

## ANALYSIS OF VARIOUS ASPECTS OF OLIVE EXPORTS BASED ON PORTER'S DIAMOND MODEL

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### Abstract

Today for being a part of a truly global economy and maintaining our standard of living, we must learn to compete in an ever tougher world market place. That's why higher productivity and product quality have become essential. International trade is one of the important subjects in economic development; It can provide export incomes for investment and attract new technology to increase the productive potency in country. The focus of this article is on the debate as to whether or not Iran compete internationally in agricultural export product, Specifically the olive by using Porter's Diamond Model as proclaimed by Porter (1990)(10).

**Keywords:** olive, export, the competitive advantage of nations, Porter's diamond model

### Introduction

Nowadays no country is in complete isolation status. The role of the international business in economic development of developing countries has become so important that we can call it the engine of economic growth and development (5). United Nations Conference on Trade and Development (2004) reported that in order to reduce poverty, the real growth rate of exports for each country should be 5% per each year. In today's competitive world, the success of each country is related to its understanding from the existing possibilities and opportunities in order to enter the international markets (6). Exporting is the most basic entry into international markets. Nowadays countries are trying to use export as an important strategy for development. In Iran's case, the expansion of non-oil exports is very important because non-oil exports have a great influence on economic growth (4). In the agricultural sector, Iranian export products have high quality and reasonable prices. Iran's climate causes good quality for Iranian agricultural products. Iran's agricultural products export from 2001 to 2011 was about 40% of the country's non-oil exports. Among Iran's agricultural products . In this paper we want to explain the competitive advantage of olive by Porter's Diamond Model.

## Olive

Expand exports in order to reduce the vulnerability of the country's export earnings diversity to accelerate the country's economic development needs.

Olive is one of the products of the long history of its place in the international arena and has not Sadrt is not even domestic needs. Hence the present study was to investigate the export of olive and its problems. Thousand year old trees in Zagros and Alborz suggest that olive cultivation has a long history in Iran. Olives and branches of olive tree flower sculpture in the remaining vestiges of the "Persepolis" This is confirming. According to some experts, Iran is one of the main olive-growing regions in the world. According to the documents, pictures olive Iran back to 600 years before the reign of Shah Abbas, and its entry into the nomadic tribes of the Kurdish areas of northern Syria Rudbar Nineteen-year-old so that it looks Rudbar and gardens with appropriate conditions to ten tons per acre fruit .

Rudbar city of Gilan province in terms of climate is best olive growing economy of production and marketing so it is inevitable No need for oil imports from Iran, which could even become a hub for exports.

<b>Olives, area of production (ha)</b>	
<b>Spain</b>	<b>2470 200</b>
<b>Italy</b>	<b>1161 300</b>
<b>Greece</b>	<b>806 600</b>
<b>Portugal</b>	<b>379 600</b>
<b>France</b>	<b>18 900</b>
<b>EU27</b>	<b>4849 000</b>

Figure 1. area of production

## Export

In International Trade, export refers to selling goods and services produced in the home country to other markets (7). In national accounts, export consists of transactions in goods and services (sales, barter, gifts or grants) from residents to non-residents (8). The economic growth of a country is possible when the country is able to generate foreign exchange earnings in order to have a positive balance of trade. The first step to achieve this aim is export development. Export development not only generates foreign exchange earnings but also increases foreign investment, helps to improve infrastructures, decreases the unemployment, helps to develop domestic industries, increases domestic production, increases products quality, and improves

living standards. Because of the intense price volatility in the oil market and also because the oil will not be available forever, the expansion of non-oil exports has a great importance for Iran (12).

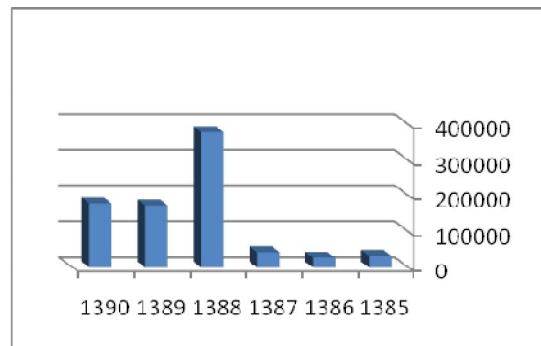


Figure 2. The amount of olive and olive oil imports during the years 2006-2011

## The competitive advantage of nations

The Competitive Advantage of Nations theory says that the primary role of a nation is the home base which it provides for the firm. Since firms typically develop within a domestic context prior to expanding internationally, the home base plays a key role in shaping the identity of the firm, the character of its top management and its approach to strategy and organization. The differences in countries economic structure, cultures, and history affect the international competitiveness of a country. Competitive advantage is defined as the strategic advantage of a business over its rivals in order to have advantage in that industry. Achieving competitive advantage strengthens and positions a business better within the business environment (15). In order to achieve competitive advantage, a company should have ideas that best fulfill the market demand. Pricing has also an important role in competition, so the producers should try to decrease the price of their products in order to endure and succeed in competitive scope (1).

