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ARTICLE

Awareness of Porter's Five Forces Framework: A Research Paper

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ABSTRACT

In 1980, a young economist called Micheal E. Porter made a revolution in the field of Industrial Organization by publishing his article on the attractiveness of industries and the five forces that influence them. Although the model still has some validity, it has heavily been criticized as obsolete since the introduction of internet-based technologies in the 1990's. In addition, the model has been criticized for its lack of quantitative analysis, as well as from the fact that globalization, digitalization, and de-regulation has dominated the global economy and changed the market's perception on the model. Tehrani and Rahmani, state that globalization with the introduction of global markets and advances in information technology shaped the changes of the world economy during the last two decades. Porter's five forces model creates the fundamentals for industry profitability and attractiveness that shaped modern industrial organization. A central question in respect of strategy is "why some organizations succeed and why some fail". Broadly speaking, the reason of firm to succeed or fail is a matter of interpretation. This question produces further questions such as "why they differ, and how they choose a particular strategy (selection of a particular course of action)". Thus, organizations operating in an environment that is changing faster than before, and the way that the organization reacts to them is known as business strategy, and this creates the fundamentals for organization theory and the Porters' five forces model.

Keywords: Strategy; Competitive Strategy; Five Forces Framework; Down's Three New Forces Framework

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1. Introduction

Globalization with the introduction of global markets and advances in information technology shaped the changes of the world economy during the last two decades. Porter's five forces model creates the fundamentals for industry profitability and attractiveness that shaped modern industrial organization[1].

The main goal of this research paper is to analyses the five forces framework. Section 1 is the introduction, Section 2 is an analysis of strategy, Section 3 is competition strategy, Section 4 is the five-forces model, Section 5 is the Downe's three forces model (digitalization, globalization, and de-regulation), Section 6 are other approaches, and Section 7 is the conclusion.

2. Strategy

A central question in respect of strategy is "why some organizations succeed and why some fail". Broadly speaking, the reason of firm to succeed or fail is a matter of interpretation. This question produces further questions such as "why they differ, and how they choose a particular strategy (selection of a particular course of action)"[2]. Thus, organizations operating in an environment that is changing faster than before, and the way that the organization reacts to them is known as business strategy.

In the modern business, strategy is defined by Chandler as the "determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action… and the allocation of resources necessary for carrying out the goals". In other words, it means the long-term direction of an organization implying that strategy is planned[3]. Note that the word strategy is derived from ancient Greece and means the art of preparing and carrying out war[4].

In addition, Woolf and Floyd classified contemporary strategy on two periods, that is, a) the era from 1980–1993 and b) from 1994 onwards. The era from 1980–1993 was either a) "prescriptive that is, what ought to be the characteristics of strategy in planning, or b) descriptive that is, how strategic planning was actually practiced"[5]. The focus was on the relationship of strategy with corporate performance (especially financial performance).

The focus of strategy in the era between 1980–1993 was on contingencies (external environment) and within the organization (internal context)[6], as well as its implications on mission, goals, capabilities (resource-based view), and behavioral aspects such as resistance to change, fear from making mistakes, and barriers to planning by practitioners (actors). Moreover, strategy was assumed to be derived from the top of the organization and was thought to be a rational process[5].

Hence, the purpose of strategy was viewed to obtain competitive advantage, by analyzing the strengths and weaknesses internal to the organization, as well as the environmental opportunities and strengths. The four elements combined make up SWOT (Strengths Weaknesses Opportunities and Threats) analysis. This coherent analysis (strategy), if it reflects the reality, would result in a superior performance by the organization, as opposed to its competitors. Moreover, if this advantage is prolonged for a long period of time, then the organization is said to have obtained a sustainable competitive advantage[7].

Furthermore, the era from 1994 onwards was characterized by the work of Henry Mintzberg, who argued that strategy is not a rational and centralized process, but it is emergent to the situation. In other words, strategy emerges as a stream of decisions/actions over a period of time[8]. Although top management plays a decisive role, there is a role for middle management in strategic planning[5]. Hence, issues such as adaptation that is, the firm's ability to respond to market external changes[9], power, interest also emerged during this era. In addition, institutional theory suggests that strategic planning is a practice of the broader society, influenced by shared understanding and cultural norms, and has a role to play[5].

