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國際學碩士學位論文

**An Extension of National Competitiveness:
Complementing Competitive Advantage through
the Soft Diamond Model**

국가 경쟁력 이론의 연장과
소프트 다이아몬드 모델

2013年 2月

서울大學校 國際大學院
國際學科 國際通商學專功
文 齊 旋

國際學碩士學位論文

**An Extension of National Competitiveness:
Complementing Competitive Advantage through
the Soft Diamond Model**

A Thesis Presented By

Je Sun Moon

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in partial fulfillment of the requirements
for the degree of Master of International Studies

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국가 경쟁력 이론의 연장과
소프트 다이아몬드 모델

指導教授 文輝昌

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副委員長

李根

委員

文輝昌



The Graduate School of International Studies
Seoul National University

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The undersigned, appointed by

The Graduate School of International Studies
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Have examined a thesis entitled

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Presented by Je Sun Moon

Candidate for the degree of Master of International Studies that is worthy of acceptance

Signature

Chairman



Rhee, Yeoung Seop



Signature

Vice Chairman

Lee, Geun

Signature

Thesis Advisor



Moon, Hwy-Chang

Date: February 2013

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Abstract

Recent transformations in the internal and external environment of nations require further developments of a comprehensive and strategic framework to analyze sources of national competitiveness. In order to be competitive, nations not only have to capture their core competitive advantages based on “*hard*” resources (e.g. material determinants) but also need to create and develop competitive attraction utilizing their “*soft*” resources (e.g. non-material determinants). This research is based on the notion that Porter’s single Diamond Model of national competitiveness is limited in its application to assess the overall competitiveness of nations including intangible elements such as culture and values. As a result, this study emphasizes different determinants of “*soft*” resources in explaining national competitiveness. Through the Soft Diamond Model, governments can obtain a better understanding of “*soft*” resources and their relationships to national competitiveness, and thus make the most of utilizing their national resources. This new cultural paradigm is able to provide companies and governments a better understanding of culture and its relationship to the business environment and national competitiveness.

Key Words: national competitiveness, competitive advantage, “*hard*” resources, “*soft*” resources, Porter’s Diamond Model, Soft Diamond Model

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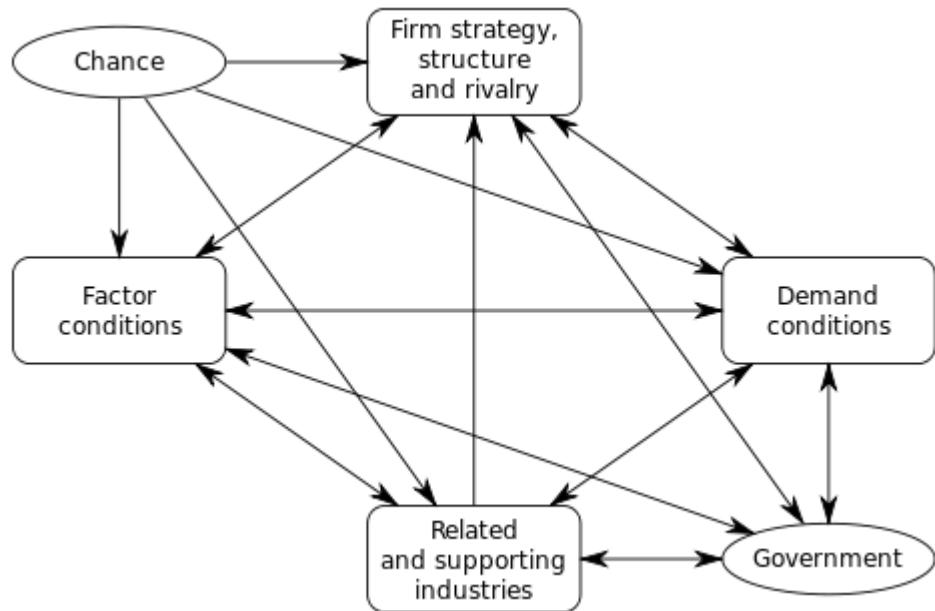
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1. Introduction

In the year of 1990, Michael E. Porter of Harvard Business School created a sensation in the field of Business and Strategic Management in his article “*The Competitive Advantage of Nations*.¹” The key message of the article stated that “National prosperity is created, not inherited.” This statement generated a stark contrast to the main assertions of world famous economists such as Adam Smith and David Ricardo, whom had asserted that a nation’s economic development was dependent on natural resources such as raw materials and labor that were endowed in a particular country. Porter had also emphasized “factor conditions” as a critical element to economic development, but this accounted for just one out of the four determinants of national competitiveness of the Diamond Model. Thus, with the four determinants of (1) Factor Conditions, (2) Demand Conditions, (3) Relating and Supporting Industries, and (4) Firm Strategy, Structure and Rivalry, the Diamond Model provided a much more comprehensive and generic explanation to national competitiveness than other business or economic theories attempting to explain why certain industries in particular countries are more successful than others.

<Figure 1> Porter's (1990) Diamond Model of National Competitiveness¹



However, more than two decades have passed since the original Diamond Model was developed, and during this period of time the world has inevitably gone under various political and economic transformations, structural changes, and technological shifts. Along this line of thought, the remaining question is whether the original diamond framework still possesses the comprehensiveness and power to explain both recent happenings and the reality of the present day. For instance, Japan's economic decline in the past decade seems to be theoretically unexplainable by Porter's Diamond Model. Many economists and business scholars have questioned why Japan is failing to continuously sustain its competitive position even when all the requisite determinants of national competitiveness seem to be present in the business and economic sectors. Another example concerns the rapid economic

¹ The Diamond Model was introduced by Porter (1990) to explain the competitive advantages of a nation. Porter asserted that competitiveness is the outcome of four inter-related determinants: 1) Factor Conditions, 2) Demand Conditions, 3) Relating and Supporting Industries, and 4) Firm Strategy, Structure and Rivalry.

development of the Four Asian Tigers, namely Hong Kong, Singapore, South Korea, and Taiwan. Since the early 1960s, these countries have experienced a path of outstanding economic growth during the past decades. According to various studies examining the rise of the Four Asian Tigers, these countries, in fact, did not possess abundant natural resources or the necessary capital to initiate the process of development. It was rather the government policies, national ideologies, and domestic values of the people that ignited the spark, which substantially contributed to the economic uprisings. Thus, the missing gap in the Diamond Model is that Porter overlooked the impact of “soft” resources such as the culture, values, beliefs, and political system (institution building), which are innately part of a nation’s assets that inevitably contribute to upgrading national competitiveness. As a result, this study will deal with the question of whether “soft” resources can also be incorporated within the framework of the Diamond Model.

