind that a demanding and sophisticated local market attracts firms;
2. Factor characteristics, including quality labor, cheap capital and advanced technology in the country, which attract the leading firms of the industry;
3. A competitive structure that promotes robust and healthy competition, and thus contributes to the competitive strength of firms; and
4. Support industries, which, when dynamic and innovative, are also an attractive factor.

Porter argues that after assessing the strength of the diamond for each industry, governments should concentrate their efforts on boosting the industries in which the diamond is strong rather than weak. This is a highly controversial argument and, as we shall discuss later, is more appropriate for dominant countries and firms than for smaller ones. In the areas where a country has a strong diamond, thus a strong national advantage, governments tend to think in terms of a set of interrelated sectors called *clusters* – a concept mostly used by European economists. The idea behind clusters is that the health of interrelated sectors is dependent on the health of each individual in the cluster. In Canada, for example, the Province of Quebec's government identifies all the interrelated sectors and develops a strategy to help them develop jointly.

While competing governments are all in the business of finding ways to improve the nation's competitive advantage, some have been more successful that others. Kenichi Ohmae (1985), who has suggested that the World competition is gearing to a confrontation among a Triad made of Europe, the USA and Asia, has also shown that the Chinese government has invented a new way to attract foreign firms and investment through the concept of regional or city-centered development. According to him, the more relevant scale for national strategy is the one suggested by the Chinese experiments: the city or the region.

The diamond concept, and the related idea of cluster, is arguably more useful for dominant countries that are in the business of world-scale competition, such as those included in Ohmae's Triad. For smaller economies, however, But it is either irrelevant or hardly credible for smaller economies. For example, in his study of Canada's industries, Porter has found that in Canada there is no industry, with the possible weak exception of the forest industry, in which Canada had a strong diamond. Yet, as argued by many scholars (Rugman, 1990), Canada is a thriving country, doing well by all standards and recognized as one of the more dynamic countries of the OECD.

V. Dominant and Peripheral Games: The Successful Small Firm in a Global Dynamic

Despite Porter's argument, there are in most Canadian industries very dynamic and successful firms. In particular, there are several firms in the clothing industry (in which traditionally Canada has not been a powerhouse) that despite being small and apparently insignificant, are very competitive in a market where Asian and European competitors are very strong. A small $100 million company called Paris Star, for instance, regularly beats the South East Asian giants for famous designers' contracts. Similarly, Peerless Clothing is the world's largest exporter of high quality men's suits to the United States, competing successfully with such well-known firms as Armani or Hugo Boss.

This suggests that Porter's diamond analysis, as well as all the industrial organization-based theories that he and others have proposed, including the traditional competitive analysis and value chain manipulations, are better suited to firms or countries that compete for a dominant position in an industry. All the firms or countries that happen to be in a more peripheral situation have to conceive the world differently. In particular, using the idea of the diamond, we could suggest that firms that are not in a dominant situation have to think in terms of a "virtual diamond" rather than the more formal Porterian diamond. Such a diamond would be built by the firm and could involve elements spread all over the world. For example, for a Canadian clothing firm, the relevant demand may be the American demand, the relevant factors (capital, technology and labor) may be Canadian, while the supporting industries and the industry dynamics may be world-wide. In a sense, the virtual diamond is not a feature of the country. Rather, it is built by the firm.

The idea of a virtual diamond reveals that the firm managers play a critical role in conceiving and building the bases on which their competitiveness will rest. Building the virtual diamond means not only understanding clearly the dynamics of the industry, but also identifying the forces that can help in developing an advantage. This indicates that alliances

and cooperative strategies are at the heart of the virtual diamond. For example, Peerless Clothing (PC) in Montreal had to compete against Hugo Boss and Armani in the United States, but it could obviously not do it in the traditional distribution channels. The large chains had a clear bias in favor of the better-known competitors. They could invest a lot in advertising and in storage to respond to their market. In contrast, the smaller retail chains needed responsiveness to appeal to quality and price sensitive customers. They needed to develop a quality image and house brand at reasonable expenses. They needed to reduce their suit stocks, while responding to their customers' demands for quality branded men's suits. Their products had to be of a quality similar to that of the competition, yet a little less expensive, in order to provide a better value for the money. An alliance with a small, responsive and cost effective supplier was bound to provide results.