In other words, institutional theory "attempts to explain why firms exhibit similarities in structural features of organizational forms". Therefore, in addition to being competent, they must "exhibit structural reforms that are regarded as legitimate within the institutional environment"[10].

Moreover, the strategic management in the 1980's, shifted its focus from industry structure to the firms internal structure, resources, and competences Examples include, a) transaction cost economics founded by Williamson, b) agency theory (Fama), and c) resource-based view (Barney)[11].

The transaction cost economics seeks to explain, a)

why firms exist (and the multi divisional structure/performance of diversified firms, b) the functioning of hybrid firms of organizational structure (strategic alliances), and, c) the choices of international models and market entry[11]. The theory derives from the work and Ronald Coase in the 1930's who tried to answer the question of "why not having a big firm producing everything, as opposed to smaller firms, each producing a separate good or service"[12].

Agency theory explains the separation of ownership and control of modern corporations, and why the interest of the agent (manager) may conflict to the interest of the principal (shareholder)[11].

The resource-based view "focuses on the relationship between resources and performance". This led to the resource-based view of strategy, which states that the possession of valuable, rare, imitable, and non-substitutional resources may lead to competitive advantage[11].

Finally, information-based intangible assets such as technology, customer trust, branding, corporate culture, and management skills are sources of sustainable competitive advantage. In addition, the work of Prahaled gives an analysis of corporate diversification by sharing reduced tangible assets across strategic business units (SBU's) in creating[11].

To sum up, strategy formulation is achieved in five interrelated steps that is, a) developing the mission and vision, b) converting the mission into specific performance objectives, c) developing the strategy based on these objectives, d) implementing the chosen strategy, and e) evaluating performance and performing corrective action. This is achieved in four levels that is, a) corporate (holding company, b) business (SBUs), c) functional (such as the marketing department), and d) operational (specific factory in a particular location)[13].

This will help us determine a) the strategic position of the organization that is, where the organization stands, b) the strategic choices that is, the direction strategy will move and the methods used to pursue it, and c) the strategic implementation (strategy in action) that is, how strategy will be formulated and implemented[3].

To conclude, strategy is a military word and derives from ancient Greece "Stratigia" that is, the practice of military warfare. It has later on been used by the Chinese Sun Tzu. However, in the modern business world, such practice has been criticized for "the things it has not achieved, rather the things it has achieved". This is because strategy is not a full linear anticipation of what things would arise, but emerges unexpectedly, in which case strategy is redrawn again[14].

Thus, the point is for strategy is to aid in estimating plausible outcomes, therefore aid in our decision-making process[15]. According to Adare and Altman[16], decision making is traced back from Plato and Aristotle, and is linked to organizational performance by selecting and committing to a said course of action or plan.

In this respect, strategy would involve four steps, which are as follows. Firstly, making sense of the situation that is, gathering data that would help anticipate how things would evolve. Secondly, making choices that is, settling the priorities in the dynamic economy by promoting leadership and "argumentation as to possible courses of action". Thirdly, implementing a said course of action that is, making the chosen strategy happen, linked to the said priorities in the first step. Finally, make revisions on the emergence of things requiring redrafting the strategy. Hence, treat actions as experiments where the occurrence of unexpected information would require the redrafting of the initial plans (such as an unexpected move of competitors)[15].

Note that the factors affecting the choice of strategy will be based on, a) environmental influences that is, due to the environmental uncertainty affecting the organization, b) organizational factors that is, the internal factors within the organizations, such as the organization learning and innovation, and c) the source of the organizations success, which must be innovating as opposed to imitating[17].

Finally note some practical issues on conceiving and implementing strategy that is, the communication between those make the decisions and those who implement them. These are as follows. Firstly, an assessment of the strategic positioning of the organization that is, using frameworks such as the business life cycle, industry threats, and value chains, secondly, the development of alternative courses of action, thirdly, the evaluation of potential risks and return associated with these alternatives (NPV and probability distribution of shareholder value), fourthly, the final selection of the course of action, and finally, the development of the necessary vision to implement and develop the chosen set of action[18].