In this study, four different determinants of “soft” resources will be stipulated, along with their sub-categories, demonstrating how “soft” resources interrelate to the concept of national competitiveness. Therefore, the fundamental objective is to bring forth a new cultural framework that will comprehensively incorporate today’s analysis on the theories and empirical research pertaining to national competitiveness.

There is no doubt that Porter’s concept of national competitiveness provided a breakthrough in the field of business and economics and that the strategic guidelines are still very useful. However, Porter is not free from criticism. Porter’s model of national competitiveness is limited in its scope and its application in terms of assessing the overall competitiveness of a nation including both “hard” and “soft” resources that compose a nation’s competitive advantage. As a result, this research emphasizes different categories of “soft” or non-material resources in explaining a nation’s competitive position. These non-material determinants include: (1) Political

System and Government Policies, (2) National Ideology and Culture, (3) Domestic Values, and (4) CSR (Corporate Social Responsibility) and CSO (Corporate Social Opportunity). These four internal “soft” determinants extend national competitiveness to a new paradigm called the Soft Diamond Model.

In essence, the core difference between Porter’s single Diamond Model and the Soft Diamond Model is in the extension and addition of four new determinants. While Porter’s model focuses exclusively on “hard” (physical and material) resources, the Soft Diamond Model takes into consideration the “soft” (non-physical and non-material) resources². In the context of this research, “soft” resources are distinguished from “hard” resources as the attributes that are of intangible or non-physical nature. For instance, the culture, religion, and domestic values of a nation can be considered as “soft” resources.

For the purpose of clarification, this research is not a discussion on politics or an analysis of the tools of political power. However, it will utilize existing terminologies such as “hard” and “soft,” which were originally defined by Nye (2004) when he theorized “hard power” and “soft power” in foreign policy. In this paper, similarly, “hard” resources refer to material resources such as the physical infrastructure, GDP, factor conditions, and etc., which can be translated into forms of monetary value. In contrast, “soft” resources refer to non-material resources such as the culture, values, beliefs, and institutions constructed within nations, which cannot be directly expressed in economic terms.

Theoretically speaking, the notion of national competitiveness has been

² According to Porter, attitudes, values, and beliefs that are sometimes collectively referred to as “culture” play an unquestioned role in human behavior and progress. The question is not whether culture has a role but how to understand this role in the context of the broader determinants of prosperity. Although the role of culture in economic progress is unquestioned, interpreting this role in the context of the other influences and isolating the independent influence of culture is challenging.

defined and interpreted in various ways, utilizing both general and detailed definitions. When discussing national competitiveness, it is crucial to point out that the debate is meaningful only among nations endowed with similar comparative advantages competing in similar industrial or business sectors. In other words, the concept of national competitiveness should be applied in a relative competitive context among similar countries in a particular stage of economic or industrial development. Taking this point into consideration, the Soft Diamond Model will be applied to the developmental context of South Korea among the Four Asian Tigers, and assess how the national competitiveness of South Korea could develop to the current state.

2. Literature Review on National Competitiveness

2.1. Literature Review on “*Hard*” Resources

In order to review the existing literature on national competitiveness more thoroughly, this research reviews and categorizes two different areas of academic work that have analyzed sources of national competitiveness. The first group of review covers notable articles in the field of Strategic Management and International Business that scrutinize the sources of national competitiveness within the framework of the Diamond Model.

First of all, with the objective to examine the contradictions arising from previous economic theories, Porter (1990), in the “*Competitive Advantage of Nations*,” introduced the Diamond Model of national competitiveness as an original framework to evaluate why some industries in certain countries are more successful than others. Porter’s Diamond Model systematically takes into consideration various crucial variables into a single framework, as well as incorporating the determinants of labor, land, and capital that most traditional economists considered to explain developmental economics in countries. Thus, compared to previously existing models, Porter’s Diamond Model was more comprehensive and thus created a revolutionary sensation in the field of strategic management and business economics.

The four determinants of the Diamond Model are Factor Conditions, Demand Conditions, Relating and Supporting Industries, and Firm Strategy, Structure and Rivalry. Each of these four determinants on the diamond defines a point of national advantage. It is crucial to emphasize that the effect of one determinant usually depends on the condition or the state of the other determinants. For example, “Demand Conditions” intimates that sophisticated buyers will not automatically imply advanced and sophisticated products, unless the quality of

human resources allows companies to meet buyer needs. Additionally, selective disadvantages in factors of production will not motivate innovation unless rivalry is vigorous and company goals support sustained investment. Generally speaking, a lack of or weakness in any one determinant will impede an industry's potential for advancement and upgrading at the broadest level.

Porter applied the diamond framework from the field of strategic management of firms on a national and regional dimension and combined microeconomic and macroeconomic determinants. The Diamond Model helps explain the sources of competitiveness possessed by the economies of advanced and developed nations such as the United States. However, it has limited application when attempting to explain the dynamics of less advanced or developing economies. Regarding this limitation, many renowned scholars have developed a new framework such as the Double Diamond Model, the Generalized Double Diamond Model, and the Nine Factor Model in order to take into account the factors of internationalization for developing economies.

