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### Article information:

To cite this document:

Vítor da Conceição Gonçalves Fernando Ribeiro Mendes Idalina Dias Sardinha Ricardo Rodrigues , (2015), "Twenty years after the Porter Report for Portugal", *Competitiveness Review*, Vol. 25 Iss 5 pp. 540 - 554

Permanent link to this document:

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# Twenty years after the Porter Report for Portugal

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## Abstract

**Purpose** – The purpose of this paper is to discuss the contribution of the Porter Report toward increasing the competitiveness of the Portuguese economy and highlights the factors that affected its operationalization.

**Design/methodology/approach** – This paper considers the contributions of the Porter Report, entitled “Building the Competitive Advantages of Portugal”, presented in 1994, particularly with regard to the recommended clusters and public policies, as well as the assessment and warnings provided by Michael Porter in 2002, examining both in the present perspective.

**Findings** – Although Michael Porter, in 2002, made a critical judgment about the country’s evolution since the 1994 report, it is clear that, on the one hand, the recommended development model attracted high attention and had positive repercussion in academic and business circles, while on the other hand, some of the objectives were achieved, albeit at a slower pace than would have been desirable. Political and economic context and the time period are relevant for all technological and geostrategic changes, among others. The accuracy of the diagnosis and the development model proposed by Michael Porter is confirmed and the difficulty in its implementation is highlighted.

**Originality/value** – The analysis of the Portuguese evolution after Porter’s recommendations is instrumental in understanding the competitiveness and development challenges faced by a small peripheral economy in the European integration process. Understanding these difficulties and successes is of utmost importance in improving the definition and in the implementation of policies focused on the competitiveness of countries and regions.

**Keywords** Competitiveness, Portugal, Clusters, Diamond

**Paper type** Case study



## 1. Introduction

In 1992, the Portuguese Government, with the involvement of various industrial organizations, asked a team led by Michael Porter to conduct a study on the competitiveness of the Portuguese economy to draw the guidelines to improve the performance of Portuguese companies and industries in the increasingly competitive global environment. The initiative was coincident with a period of economic slowdown, after the initial momentum of growth driven by the integration of the country in the European Union (EU) after 1985 had faded away.

Subsequently, the Porter Report entitled “Building the Competitive Advantages of Portugal” was delivered and it had an important reception at the national level. The Report stated the “purpose of contributing to the Portuguese economy competitiveness”, and was distinct from previous studies by the concentration of the:

[...] most important project resources in the action, through detailed analyses of the competitiveness factors in specific areas of activity, involving business and institutional leaders in conjunction with public officials in order to generate effective change (*Forum para a Competitividade*, 1994, p. 11).

As pointed out at the time by the Portuguese Ministry of Industry and Energy (*Ministério da Indústria e Energia*, 1995, p. 45), the project aimed at identifying “the challenges ahead and clusters that could give better contribution to build long-term competitiveness in Portugal” and, on that basis, identified the initiatives for action “in order to sustainably improve the competitiveness of companies in the target areas, designed in a way to be transferred to other clusters, as part of a wider process of change”.

Porter’s microeconomic approach to competitiveness gradually became the mainstream framework for industry and policy analysis in public discussions on the economic development of the country. Some of its recommendations were implemented and others were disregarded by successive governments so that the effective impact of the Report on public policies and the performance of firms lagged behind the initial expectation.

In 2002, Michael Porter returned to Portugal and, based on a brief analysis, presented a negative diagnosis of the subsequent developments. Ten years before, during that period of economic crisis, the importance of Porter’s contribution to encourage the focus in competitiveness had seemed paramount, but the crisis context hampered the implementation of policies to achieve this objective.

To understand what happened, one should bear in mind that Portugal, established since the twelfth century, is the westernmost and one of the oldest countries in Europe. For centuries, it evolved from a small country into the largest overseas empire of the fifteenth and sixteenth centuries, establishing the first milestones in globalization. However, since the independence of the former colonial territories in the 1970s, Portugal has undergone successive economic crises. The International Monetary Fund (IMF) intervened in Portugal in late 1970s and early 1980s. The country joined the EU in 1985 and the evolution in the immediate following years accelerated the tertiarization of the economy. Between 1985 and 1992, the dominant service sector grew from 55 to 59 per cent of gross domestic product (GDP). However, the relative share of the manufacturing sector stabilized at 26 per cent and the agriculture continued to decline, from 8 to 6 per cent of GDP (*Carvalho and Brandão de Brito*, 1995). Politically, there has been stability and agreement between the main political parties regarding the European integration process that led to the participation since 2002 in the Eurozone, after a period of convergence centered on macroeconomic criteria. More

recently, in 2011, the IMF, together with the EU and the European Central Bank, again supported Portugal.