Lastly, according to Panin[19], a strategic plan consists of a process of 6 steps as follows: Firstly, the setting of a

goal based on the given direction (strategy). Secondly, an appreciation of the environment of the organization, that is the estimation of the external and internal factors that may have an impact on the organization. Thirdly, the quantification of the objectives which must be specific, measurable, achievable, realistic and time constrained (SMART). Fourthly, the choice of the most desirable options, based on matters such as the market position, available resources, and competition rivalry of the industry. Fifthly, the resource allocation that is, in respect of the functional budgeting and resourcing. Finally, the evaluation step that is ensuring that the individual parts are consistent with the plans of action.

In addition, it is important for companies to enhance corporate purpose that is, one that focuses on developing value to their shareholders, as opposed to simply focusing on maximizing shareholders value[15].

Furthermore, it should be remembered Kotter's arguments as to why strategies fail in the case of a turnaround management. This includes 8 lessons as follows: "Firstly, not establishing the sense of urgency at the needed change, secondly, not establishing the necessary coalition that would promote the necessary change, thirdly, the lacking of the necessary vision to change things, fourthly not communicating accurately the top management vision that is, noise within the communication, fifthly, not removing the barriers that observe the new vision, sixthly, not systematically aiming for some short-term small victories, seventhly, declaring a big victory too soon, and finally, not promoting the necessary cultural changes within the corporation"[20].

To sum up, a sustainable competitive advantage is the product of attainable corporate objectives[21, 22]. However, in contemporary times corporations are obliged to focus on the natural environment, as well as on CSR policies[23]. Furthermore, it must be noted that strategy is enacted by humans, and as humans, strategy will be influence by the principles humans possess[24], such as the attribute to adapt to unforeseen events[25, 26], including how to deal with government interactions[27] that is, new regulations on the corporate environment[28], and the implication of stakeholders[29]. The aim is the achievement of a sustainable corporate advantage[30], through good estimates of the prospectives of their companies[31].

Thereafter, strategy was linked to performance and this let to Porter's analysis (1980) (industry attractiveness) and 1985 competition analysis[11].

3. Competitive Strategy

Capitalism involves competition among rival firms, and this is what shaped consumerism with the provision of choice. To quote Henderson's remark that "competition in the real world is done with limited resources and will continue to do so in the distant future". In addition, Wheelen and Hunger[32] argued that "competitive strategy relates to the provision of differentiation that add to the existing services provided".

According to Johnson et al.[3], strategy is delivered in 3 perspectives that is, strategic positioning (where are we now), strategic choice (where do we want to go), and strategic implementation (how to get there).

Strategic positioning is delivered by identifying the external environment, the capabilities arising within the organization, the strategic goals and the culture. One aspect of the external environment relates to industry analysis and its attractiveness and is known as Porter's five forces[3]. In other words, the central idea of strategy is how firms achieve competitive advantage[33].

Hence, the awareness of five forces will give a particular company the necessary information to avoid take-over bits. However, the factors that influence an organization within the industry are various, therefore an economic analyst will have to select the core ones[34].

Lastly, the environment as per Johnson et al.[35] is "what gives to the organizations their means of survival. Environmental analysis is an important aspect in strategic management, which is conducted to find out the events that influence an organizational efficiency in positive and negative way. The internal capabilities analysis helps in finding strengths and weaknesses areas of the firm, while the external environmental scanning analyzes the external forces, like economic, political, cultural, technological and competition"[32].

Hence, Porter proposed three generic competitive strategies, its lower cost (keeping low prices), differentiation, (adding new features), and focus (focusing on a target market, such as a niche).

The core of strategic formulation is coping with competition. As per Porter (1980), this attractiveness of the industry depends on five forces namely a) level of rivalry among ex-

isting firms, b) bargaining power of buyers, c) bargaining power supplies, d) threat of new entrants, and e) threat of substitutes products or service [36]. In addition, the level of competition in an industry also depends on the five forces [37].