## ‘Diamond Theory’

Porter’s (1990) view that the traditional and new trade theories are inadequate to explain modern trade patterns has resulted in more severe criticism from the economic school. According to Waverman (1995), the diamond is so general that it tries to explain all aspects of trade and competition, but ends up explaining nothing.

This article reviewed the literature related to trade (economic perspective) and international competition (management perspective) at Iran’s level. Both the traditional and new theories of trade confirm that countries engage in international activities because of the advantages that result from such activities.

## Porter’s Diamond Model

Michael Porter is a professor at the Harvard Business School; he is also one of the most active researchers in the field of competition. Porter (1990)(10) developed the diamond model in his book ‘The Competitive Advantage of Nations’. Porter has used the diamond model when consulting with the governments of Canada (11)and New Zealand (11). This model evaluates the reasons why particular nations have competitive advantage over their rivals in global competition. As shown in figure 1, Porter’s diamond model includes four determinants of national advantage:

1. Factor conditions
2. Demand conditions
3. Related and supporting industries
4. Firm strategy, structure, and rivalry
5. Government
6. Chance

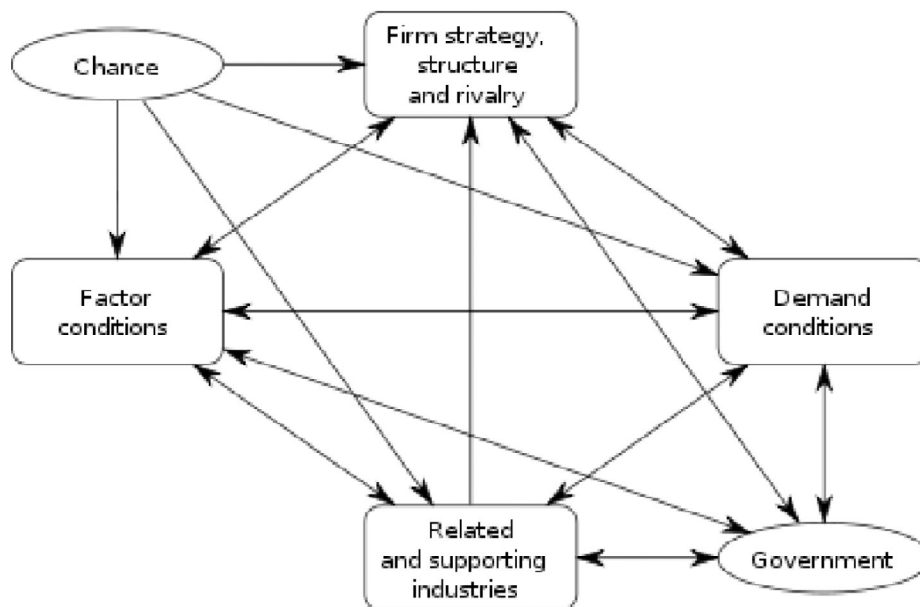


figure 3. Porter’s diamond model

This new interest in country competitiveness has opened up the debate on the true meaning and understanding of international competitiveness of countries. The reason for the debate is based on the implicit assumption underlying the management theories that firm competitiveness can be extended to country competitiveness, as popularized by Porter (1990a) with his Diamond Framework and the world competitiveness reports.

According to Stone and Ranchhod (2006), Porter’s “focus on competition or ‘rivalry’ is a diversion from traditional economic thinking”. This general belief by management academics that countries are somehow in competition with one another probably explains why Porter’s (1990a) Diamond framework appears in most international business textbooks.

## **international competitiveness**

Porter (1990)(10) advanced a new theory to explain national competitive advantage. The main question he attempts to answer is why some countries are more successful in particular industries than others. He identifies four classes of country attributes (which he calls the National Diamond) that provide the underlying conditions or platform for the determination the national competitive advantage of a nation. These are factor conditions, demand conditions, related and support industries, and company strategy, structure and rivalry. He also proposes two other factors, namely government policy and chance (exogenous shocks), that support and complement the system of national competitiveness but do not create lasting competitive advantages.