To respond to such a market, PC built storage facilities close to the customers. A sophisticated intelligence of the market and a high technology production system allowed the firm to produce for stock, and respond fast to customer orders. The smaller chains could also have their own private brand on the products, delivered upon request. They could also return any unsold suits. By offering these perks to its customers, PC demonstrated the value of understanding the specific needs of customers and their value chain. The firm became much more valuable than the unresponsive and inflexible larger European companies, and carved a very profitable, and secure niche for itself. To make all this possible, PC also developed an alliance with a very large number of small entrepreneurial distribution firms, which had close relationships with the smaller retail chains. These smaller firms gave it access to a large market, yet unknown, misunderstood and untapped by the larger competitors. The latter could not even provide the combination of quality, service, and price that made PC so attractive to this interstice market.

PC could also draw on a similarly sophisticated work force, priced competitively with the US companies and much less expensive than that of the Europeans. The cost of capital and the level of technology were similar or more favorable. It was exposed to world competition, and the support industries were international and thus were not different from those available to the American or the European firms. In addition, in a funny twist of the North American Free Trade Agreement, the company had access to British quality wool cloth at duty free conditions. As a result, the overall diamond, with elements spread all over the world, was the source of a clear competitive advantage for the company, even though the formal Canadian diamond was very weak by Porterian standards.

The logic of the virtual diamond is clearly more convincing when one looks at the actual competition among firms. If strategists of firms and policy makers at the national or regional level considered the formal Porterian diamond to be just a special application of the more general virtual diamond, then they could adopt a more pragmatic attitude by looking at the international conditions and the industrial sectors in which the country or the firm could play a role, even if less than dominant. The example of the Canadian clothing industry is, in that respect, quite revealing. Canada has clear advantages in terms of the availability and cost of capital, it has a competitive package in design and technology, as well as high quality and reasonably priced labor. In contrast, it would be an aberration not to recognize that for supporting industries such as equipment manufacturers, it is better to look towards such large firms as the Swiss or the German ones. Similarly, the USA market, accessible and powerful, is unavoidable, which has led Rugman (1990) to propose that, in the Canadian case, the formal Porterian diamond, should actually be a "double-diamond", including both the Canadian and the American markets.

The idea of a "virtual diamond" attracts our attention to the creative part of the strategy making process. Small and peripheral firms, if they are to survive in a world where economies of scale and scope are important, should think in terms of being different from their larger, more powerful rivals – sometimes even cooperating with them, providing supplies or very specialized services. The more relevant strategies have to provide differentiation and/or focus. But again, one should not be misled by the words. Differentiated firms can be both dominant and peripheral. For example, the large US health product firm Becton Dickinson is the world leader in several segments, in particular in the disposable syringes market. It conceived, and over the years built and dominated the market. Thus, in the syringe market, more peripheral firms have to look for interstices. Specialized applications that require more service or more quality can circumvent the need for economies of scale in production, distribution, marketing and R&D. But the globalization of markets creates all the conditions for such interstices and for the ability to be different, because the field is more open and more widespread. In what follows, we shall provide examples of somewhat unexpected differentiation that support this assertion.

In the traditional computer business, IBM has been the dominant force since the 1970s. Many attempts to take on IBM on a frontal confrontation have been failures. The more interesting one is the French government's significant effort in the 1960s, with the creation of Bull. This company, despite having at its disposal as much resources as IBM, neglected to differentiate and has never been able to be a significant force in the industry. At that same

time, many smaller firms, with much smaller resources, have been very successful against IBM. Take the example of Burroughs. This company, although producing hardware similar to IBM's, has focused on serving large international banks and insurance companies. For these customers, it has been able to provide the package of hardware and services that produced a remarkable success. At this time the return on investment of Burroughs is superior to IBM's.