4. The Model

4.1. Overview of Porter's Five Forces

Porter's analysis show that an awareness of the five forces that shape the attractiveness of industries meaning that corporations are more aware (and prepared) for competitive attacks in the industry. Hence, Porter argued that that the attractiveness of an industry (through profitability and competition) is the outcome of five forces that is, a) the threat of new entrance, b) the bargaining power of customers, c) the bargaining power of suppliers, d) the threat of substitute products, and e) competitive rivalry that is, the degree of competition among rival firms in the industry [34].

Finally, Stonehouse and Snowdon [1] argued that based on Porter's theory "corporate strategy will be developed on the value-added activities, and that competition will create the necessary skills for the provision of these value-added activities."

4.2. History of the Development of the Model

According to Karagiannopoulos et al. [38], prior the Porter's work other researches tried to link the notion of industry structure and corporate performance. However, this work was mainly empirically oriented. A new sub-filed of economics, known as Industrial Organization (IO) had emerged, but the focus was on public rather than private policy.

Porter in 1974 developed IO in a profit-maximizing idea as opposed to public policy, which led to the five forces model in 1980 [38].

4.3. Background of the Model

In his competitive model, Porter argued that the nature and degree of competition in an industry is governed by the five forces as explained above, that is, a) the threat of new entrants, b) the bargaining power of buyers, c) the bargaining power of suppliers, d) the threat of substitute products, and e) competitive rivalry among firms in the same industry. He argued that the joint influence of these forces is what determines the level of profits in a given industry [33, 39].

In other words, the essence of the competitional strategy lies on the firm external environment on which it competes (industry). Therefore, the structure of each industry determines the level of profits of a given corporation [40]. Therefore, the five forces helps this competition rivalry, and determine the long-term profitability of the firm [41].

Diagrammatically, the ideas of Porter and the implications of the inter-relationship of the five forces between themselves are shown on **Figure 1** below.

4.3.1. Bargain Power of Suppliers

Suppliers are those who supply the organization with what it needs to produce the given product or service. Generally speaking, the bargaining power of a supplier is high, when there is limited number of dominant suppliers that can dictate the price of their products or services. Conversely, suppliers will have a weak bargaining power when there are many competent suppliers serving an industry. According to Porter, suppliers become powerful in the following situation that is, "a) the input is important to the buyer, b) the supplier industry is dominated by a few large suppliers who have secured market positions, and are not easily affected by competition, c) the products of the suppliers are unique to the extent that will be difficult or costly for the buyer to switch from one supplier to the other" [33].

Therefore, if supplier's power is high, they can capture all their buyer's own potential profits by raising their prices (for example football players-if they have successful career-they can raise their rewards at astronomical levels) [3].

4.3.2. Bargaining Power of Buyers

Buyers can be powerful if they are concentrated and on a position to force down prices (by buying at large volumes), and demand higher quality products. Hence, they can reduce a corporation's profit margins [42].

Generally, buyers can pose a threat at backward integration as large group of buyers can acquire the supply source. Buyers can be powerful if purchases from an industry represent a significant proportion of their total costs. Buyers will earn low margins and are price sensitive if they cannot pass on cost increases easily, or absorb them due to low profit margin [42].