A first step to overcome the limitations of Porter's model was made by Rugman and D'Cruz (1993) with the example of Canada. They incorporated the international context in Porter's model by introducing the Double-Diamond Model. This is made by combining the domestic diamond with that of a relevant economy, leading to the Double-Diamond Model. This model itself has some limitations, as it can lead to multiple, not only double diamonds if more than one economy is relevant for the analysis. Therefore, Moon, Rugman, and Verbeke (1998) introduced the Generalized Double-Diamond (GDD) Model. This globalized model incorporates the domestic and global diamond, which allows for analyzing the domestic and international perspective in a single framework.

Cho, Moon, and Kim (2009) also argue that Porter's original model is

applicable to developed economies such as the United States, but is limited in its application to developing countries such as South Korea. According to Cho, Moon, and Kim (2009), emphasis is placed on the different groups of “human factors” and different types of “physical factors” in accounting for the competitiveness of a particular nation. Human factors include workers, politician/bureaucrats, entrepreneurs, and professionals. Physical factors include endowed resources, domestic demand, relating and supporting industries, and other business environment. An external factor, chance, is added to the eight internal factors mentioned above in order to make a new model, the Nine-Factor Model.

The core difference between the Nine-Factor Model and Porter’s Diamond Model are in the division of the relevant determinants, and in the addition of new factors. Porter’s Diamond Model includes both natural resources and labor in factor conditions, but the Nine-Factor Model places natural resources under endowed resources, while labor is included within the category of workers. Human factors mobilize the physical factors, and people combine and arrange the physical factors with the aim of obtaining international competitiveness.

2.2. Literature Review on “Soft” Resources

The second literature review covers articles examining soft resources of national competitiveness in various fields beyond Business and Strategic Management that pertain to the competitiveness of a nation. For instance, the fields of International Relations, Marketing, and Public Diplomacy attempt to explain the power of “soft” resources that contribute to strengthening national images, facilitating diplomatic relations, and explaining the rapid growth of Asian countries have been examined.

First, in relation to the theory of “soft power”, Nye (2004) defines “soft

power” as “the ability to attract others in your direction without coercion”. He further attributes the sources of “soft power” as the following: culture, domestic values and policies, and foreign policy substance and style. Within the discussion of “soft power”, the image of the United States and its attractiveness to others is a composite of many different ideas and attitudes. It depends in part on culture, domestic policies and values, substance, tactics, and style of foreign policies. According to Nye (2004), over the years, these three resources have often produced “soft power”, or the ability to get the outcomes that the United States wanted, by attracting rather than coercing others. All three sources are important, but policy substance and style are both the most volatile and the most susceptible to government control and power. In any domestic or international circumstance, it has been observed that “soft power” is not stagnant, but flexible. Resources change along with the changing context, as resources themselves have varied in the past and will continue to do so in the future.

Secondly, in the field of Marketing and Brand Management, Kotler (2002) depicts the nation as a product or brand, and further analyzes resources that can affect the national image of a country. It is important to point out that Kotler’s main argument is based on the assumption that all countries compete in the global market in order to attract tourists, capital for investment, businesses, and a talented pool of people. Taking this into consideration, it is crucial for a country to acknowledge and engage itself as a brand, product, and even beyond the boundaries of these terms. According to Kotler (2002), even when a country does not intentionally or deliberately manage its national name as a brand, people still have images of countries that can be mentally activated by simply voicing the name of the country. In addition, country images are likely to influence people’s decisions related to purchasing, investing, changing residence, and making travel decisions, which ultimately contribute to enhancing the national competitiveness of nations. As a result, the intangible or “soft” factors that are implied by Kotler (2002) in placing

the country as a brand are based on what is deemed as “the sum of beliefs and impressions people hold about places. Images represent a simplification of a large number of associations and pieces of information connected with a place … product of the mind trying to process and pick out essential information from huge amounts of data about a place.” Hence, Kotler (2002) proposes the following steps of national branding strategy in order to effectively promote national competitiveness: SWOT Analysis, Branding, Story-Telling, Forming an Umbrella Concept, Allocating Funds, and Controlling Exports. However, this format still has its limitations for it does not provide a comprehensive framework that analyzes the sources that contribute to building the national image and further the national competitiveness of a country.

Additionally, in the field of Public Diplomacy, Anholt (2007a) analyzes “soft” resources related to the methods of communication with the foreign publics that enhance the competitiveness of a nation. The framework of analysis proposed by Anholt (2007a) is based on the following six determinants: Tourism, Exports, People, Culture and Heritage, Investment and Immigration, and Governance. According to Anholt (2007b), whether positive or negative, the clichés and stereotypes of countries affect people’s behavior towards other places and products. In consequence, it is very hard for a country to persuade people in other parts of the world to go beyond these simple images and start to understand the rich complexity that lies beyond the images and notions of that particular country, which ultimately contribute to enhancing its national competitiveness.

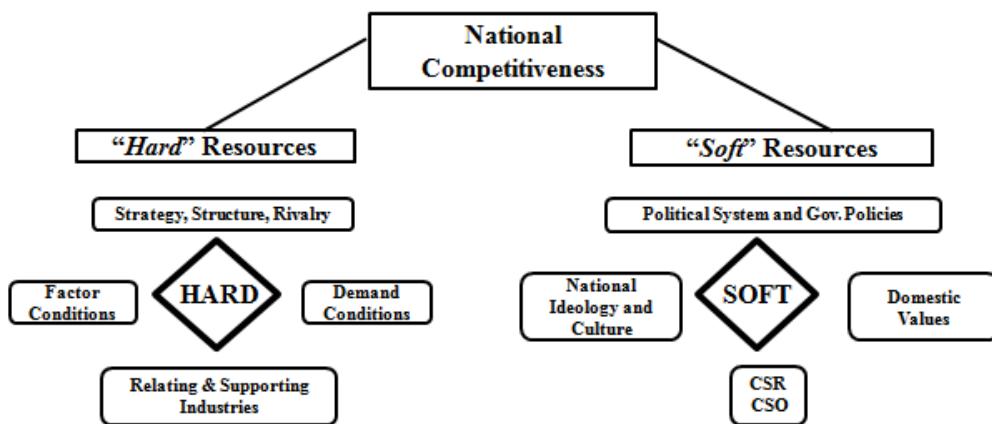
As revealed above from the review of existing studies on the literature examining both “hard” resources and inspecting “soft” resources of national competitiveness, there are missing gaps that can be further complemented. With regards to the literature on “hard” resources, discussion on national competitiveness focusing exclusively on physical determinants is not comprehensive enough to

evaluate the overall competitiveness of a nation, and thus may be misleading when assessing the fundamental competitive sources of a country. In essence, the limitation that remains in the original framework of the Diamond Model is the fact that it does not incorporate “*soft*” resources within its analytical structure. Similarly, despite the fact that the literature on “*soft*” resources offers rich theoretical implications and strategic guidelines, the theories or notions do not generate or suggest an analytical framework that can be applied on an interdisciplinary level.