Observing the competitiveness evolution of the Portuguese economy over the years, it is clear that despite the macroeconomic improvements allowing the integration into the Eurozone, Portugal has been losing its position, thereby questioning the success of public policies and business strategies adopted after the Porter Report. Only recently has the Portuguese competitiveness started showing signs of progress. The relative position is seen in [Table I](#).

The ramifications of implementing the measures outlined in the Porter Report or its influence on the Portuguese economy and, consequently, of its conceptual model, between 1994 and 2014, are generally difficult to discriminate. Especially because not all the conditions recommended by Michael Porter’s team have been secured and it was a challenge to harmonize the macroeconomic convergence criteria arising from European commitments with the changes at the microeconomic level associated with the Porter report.

## 2. The project “building the competitive advantages of Portugal” (1993/1994)

Portugal, like several other countries and regions, benefited from the knowledge presented in the book “The Competitive Advantage of Nations” (Porter, 1990). The Porter Report ([Forum para a Competitividade, 1994](#)) was especially important due to the contribution to change preconceived development models and brought a new approach to the modernization of Portuguese industry and economy. Simultaneously, due to the approach followed to carry the project, involving a significant number of managers and other Portuguese experts, it helped to develop a highly qualified technical body, nowadays with high-profile positions in the business, political and academic circles in Portugal. Another merit of the project, in a country at the time very dependent on the government initiative and funding, was the involvement of a wide number of public and private organizations in the project financing and the establishment of the Forum para a Competitividade (Forum for Competitiveness), an institution built to gather business leaders as the players for economic change, which should ensure the continuity of the project. In parallel, the extensive discussion of the project and the respective report in the media increased the visibility of the proposed competitiveness model.

As [Mira Amaral\[1\]](#) (2014) highlights, the project emerged from an initial idea to apply the Porter model to two clusters, textiles and tourism, and later evolved into the application of the model to the Portuguese economy. The team led by Michael Porter included elements from the Ministry of Industry and Energy and, at that time, was considered an important instrument of Portuguese industrial policy.

**Table I.**  
Relative position in  
the Global  
Competitiveness  
Indexes (2002-2014)

Competitiveness Indexes	2002	...	2009	2010	2011	2012	2013	2014
Global Competitiveness Index–World Economic Forum	28	31	43	46	45	49	51	36
IMD	28	31	34	37	40	41	46	43

**Source:** World Economic Forum (several years) and IMD (several years)

The project systematically included both theoretical tools of the Porter model: the “diamond” and the “clusters”. According to the model, the competitiveness of each nation is based in the optimization of the diamond applied to regionally concentrated sector clusters, where the country already has a comparative advantage, and these clusters are supported on horizontal policies. Those public policies and the government intervention in the economy are intended to value the diamond vertices (Mira Amaral, 2014).

The project “building the competitive advantages of Portugal” was structured in two stages: Stage 1 (six months) was entitled competitiveness audit and Stage 2 (eight months) focused on initiatives for action.