Another interesting example is that of Crown Cork and Seal (CC&S). This international can company was, in the last 30 years, in a cut-throat competition with bigger and widely diversified competitors such as American Can, Continental Can and National Can. The can business is a mature business, where products are standard and margins very small. In such a game, the larger the firm is, the more profitable it is. Yet, by focusing on customers' needs and building all its systems to provide higher value instead of a can, CC&S became the most profitable for the entire period. The firm understood that beverage producers were concerned with taste, their core competence, and looked at bottling as a hassle. They decided to make bottling easier, providing bottling machine servicing, and sometimes offering to outsource the service. In addition, they located their plant closer to customers to ensure a quick response time allowing them to avoid maintaining costly safety stocks. As a result, not only was CC&S able to outsmart its bigger more diversified competitors, but it was for a long time among the New York Stock Exchange "Ten Best Buys", achieving an amazing return on investment.

The other significant factor in a global industry is the understanding of the intricacies and nuances of national laws. Many successful firms have been able to develop and maintain a competitive advantage over larger competitors, because they have been able to understand better the small differences in regulations and laws in their target markets. For example, as mentioned before, the Peerless Clothing success in Canada was made possible because the company was able early in its development to tap on a very minute detail in the North American Free Trade Agreement that allowed Canadian companies, and not American ones, to import quality cloth from England. Similarly, the history of Daewoo shows how that company, a global one by any standard, has been able to achieve amazing success through better attention and understanding of regulations and laws all over the world. In particular, they have been the first to realize that textile quotas to South Korea for the American market would be given to firms in proportion to market share. They rushed to achieve the largest market share, regardless of profitability, and got in the next ten years a remarkable rent situation by getting a large and exclusive part of the clothing goods market coming from South Korea. They have achieved similar successes in the Middle East and North Africa with the same quasi-religious attention to local legal and cultural characteristics.

VI. Concluding Comments

The globalization of markets, industries and firms has created a completely new competitive field. It has obviously made cost a critical element of competition, giving more importance to economies of scale and scope, and to (for larger firms) the power to spend, invest, and coordinate across countries. Paradoxically, it has also created numerous opportunities for the smaller competitors. The rush for the larger markets and opportunities leaves many unattended and unsatisfied market segments in all industries.

The smaller, peripheral firms should be careful not to compete in the fields of the dominant ones. There, they have not a single chance of success. Instead, they have to use their flexibility to respond better to the smaller and more neglected markets. Large firms cannot respond easily to those markets that are not satisfied by the standard, even if less expensive, world products that large firms churn from their huge productive facilities. If they do, then they have no real advantage over the millions of smaller competitors. That is where the interstice is important. Identifying it and working at satisfying the specific demands or expectations can be made easier by attending to the conditions of success that a Virtual diamond suggests.

Attending to interstice markets require highly sophisticated strategic analyses of the relevant industries. This is usually hard for most of the smaller firms – and where governments can help. They can provide the studies of industries, the strategic intelligence and the advice that can help smaller firms discover and occupy the interstice markets of each industry. It can also facilitate alliances for smaller competitors and, wherever possible, improve the local diamond conditions, in particular those conditions related to either demand or factors that are not easily available elsewhere.

Also, making available information about what makes smaller firms succeed in the various markets can act as a powerful stimulus to entrepreneurs in search of opportunities and understanding. The global competition makes strategic positioning more important to the smaller firm. It also makes the strategic analyses and understanding of the various customers needs and expectations more important and critical success factors. Strategic intelligence may therefore be more important to the peripheral players than it is to the dominant ones.

Since it is among today's peripheral players that many of tomorrow's dominant ones will come, it is important for policy makers to worry more about peripheral games than about dominant ones.

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