### **1. Factor conditions**

Whereas the traditional trade theories define factor conditions as land, labor and capital (including human capital), Porter (1990)(10) distinguishes between the following categories: human resources, physical resources, knowledge resources, capital resources and infrastructure. Factor conditions are further subdivided into basic and advanced factors that can be either general or specialized. Basic factors such as unskilled labor, raw materials, climatic conditions and water resources are inherited and require little or no new investment to be utilized in the production process. Advanced factors are created and upgraded through reinvestment and innovation to specialized factors, which according to Porter form the basis for the sustainable competitive advantage of a country.

### **2. Demand conditions**

Demand conditions in a country are also perceived by Porter (1990)(10) as a source of competitive advantage for a country. Demand as a factor explaining trade is not new. Linder (1961) first introduced it to explain intra-industry trade. According to the Linder hypothesis, countries with similar per capita incomes will have similar spending patterns. In terms of the Linder hypothesis, these comparable demand conditions in countries lead to analogous demand structures, which enhance in train dusty trade. These demand conditions, as explained by Porter, do influence the underlying resource differences between countries and a country's relative location advantages as explained by the new trade theories. The nature of the differences in sources, driven by demand conditions, could be productivity differences, differences in factor endowments or differences in the scale of production .

### **3. Firm strategy, structure and rivalry**

Is firm strategy, structure and rivalry. The main emphasis here is that the strategies and structures of firms depend heavily on the national environment and that there are systematic differences in the business sectors in different countries that determine the way in which firms compete in each country and ultimately their competitive advantage. Porter (1990) identifies rivalry as the most critical driver of competitive advantage of a country's firms. He believes that domestic rivalry forces firms to be cost competitive, to improve quality and to be innovative. According to Porter (1990), it is firms that ultimately compete internationally, but it is the

international competitiveness of a country that shapes the international competitive advantage of firms. It is this assumption that a country's competitiveness ultimately determines a firm's international competitive advantage that led to the belief that countries, like firms, compete internationally and thus that the international trade engagement of countries is a negative sum game, as it is in the case of firms. This is in sharp contrast to the general understanding in trade theory that trade is a positive sum game irrespective of the nature of the sources from which such gains from trade are derived.

#### **4. Related and support industries**

Much of the debate around location as a source of competitive advantage has to do with the way in which the modern global economy is viewed. On the one hand, scholars see it as homogenization of economies, and on the other hand as specialization of economies as explained by the standard economic theory. In the former case, it is believed that almost anything could be moved or sourced around the globe. In the latter case, it is believed to result in an intense specialization and clustering of competitive advantages in different locations as the world becomes increasingly integrated. Porter(10) (1997a, 1998b, 1998c, 2000) claims that specialization leads to the sticky (not easily moveable) location advantages that are the true sources of sustainable competitive advantage of countries. There are basically three reasons why specialization takes place and thus why location matters. Two have already been discussed under comparative advantage, namely, resource-driven specialization and economies of scale at the firm level. A further explanation is the existence of external economies as a result of local clustering (13), which is the fourth determinant of competitive advantage in Porter's (1990, 2000) Diamond Framework.

#### **5. Government**

Government as a major force is consistently effective competition and intervention in different political, social and economic rules and practices and even have a negative effect on competitiveness. Monetary policies, monetary, trade and tax legislation, support policies, administrative policies, rules concerning imports and exports, exchange rate, money and interest rates, inflation, government spending and other decisions at the micro and macro economics, formal agreements Informal political authority, establishment or development of commercial or political relations, economic relations - trade with other countries, including the most prominent factors influencing the competitiveness of firms, industries and countries that are directly associated with the state(10).

#### **6. Chance**

Chance is unforeseen events and issues that impact on the competitiveness of nations, positive or negative, but randomly and outside the control of industries, regions and even states occur. Disaster, war, economic sanctions, oil shocks, financial crises - political and profound technological innovations are examples of unanticipated events(10).

### **Background of Research**

Seyed Fathollah Amiri Aghdaie et al (2012)(16)The results show that the most important barriers to Iran's saffron export include the demand conditions, related and supporting industries, firm strategy, structure, and rivalry, government, and chance. The results also indicate that factor conditions are not important barriers to Iran's saffron export.