3. An Extended Framework of National Competitiveness: Soft Diamond Model

Porter's theory primarily explains the economies of advanced and developed nations such as the United States. However, the Diamond Model needs to be complemented or extended in order to be applied to developing or less-developed nations, due to the fact that these countries are usually in the inevitable position having to create competitiveness without initially having any of the four determinants present. For example, Porter's analysis cannot fully explain the national competitiveness and the success of the Four Asian Tigers. Therefore, the new and extended framework of national competitiveness, the Soft Diamond Model, attempts to serve the primary objective of demonstrating how both "*hard*" resources and "*soft*" resources should be considered to analyze national competitiveness in a more rigorous manner. As illustrated in Figure 2, the extended framework incorporates both "*hard*" resources and "*soft*" resources in order to provide a more comprehensive perspective and trenchant analysis to identify the sources of competitive advantage of nations.

<Figure 2> Extended Framework of National Competitiveness



The determinant "*Political System and Government Policies*": indicate both

the internal (domestic) and external (international) political environment of a nation and how governmental policies are developed, organized, and executed on the national level. The first term “*Political System*” refers to the political structure and institutional framework including the government, legal, economic, cultural system, and other social systems (e.g. capitalist, communist, democracy, dictatorship, mixed economy, monarchy, and etc). The second term “*Government Policies*” refers to not only the national and social outcomes of public policies, but also incorporates the broader decisions and analysis of government resolutions. Furthermore, for the determinant “*Political System and Government Policies*,” two sub-categories, which are “*Efficiency*” and “*Fairness*,” have been designated respectively. In this research, “*Efficiency*” pertains to the values that are emphasized through direct state intervention in the national economy and strong government control over economic institutions. During this particular stage, government leadership is not only forced upon society but is also necessary. The government concentrates on allocating national resources to the most efficient sectors to promote the growth of particular industries that form the core economic building blocks of a nation. As a result of the policies promoted through “*Efficiency*,” certain industrial sectors are often provided the necessary resources and capital for industrial growth via government subsidies. Generally, in this stage, authoritarian governments are capable of strategizing and executing major infrastructure projects with unrivaled efficiency.

In contrast, “*Fairness*” refers to the concept of a government that is responsive to public needs, responsible for the welfare of the people, and is accountable to society at large in order to promote social order to maintain the social balance of a nation. During the stage when “*Fairness*” is emphasized, the national economy is governed by regulatory agencies rather than through direct state intervention. In essence, the state promotes fairness in society in order to maintain a proper balance between the private and public sectors.

The determinant “*National Ideology and Culture*”: refers to the set of general

yet unique ideas that constitute a nation's goals, expectations, and philosophies. The term "*National Ideology*," accounts for the comprehensive visions or general views and the national sentiment of looking at social matters that are relevant to a particular state. For instance, national ideologies usually represent a set of ideas proposed by the dominant class of a society to the public of a particular society. For the factor "*National Ideology and Culture*," two sub-categories have been designated respectively: "*Disciplinism*"² and "*Frontierism*."² The concepts of "*Disciplinism*" and "*Frontierism*" have been originally developed by Moon and Jung (2010). These theoretical notions have been applied to the Soft Diamond Model and are categorized under "*National Ideology and Culture*" in order to explain that ideologies and culture that are both endowed and created within nations also follow an evolutionary path and change with time. First, building on to the definition provided by Moon and Jung (2010), "*Disciplinism*" is defined as the rules, laws, and standards that provide the basic building blocks in order to structure societies within a nation. These social elements are enforced by the state with the purpose to maintain constructive public order and social balance. In this stage, institutional characteristics such as high levels of bureaucratic red-tape, bribery, and corruption may be identified. In contrast, "*Frontierism*" is the concept that refers to the underlying cultural forces that strive for originality, promote creativity, and take on innovative challenges. In this stage, fundamental traits of discipline that are well grounded and built throughout the stage of "*Disciplinism*" develop towards cultivating the mindset for innovativeness and generating creativity. Furthermore, the unique competence of entrepreneurship is taken into consideration as well as the ability to take on opportunities.

The determinant "***Domestic Values***": refers to the overall nature, characteristics, and social predilections demonstrated by the general public in a nation's societal sphere. The general yet fundamental values that people hold during a certain period of time and the axis of emphasis that is placed at that time affect the