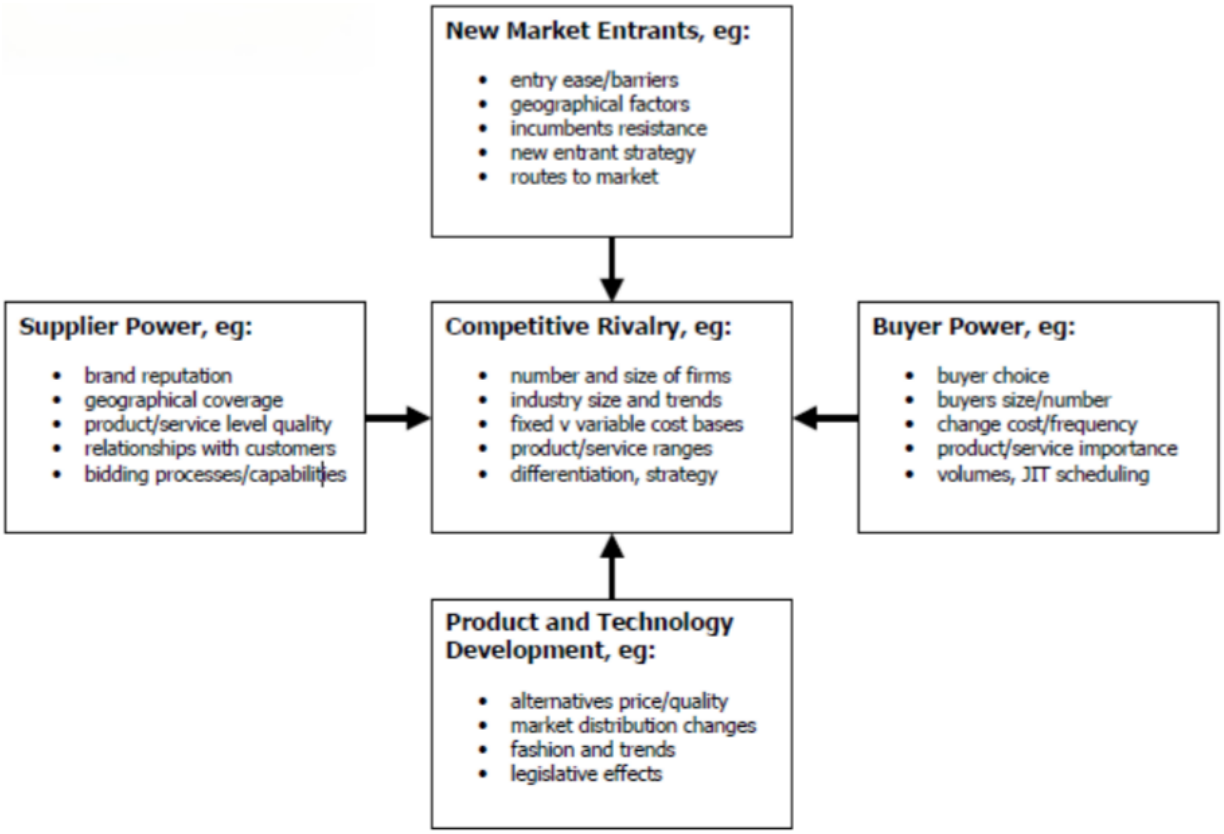

Figure 1. Porter's Five Forces of Competitive Position.

Buyer's power is high when some of the following conditions exist that is, "a) concentrated buyers exist when a few large customers account the majority of sales hence, buyer power is increased (customers shop-around to get the best prices, and therefore press suppliers for more trivial purchase), b) low switching costs that is, where buyers can switch easily from one supplier to another, and in addition they have strong negotiating position to squeeze desperate suppliers, c) buyer competition threat if buyers have some ability to supply themselves"[3].

4.3.3. Threats of Substitutes

Substitute products refer to the products having an ability in substitution of the original choice. For example E-mail is a substitute for express mail. Broadly, the customers may shift to the substitutes if the substitute is more attractive in terms of price or performance. The companies have to improve the performance of their product by reducing costs and therefore prices, and by differentiation when there is a threat from a rival product[33].

As per Porter[37], when the threat of substitutes is high, industry profitability suffers. If industries do not differentiate themselves from substitutes they will suffer in terms of profitability, and often growth potential. This differentiation can be achieved through product performance, marketing, or other means.

"The extent of the threat depends upon a) the importance of the product/service to the customer, b) the extent to which the price and performance of the substitute can match the industry's product, and c) customer loyalty and switching costs"[33].

4.3.4. Threats of New Entrants—Barrier to Entry

New entrants to an industry mean a loss in market share to existing firms that puts pressure on prices. When new organizations are diversifying from other markets, they can influence the existing capabilities and cash flows to hurt competition. For example, this happened when Pepsi Cola entered the bottled water industry[37].

According to Porter, "threat of new entrants are determined by barriers to entry which include economies of scale, product differentiation, switching costs, and customers loyalty created by quality, reliability, branding, and capital

requirements (size of financial resources)"[37].

In addition, Rothaermel[7] exampled in the U.S. the TV cable company named "Comcast". The company has entered the business for residential as well as the internet service provision, thus a raising competitor for "AT&T" and "Bell South" which recently merged.