Rezapour and Mortazavi (2010) in a study, "Studying globalization impact on export demand and supply of saffron" showed that saffron export supply and demand is elastic with respect to export prices. Also, the impacts of globalization are positive and significant on both demand and supply, indicating the positive effects of increasing trade relations with countries and of removing trade barriers on saffron export supply and demand of Iran Hosseini and Parmeh (2009) in a study, "Tariff and Non-Tariff barriers to Iran's saffron export" showed that Iran has the highest tariff rate for importing saffron in the world. The research shows that Iran's tariff rate for

importing saffron is about 100 percent, the research suggest that the tariff rate of importing saffron should be decreased.

Abbasi(11) (1999) in her study, "Difficulties of Iran's saffron export" showed that Iran's saffron export has been decreased because of lacking correct marketing, lacking suitable packaging and producer's cheatings.

O'zlem O' z (2000)(9) in "Assessing Porter's framework for national advantage: the case of Turkey" says that This study applies Porter's diamond framework, which tries to identify the sources of international competitive advantage, to Turkey. The major objective is to contribute towards an improvement of this framework, and thus towards a better understanding of the sources of competitive advantage. The study also aims to shed some light on the competitive structure of the Turkish industry. The findings are generally supportive of Porter, meaning that the diamond framework works in a developing country setting. The results suggest, however, some major areas in the framework (especially domestic rivalry and the role of government) where one or more of the Turkish case studies contradict the Porter hypothesis(3).

## **Evaluate the capabilities and limitations of olive exports based on the diamond model**

### **1. Factor conditions**

Guilan province, with widely cultivated olive in Iran and access to consumer markets around the Caspian Sea is the most important natural potential of markets for agricultural products and in particular olive. Abundance of human resources that can engage in this activity should not be forgotten. Training centers to encourage the natives of this region and efforts to attract domestic and foreign investment could increase the area under cultivation and increase production significantly contributed to it(14).

### **2. Demand conditions**

Population growth and the development of the growing cities, increasing demand (especially for agricultural products) has created. However, culture is not shaped correctly regional protectionism.

On the other hand, the specific location and proximity of the countries around the Caspian Sea, has formed a favorable export market.

### **3. Firm strategy, structure and rivalry**

Analysis of the current state of agriculture in Guilan province is indicating that dynamic sectors in agriculture are limited. Problems in the production of agricultural products such as tea, rice, olives and risks in this sector, agricultural workers will be faced with

disappointment. While there is economic stability and supporting businesses in this sector it makes a significant contribution to growth and development.

#### **4. Related and support industries**

Guilan transportation network with access to three types of land, sea and air, has become one of the country's major highways. Accordingly, there Anzali free trade zones as a special economic zone and followed the rules and exemptions contained in these conditions is easier to attract investors. Also, public universities, free and Noor Stock Exchange and Guilan, including the institutions supporting development of industry and agriculture in order to achieve meaningful and sustainable accommodation. On the other hand, the lack of technology and lack of or deficiency in certain industries, research institutions and consultants in accordance with the Agricultural field (qualitative and quantitative) is highly significant and has resulted in lack of expertise in the field of export of olive.

#### **5. Government**

Major government policies and decisions, as well as other areas of Guilan has a substantial effect. Allocation of financial and credit facilities, quick impact projects, such as business and ... Well reflect the impact of the government's position. Also pay special attention to the role of government in Bandar-e-Anzali, Guilan province with an area of free trade and the economy, the changing face of the region's economy will follow.

#### **6. Chance**

Like other regions of Guilan consequences of transactions and events in the international market is also affected. Far-reaching changes in oil prices and the adverse consequences of the economic crisis in the world's political and commercial relations with other countries and even sanctions of any of these events show a turn ears. Needless to say, compiling programs, flexibility, and predictable scenarios that help to deal with these events (2).

## **Conclusion and suggestions**

The results clearly show the different parts of this research are to achieve long-term sustainable development of any part of a continuous process It requires coordination and full support of all sectors of influence. Agriculture and its development objectives and not the exception on the one hand, adapted to their national documents, guaranteed to provide the other hand, the effectiveness and efficiency of interaction with other parts of the level design adds the executive. Clearly capital as a necessary prerequisite for the production and driving force of economic growth, so in order to recruit investors are offered the following suggestions:

- The culture of the indigenous peoples in order to invest in the agricultural sector.
- Direct foreign investment to participate in the project with the aim of obtaining complementary resources and technical knowledge.
- Design and development of information systems for the introduction of potential investors.
- Creation and development institutes and consulting to improve the quality of products.

The contents of the industrialization strategy and the capabilities of the energy industry established the following is recommended:

- Provision of infrastructure and affordable conditions for the development of agriculture-related industries.
- Efficient use of Anzali free zone status and vision needs of both domestic and export development.
- Recruiting skilled and willing to work in agriculture.

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