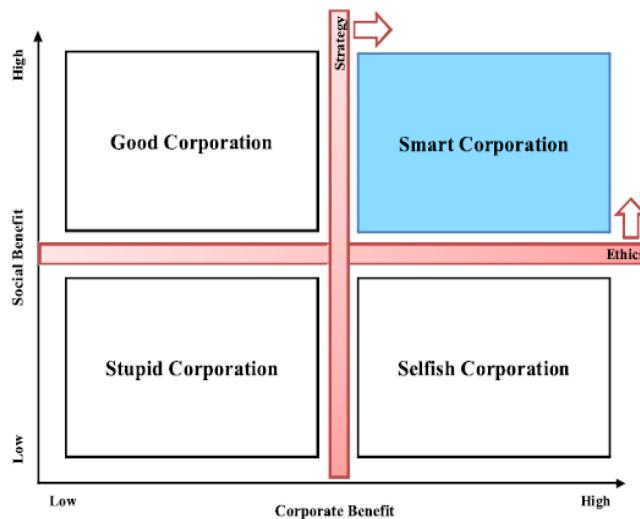
perception, interpretation, and response of the attitudes and behaviors of the people. For the determinant “*Domestic Values*,” two sub-categories have been designated respectively: “*Basic Needs*” and “*Quality of Life*.” These two variables provide an implication of the developmental course of how domestic values and the nature of home-market demand can evolve over time. For example, “*Basic Needs*” refers to the emphasis on primary roles of products and attention on the immediate necessities that are required for carrying out basic daily life. In contrast, “*Quality of Life*” looks beyond the primary roles of a product and calls attention to pursue uniqueness and distinction. Moreover, the health of individuals as well as the well-being of society as a whole is stressed in the behaviors and attitudes of the domestic public.

The determinant “***Corporate Social Responsibility (CSR) and Corporate Social Opportunity (CSO)***”: relates to the process with the aim to embrace responsibility for the company's actions and encourage a positive influence through its activities on the consumers, employees, surrounding communities, and the environment. However, these concepts have not been dealt with directly in Porter's (1990) Diamond Model. In the original Diamond Model, the determinant “*Relating and Supporting Industries*” depicts how clusters, linkages, and relating sectors create synergies that are critical elements to creating competitive industries. A lack of any one of the attributes will be detrimental to the system as a whole. With this point in mind; however, in “*The Competitive Advantage of Nations*,” Porter did not fully develop the significance nor the logical link between “CSR (Corporate Social Responsibility)” and “CSO (Corporate Social Opportunity)” in terms of how these concepts can contribute to the overall benefits of a company, industry, or a country.

Although it is not directly nor easily recognized, at the most fundamental level, the competitiveness of companies, relevant industries, and the well-being of surrounding societies and communities are very closely interdependent and intertwined. According to Moon et al. (2011), this is because both businesses and

industries need a sound and healthy community, not only to create market-demand for their products but also to provide essential public assets and build a supporting operating environment. Along this notion, from the firm-level perspective, “soft” resources that form a cooperative relationship between businesses and society should be taken into consideration. For example, a community needs successful businesses to provide jobs, employment, and opportunities for the people in society. The determinant “*Relating and Supporting Industries*” should be complemented and extended by also taking into account the relating and supporting relationships that exist between business and society as well.

<**Figure 3**> Types of Corporations³



³ The original concept of *Selfish*, *Good* and *Smart* and the framework on the Types of Corporations have been derived from Moon (2012). This research applies these theoretical notions to the national level to analyze national competitiveness more thoroughly.

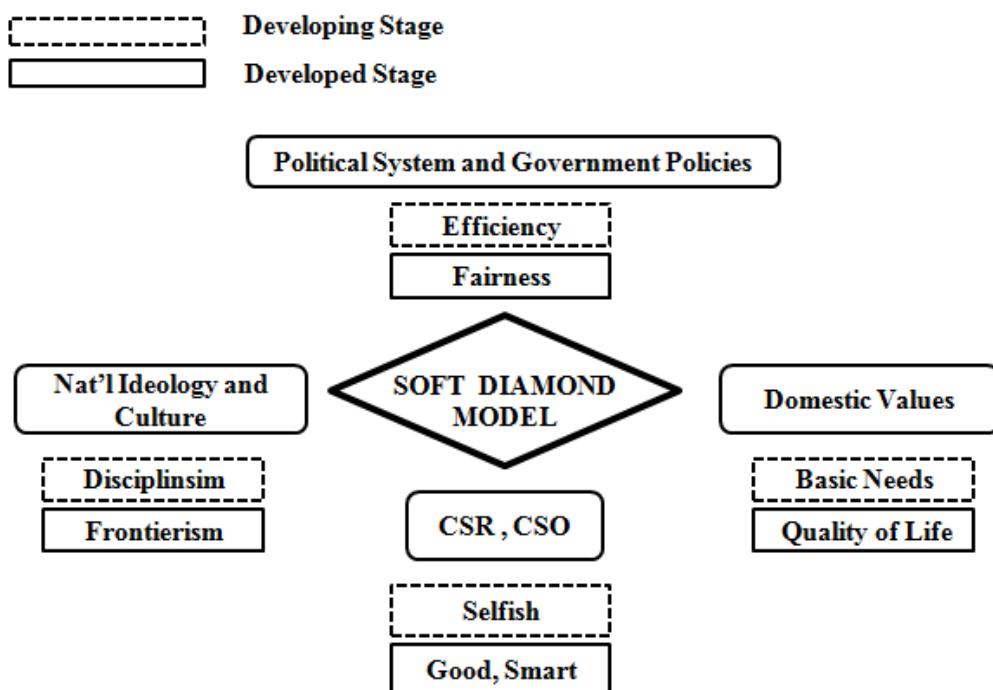
According to Porter and Kramer (2011), the concept of “*Shared Value*” refers to the policies and operating practices that promote or enhance the internal competitiveness of companies, while at the same time advancing the economic and social condition in the communities that companies are affiliated with. In particular, the creation of “*Shared Value*” focuses on identifying and expanding the connections between societal development and economic progress. Companies can create business value in terms of enhancing profit by creating societal value at the same time. The underlying connection between business and society based on “*soft*” resources such as values, and the direct share of these values are dealt with in this determinant. Thus, the assertion can be made that “*soft*” resources are critical elements that contribute to the overall competitiveness of industries and companies within a particular nation. As a result, each firm should look at the decisions and opportunities from the perspective of “*Shared Value*”. This process will lead to new approaches that will generate greater innovation and economic growth for companies and also produce greater benefits for society as well.

Similarly, from the national-level perspective, “*soft*” resources that form a cooperative relationship between nations and the surrounding international society should also be analyzed. This interdependence signifies that policies regarding international affairs that undermine the competitiveness of a country are self-defeating, especially in the era of globalization, in which the degree of interdependence among countries is relatively higher and deeper compared to previous decades. This unique connection should be dealt with further when evaluating national competitiveness.