4.3.5. Competitive Rivalry

Rivalry between existing competitors takes many forms, such as price discount, new product entrants, advertising campaigns, and service improvements. High rivalry limits the profitability of an industry[37]. Competition on dimensions other than price is based on product features, support services, delivery time, or branding. In other words, it is not only profitability, but improvement of customer value which can support higher prices. It is argued that this is the driving force behind his model, since companies must compete in the free market to earn profits[33].

Several factors determine the degree of competitive rivalry, the main ones being "a) number of competitors in the market, b) market size and growth prospects, c) product differentiation and brand loyalty that is, the greater the customer loyalty the less intense the competition, and the lower the degree of product differentiation the greater the intensity of price competition, and d) exit barriers that is, high switching cost for companies to leave the industry hence, adds to the burden of competition"[33].

4.3.6. Achievements of the Model

Porter's analysis has added to competitive strategy in describing the reason of why some industries face more rivalry than others. Second, it linked stakeholder analysis by linking horizontally suppliers, customers and competitive firms. Third, it linked vertically barriers of new entrants, substitute products and services and competitive firms[38]. Hence, the focus shifted from the shareholder view to a stakeholder focus that contribute to the moving away of the industrial era to a service provision economies with the identification of the stakeholders that produce value to the corporation[43].

4.3.7. Limitations and Criticism of Porter's Five Forces

Porter's analysis is one of the most influential work on competition strategy, but also among heavy criticism from the academic community. This is because, since the 1980 we have seen the development of the internet and e-business applications which affected all industries and made Porter, at best, outdated[40].

Dalkin[34] introduced three new forces that is, a) digitalization, b) globalization, and c) deregulation as already existing in modern economies. Firstly, the model has been challenged by introducing the distant learning industry, while secondly, it is argued that the assumptions of the model that buyers and suppliers are unconnected are seen as unrealistic[40], contrary to Karagiannopoulos et al.[38] who argued that there is some relevance in the barriers to entry.

Thirdly, according to Dobbs[44], the model does not take into account an integrated strategy such as the use of political knowledge. Fourthly, the concept of complementors has been added in the explanation about strategic alliances (that is a sixth force in the model)[40].

Fifthly, competitors with no substantial strategic plans cannot by definition shape the industry[38]. Sixthly, the model lucks quantitative measures and is rather a loose understanding of what shapes the attractiveness of an industry[44]. Seventhly, the model does not take into account penetration in other market and other influences that creates a game theory and co-operation between rivals[38]. Eighthly, the model lucks strategic insight on the generation Y effect[44]. Lastly the model has been criticized of the luck of "learn strategy" possessed by the Japanese firms although the problem of Japan in the 1990's would suggest the validity of the model[37, 41].

In contrast, the absence of innovation would compromise the achievement of competitive advantage[45]. Moreover, the COVID-19 pandemic delayed innovation, at least in the short-term[46].

5. Development of Digitalization Globalization and Deregulation (Downes' Three New, Forces)

The question is as to whether Porter's five forces are still applicable nowadays. As per Dalkin[34], it is necessary to consider additional factors that exist nowadays, and which were not applicable in 1980. The three forces "Digitalization, Globalization, and Deregulation" make the "network" unstable, more extensive, and more dynamic. It was gen-

erally agreed that these new three forces have gained huge popularity among researchers who argued against the five forces framework, and is also able to be quickly applied to any industry of choice[45].

Nowadays, corporations compete on a global perspective due the application of information technology and communication systems[40]. From the customer's point of view, technology offers choice on a global level. This certainly would mean understanding global culture and building those relationships that would enable the corporation to act globally.

Lastly, one of the most important aspects[40] which is not measured by Porter, is the "Digitalization". Technological applications such as the internet and the digitalization of processes and procedures created the internet economy, and put the five forces model in question.

To sum-up, in the current century, the full implementation of integrated digital technology (including AI) is expected to occur[47] which will impact a) efficiency and productivity, b) asset utilization, c) innovation[48], and d) business ventures[23]. Therefore, as the globalised world has become larger in size and complexity[49–51], it has experienced international economic crises[52]. Moreover, dating back from Aristotle, ethics and values are becoming a CSF for corporate survival[53], including the care for the environment and CSR policies for the society in general[54].