This determinant can be divided along two broad concepts: “*CSR (Corporate Social Responsibility)*” and “*CSO (Corporate Social Opportunity)*.“ Based on the aligning concepts of “*Shared Value*”, “*CSR (Corporate Social Responsibility)*” advances to the level of “*CSO (Corporate Social Opportunity)*” as companies utilize their resources that can be put into practice. The result of this process is “*Shared*

Value", which is considered a form of "soft" resource that a company can utilize. As a whole, Figure 4 demonstrates the framework of the Soft Diamond Model with its determinants and sub-categories.

<Figure 4> Soft Diamond Model (Determinants and Sub-categories)



4. Application of the Soft Diamond Model: Case Study on South Korea

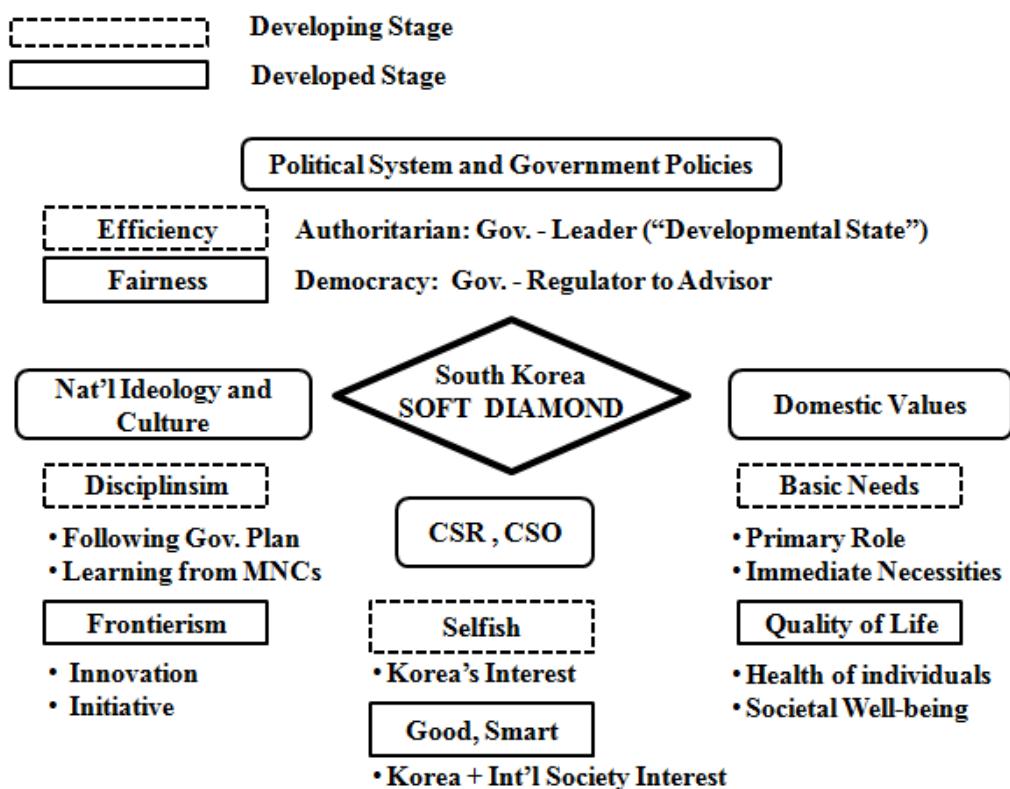
The Four Asian Tigers refer to the highly developed economies in Asia, in particular, Hong Kong, Singapore, South Korea, and Taiwan. These nations were notable for maintaining exceptionally high economic growth rates and experiencing rapid industrialization and modernization during the periods of the 1960s to the 1980s. In the past few decades, all four nations have transformed into highly advanced, well-developed, and high-income economies, both specializing and focusing their resources to create competitive advantages. On one hand, Hong Kong and Singapore have developed into world leading hubs of international finance, business, and financial services. On the other hand, South Korea and Taiwan have become global leaders in the manufacturing of consumer electronic products and pioneers in the research and development of information technology.

As mentioned earlier, Cho, Moon, and Kim (2009)⁴ asserted that the discussion on national competitiveness is meaningful only when discussing national competitiveness among countries endowed with similar comparative advantages competing in comparable industries. In other words, the relative competitive position among similar countries in a certain stage of economic development, but not among all the countries in the world, is a critical element when assessing the competitiveness of a particular nation. For example, it would be misleading to compare the competitiveness of the United States to that of Argentina. However, the comparison of competitiveness between Hong Kong and Singapore would provide meaningful implications. With this fundamental concept in mind, this study aims to further solidify the theoretical concept of the Soft Diamond Model through a case-study on the “soft” resources that contributed to South Korea’s course of

⁴ The notion of national competitiveness is further explained in the article by Cho, Moon, and Kim (2009).

development and the creation of competitive advantage. The four determinants of the Soft Diamond Model as well as the two sub-categories that were designated for each determinant, will account for the evolutionary path of “soft” resources that have contributed to building the national competitiveness of South Korea. In Figure 4 and Figure 5, the sub-categories of each determinant have been distinguished into two distinct levels within the determinant itself in order to clarify the differences between the general characteristics of the developing stage and that of the developed stage when a country follows a course of development. Figure 5 represents the core points of the evolutionary path of “soft” resources that played a role in constituting the national competitiveness of South Korea.

<Figure 5> Application of Soft Diamond Model: South Korea



For the determinant “***Political System and Government Policies***”: South Korea has followed the path from “*Efficiency*” in the past decades to “*Fairness*” in the present era in terms of assessing the role that political systems and institutions have played in the overall developmental course of the nation. With relevance to “*Efficiency*,” the political system of South Korea was semi-authoritarian with high government intervention in the national economy. For many previous decades, authoritarian politicians and military leaders carried out policies that drove rapid and efficient economic growth while promoting the development and the rise of particular industrial sectors such as automobile, ship-building, semi-conductor, petro-chemical and, consumer electronics.

South Korea’s former president Park was successful in launching South Korea’s economic “miracle” through the Five Year Plans for Economic Development. President Park initiated the ambitious Heavy and Chemical Industrialization (HCI) program in 1973. The first steel mill and the first modern shipyard went into production, and the first domestically designed automobiles rolled off the production lines. Additionally, new firms were set up in electronics, machinery, chemicals and other advanced industries. During the years of 1972 and 1979, South Korea’s per capita income grew phenomenally by more than five times, in US dollar terms.

As a result, the development of the *chaebol* conglomerate structure that dominates South Korean economy and business relations today is a direct result of the implementation of these government policies. This unique phenomenon is discussed not only within the field of business and economics but also greatly in political science and international relations. As a result, the notion of “developmental state” and the role of the government is constantly scrutinized and debated in academia. Consequently, in this stage, the government plays the role of a leader, while strictly carrying out national policies in order to increase the aggregate size of the economic pie in the most efficient manner to produce rapid outcomes of

modernization and industrialization.

However, over the course of time, structural changes in the political system and government policies as well as the civil society have evolved into emphasizing the notion of “*Fairness*” over “*Efficiency*. ” In other words, the means and methods related to governing the national environment as well as executing governmental policies changes from emphasizing “*Efficiency*” to giving attention to “*Fairness*. ” In this stage, from the late 1980s, the role of the South Korean government has changed from a regulator to an advisor of national economic affairs. Policies of political democracy and fairness in society have been emphasized as the roles of civil society and the private sector have been increasing over the past few years.

For the determinant “***National Ideology and Culture***”: South Korea’s national philosophy and culture has also experienced a path of evolution from the characteristics categorized as “*Disciplinism*” to those categorized as “*Frontierism*. ” As introduced earlier, these theoretical notions were originally developed by Moon and Jung (2010). These concepts can be adequately incorporated and applied to the Soft Diamond Model as these variables illustrate how national ideologies and culture have the power to contribute to South Korea’s national competitiveness. On the national level, South Korea is a nation that has gained its competitive advantage based on the traits of “*Disciplinism*. ” For example, the national ideology of the periods from the early 1960s to the late 1970s has been strongly constructed upon following the rules, laws, and standards that were enforced on the Korean people during that period. Furthermore, when the Five Year Economic Plan was executed in the 1960s by the Park Chung Hee administration, the whole nation was expected to pursue and follow the steps of the government’s plans in both national and local development in the public and private sectors. In addition, on the corporate level, business philosophy, and corporate organizational culture was structured to be

hierarchical, standardized, and regulated. Generally, it was the norm to disassemble and duplicate the production techniques and manufacturing skills of foreign MNCs through means of reverse-engineering. The national sentiment of imitating and learning from the Japanese course of economic development was common in the mentality of the South Koreans.

However, with this fundamental basis of “*Disciplinism*” structured and rooted in South Korea’s national ideology, the nation has been experiencing and exerting characteristics relevant to the concept of “*Frontierism*. ” “*Frontierism*” is characterized by national ideologies and culture promoting innovation, taking initiatives, and creating its own unique competitive advantages. In other words, based on the skills and know-how acquired from the stage of “*Disciplinism*, ” South Korea has been pushing for further development by creating its own competitive advantages that are consequently shown by “*Frontierism*. ” South Korean companies have been taking the lead in many business and industry sectors. This phenomenon contributes to the overall national competitiveness of nations as the unique national ideologies and culture creates competitive advantages that enhance development and prosperity of the nation.

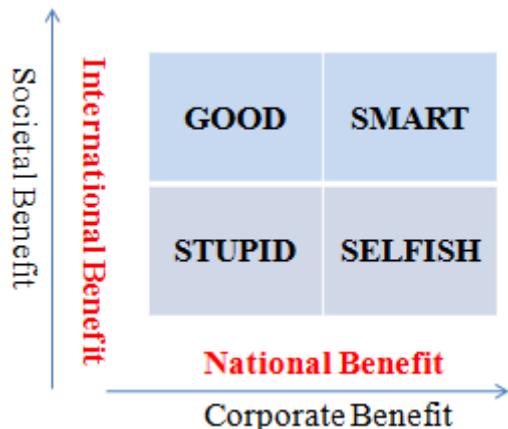
For the determinant “*Domestic Values*”: the apparent transformation in the social mentality and attitudes of the South Korean people over the past decades depict the developmental course from placing concern on “*Basic Needs*” to emphasizing “*Quality of Life*. ” From the 1960s to the 1980s, during the period of rapid economic development of the nation, South Koreans focused on solving problems and overcoming barriers from immediate needs necessary for survival. Additionally, the basic role of a product or the most primary function of manufactured goods was emphasized as there were no resources or capital to look beyond this boundary. However, as South Korea has experienced the course of rapid economic development and established its position as a developed Asian economy,

the domestic values has transformed into stressing the overall well-being of society and the quality of life for individuals. The exponential rate of economic growth from the 1960s transformed the war-devastated South Korea from one of the poorest nations in the world to the thirteenth largest trading nation. As a result, the Korean population's concern quickly inclined from basic survival necessities to more advanced utilities.

For the determinant “***CSR (Corporate Social Responsibility) and CSO (Corporate Social Opportunity***”⁵: the role of South Korea as a nation has been changing in the international society. The fundamental concepts of “*Selfish*,” “*Good*” and “*Smart*” can be applied not only on the corporate or organizational level but also on the national level. In other words, not only companies but also countries can be titled as “*Selfish*,” “*Good*,” and “*Smart*”. In previous decades, South Korea has been a “*Selfish*” country because its own national interests were centered as the core objective to engage in international affairs. However, as South Korea has emerged as a dominant player in taking global initiatives, it has clearly proven itself as an exemplary country escaping poverty to creating prosperity. As a result, South Korea’s role has been changing to becoming a “*Good*” and even more a “*Smart*” country. For example, the ODA (Overseas Development Assistance) policies that the South Korean government has been providing to developing countries demonstrate a situation in which South Korea can both strategically and efficiently utilize its national resources to boost its own national interests as well as create benefits for the international society at large. These theoretical concepts, when suitably applied, clearly portray how the ultimate objective of all nations would be to become a “*Smart*” nation and acquire international reputation as well as global recognition with higher standards of national competitiveness.