6. Other Models (Approaches)

6.1. Introduction

Broadly speaking, Porter's industry analysis has been criticized for being too narrow focused in the sense that it only concentrates on competition. However, there are other approaches (models) which must be taken into account to assess the external environment of organizations.

6.2. Market Analysis

Business analytics and business intelligence on a strategic level can help a corporation what new products and services to supply, in which market, in what price and in which quantity[55]. In addition, it is important to stress that how the market is structured will impact performance. Hence, competition reduces prices[56], while the absence of competition creates oligopolistic structures with higher profits for the corporations, hence higher prices for the consumer[57].

6.3. Delta Model

The idea of the sixth force (Delta model) was suggested through a combination of suppliers, customers and complementors introduced in 1995, where "inter firm dependences among counterparts could form strategic alliances, perhaps based on similar business interests with synergetic properties, rather than its own to pursue strategy"[58].

In addition, the VRIO model was suggested based on the resource-based view of strategy, or in other words, the resources and capabilities developed by a particular firm. The four criteria of the VRIO model are "a) value—for example by providing value to customers, b) rarity—those possessed uniquely by the organization, c) inimitability—those capabilities competitors find difficult to imitate, and d) organizational support—that is the organization must be suitable organized to support the first 3 criteria[3].

6.4. Prasad Model (Culture and History—Social Context)

The study of a country's national culture was proposed before assessing the competitive position through the five forces and the country's competitiveness[58]. In addition, more human resources do not as such create the achievement of corporate goals, as it is their effective management that obtains what was meant to be achieved[59], including the effective management of corporate culture which, as a result, affects employee motivation[60]. Therefore, what is more important is employee alignment on corporate objectives[61], particularly in the management of change[62], or in health and safety in the workplace[63]. This would potentially create a big challenge in corporate leadership[64] in aspects such as justice, fairness, care, and integrity[61].

6.5. Corporate Social Responsibility (CSR)—Social Context

It was argued that CSR can be a source of competitive advantage when a firm deals with competitive strategy[65]. CSR is related to the sustainable development of a firms values, in parallel to the values of the society in general[66]. To sum-up, CSR is of crucial importance[67] and a good aware-

ness of it is a requirement in the institutional theory[68, 69].

6.6. Authors Contribution Regarding Strategic Positioning/Criticism of the 5 Forces Model

This research has extended many questions that are needed to be investigated. Further research should be made in order to examine the three new forces, which can aid in the industry structure and therefore, influence the Five Competitive Forces model.

Today's market conditions have changed and the three new forces introduced—digitalization, globalization, and deregulation—can complement the five forces model[34]. We conclude that the three new forces enhance the five forces in Porter's model.

In addition, a strategic model that can be used to supplement traditional financial analysis of organizations that explores strategy in a wider perspective is the Balanced Scorecard (BSC) developed by Kaplan and North in 1992. The model was developed to explain the inefficiency of the traditional financial information to evaluate corporations and hence, strategic positioning in their entire context, as dependence on financial information solely was termed by Kaplan and Norton as inadequate[70].

The Scorecard measures organizational performance across four balanced perspectives: a) financial, b) customer, c) internal business processes, and d) learning and growth. The Balanced Scorecard "enables a corporation to keep up the financial results, and on the same time building those capabilities that produces those intangibles that are necessary for future growth"[43, 71], as "exclusive reliance on financial measures in a management system is insufficient to evaluate corporations"[71]. Each of the four perspectives were developed based on the organization's vision of strategy[72].

7. Conclusions

This research paper attempted to analyse an awareness of Porter's five forces model, focusing in competitive strategy. The paper focused on analysing the model, including the history of its development, its achievements and its limitations. In addition, it attempted to analyse Down's three new forces of globalization, digitalization and deregulation. Furthermore, other models were introduced which supplemented the five forces model such as market analysis, the study of corporate culture and the Balanced Scorecard.

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Conflicts of Interest

The author declares no conflict of interest.

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