⁵ The original concept of Selfish, Good and Smart has been derived from Moon (2012). This research applies these theoretical notions to the national level to analyze national competitiveness more thoroughly.

<Figure 6> Types of Countries



5. Conclusion

This research is based on the notion that national competitiveness can only be fully understood by looking beyond the macroeconomic and physical variables and taking into account the ideas, values, and cultural aspects that motivate people to build, structure, and advance their societies. In particular, without possessing the competitive “*hard*” resources in the initial stage of development, the rise of the Four Asian Tigers was fundamentally based on “*soft*” resources such as culture, values, and governmental policies. Thus, Porter’s original diamond framework does not go without criticism that it cannot completely explain the national competitiveness of these countries.

The extension of national competitiveness through the Soft Diamond Model substantiates the neglected portion of national competitiveness of countries with cultural and non-material resources; and supports the necessity of considering these factors to better assess national competitiveness. Integrating “*soft*” resources along with “*hard*” resources of national competitiveness to Porter’s Diamond Model, the

extended framework presents an analytical tool to assess the competitiveness of countries with multi-characteristics more comprehensively than previously existing frameworks.

In sum, as different countries with distinct characteristics require different frameworks to appropriately evaluate their national competitiveness, it is critical to employ an interdisciplinary model when analyzing the sources of national competitiveness of countries that require an unconventional paradigm. In this light, the Soft Diamond Model provides a better framework than existing models to comprehensively analyze the national competitiveness of countries with “soft” resources as attributes.

As explained above, the extension of an original framework provides a new paradigm of analysis in order to develop a distinctive model that comprehensively explains the fundamental sources leading to a higher degree of national competitiveness. Furthermore, this study also attempts to demonstrate how an analytical framework originally developed in the field of Business and Strategic Management can be readily complemented with International Relations, Marketing, Nation-Branding, and Public Diplomacy theories in order to provide a more comprehensive and interdisciplinary analysis to existing academic literature. In terms of further strategic course of actions, this research can suggest governmental policies for developing countries in order to formulate strategies at both the national and international level, and offer advice to countries to implement more efficient strategies and make more informed and suitable allocations of national resources.

Again, this research and the theories presented are not technical discussions on the process of economic development of the Four Asian tigers, nor is an attempt to present a new economic theory that accounts for the dynamics of Asia’s rise. Instead, this paper concentrates on the role that “soft” resources (e.g. culture, values, political

systems, and etc.) have played in enhancing national competitiveness in these Asian countries. The essential point in the discussion on national competitiveness is that values, beliefs, and culture do play a crucial part in either facilitating or hindering economic development of countries. However, it is also equally true that economic development generates changes in values, beliefs, and culture. Both processes, values affecting the dynamics of economics and business, and economics and business influencing the beliefs and values of a particular nation, have been and remain in continuous progress to consist the competitive advantage of Asian countries.

In contrast, the BRICS (Brazil, Russia, India, China, and South Africa) nations have been experiencing a course of economic development based on hard resources such as abundant labor or natural resources inherited within their countries. With this distinction in mind, the analytical comparison will provide an insightful and interesting topic of research to further examine into the differences associated with the development and national competitiveness, comparing the sources of development of the Four Asian Tigers to those of the BRICS. In other words, the new and extended diamond framework that incorporates soft resources can be applied to the national context of the BRICS and generate insightful suggestions and strategic implications for governments and national institutions in search of a progressive strategy to enhance their national competitiveness relevant to their distinct national environment.

For further studies, the application of the Soft Diamond Model on each nation of the Four Asian Tigers would provide insightful implications. Furthermore, through this analysis it would be fruitful to derive strategic future implications from the comparisons and contrasts among the Four Asian Tigers. For example, the comparison between Hong Kong and Singapore as former British colonies, to South Korea and Taiwan as former Japanese colonies, will provide unique implications to

explain the different development paths of these countries with previous colonial influence. Additionally, the application of the Soft Diamond Model on resource-based developing economies such as the BRICS will also provide useful implications with contrasts to the development paths of the Four Asian Tigers.

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국문초록

급속도로 변하는 현대 사회의 대내외 및 국내와 국제 환경으로 인하여 국가 경쟁력의 원천을 새로운 관점에서 분석할 수 있는 전략적인 사고와 틀(framework)이 요구되고 있다. 경쟁력을 갖추기 위해서 국가들은 물리적 자원 (“hard” resources)을 바탕으로 한 경쟁적 우위 외에도 비물리적 자원 (“soft” resources)을 근본으로 경쟁력을 갖춰야 한다. 본 논문은 마이클 포터의 다이아몬드 모델은 한 나라의 문화 (culture)와 가치 (values)와 같은 비물리적 자원을 국가경쟁력의 요소로 간파하고 있다는 점을 파악하여, 비물리적 자원을 다이아몬드 모델의 틀에 수용할 수 있는 전략적이고 포괄적인 소프트 다이아몬드 모델을 제시한다. 소프트 다이아몬드 모델을 통하여 각 나라의 정부들은 비물리적 자원 (“soft” resources)과 이러한 비물리적 자원이 국가 경쟁력과는 어떠한 관계에 놓여있는지 전략적으로 분석할 수 있는 틀을 제공할 뿐만 아니라 국가자원을 최적으로 활용할 수 있는 전략을 제시한다.

주요어: 국가 경쟁력, 경쟁적 우위, 물리적 자원 (“hard” resources), 비물리적 자원 (“soft” resources), 포터의 다이아몬드 모델, 소프트 다이아몬드 모델

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