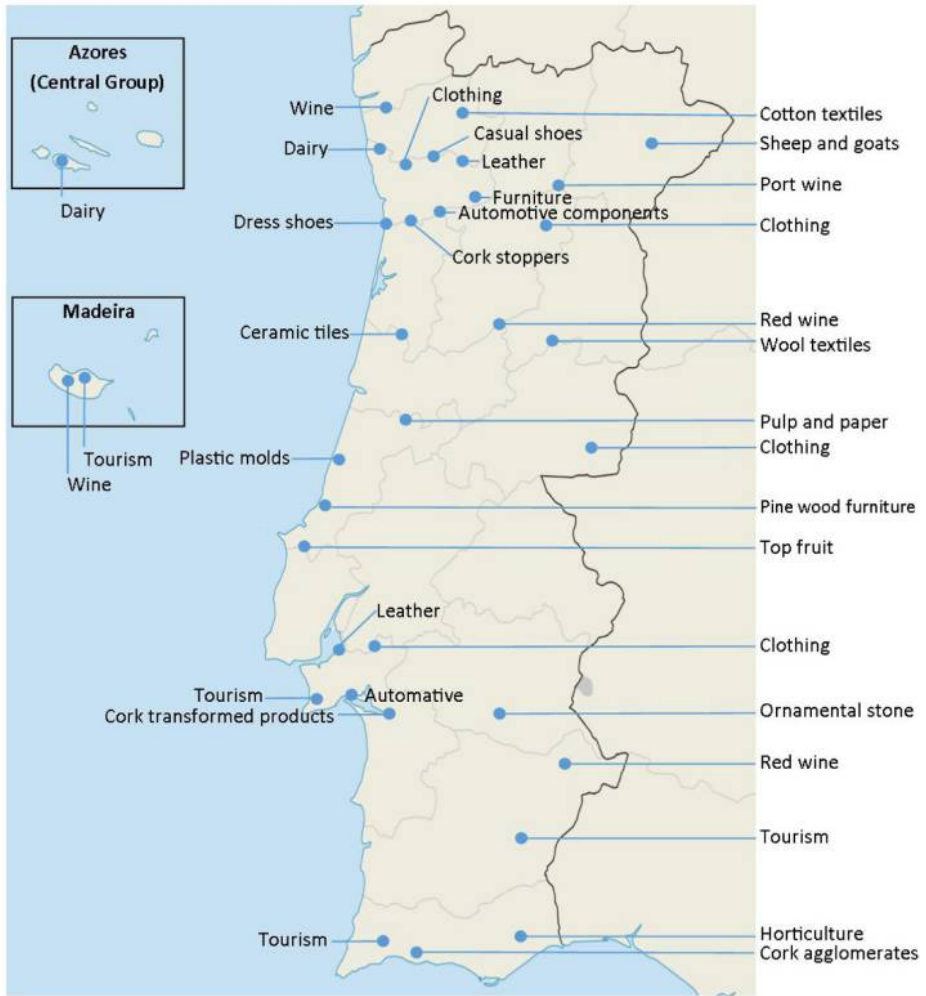
The competitiveness audit included the identification of the challenges faced by the Portuguese economy and which clusters could contribute better to build the long-term competitiveness. Such steps have allowed reaching a consensus regarding the major challenges faced by Portugal. Five recurring themes emerge from the audit, namely:

- (1) Clusters exist in Portugal (Figure 1).
- (2) In most cases, clusters are underdeveloped, especially in engineering, design, distribution, sales and marketing.
- (3) The clusters are not achieving their full potential due to the absence of interconnections.
- (4) There is a lack of qualified human resources.
- (5) There is no effective dialog between companies and the government.

The Porter Project encouraged a new paradigm for change and 11 initiatives for action (six clusters and five public policies). Michael Porter assumed a limited number of initiatives for action, a selection of clusters based on representativity and the primacy of action over analysis: the emphasis of the approach is to create a tangible change (Table II).

Porter established a new model for national competitiveness, comprising (Forum para a Competitividade, 1994) the following:

- The key to understand the national competitiveness lies in the concept of productivity.
- Companies, not countries, are the ones competing, and consequently, productivity depends on the sophistication with which companies compete.
- The productivity depends not so much on the industries in which a country competes, but on how companies compete in those industries.
- The aim of Portugal should be the creation and continuous improvement of skills and sophisticated technologies that will enhance the competitiveness and, consequently, will allow the achieving of desirable results, such as creating attractive jobs.
- The competitive success of each country is concentrated in certain industries and groups of interrelated industries’ designated clusters.
- To sustain competitiveness, companies in these clusters have to compete globally (acquisition of inputs, locations and markets).



**Figure 1.**  
Portuguese Regional  
Clusters

**Sources:** Monitor Company, Cambridge, Massachusetts and Forum para a Competitividade (1994); Adapted from Porter (2008, p. 246)

- The national prosperity is driven by the ability to attract and retain “domestic bases”, where the essential knowledge and skills are located, and where inputs and information resulting from global activities are consolidated.
- The attractiveness of a country as “domestic base” depends on the environment that it creates for competition and, in particular, the degree of support to innovation and progress that environment allows.

In short, Porter presented a vision for a more competitive Portugal. Furthermore, he provided guidance on how business leaders and public and private institutions should act and interact with each other.

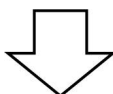


### 3. Michael Porter's assessment in 2002

The public policies implemented important incentives to encourage endogenous growth factors and entrepreneurship, under the First and Second Community Support Frameworks (1989-1993 and 1994-1999, respectively), agreed with the European Commission to provide important financial and technical support from the EU Structural Funds to the Portuguese economy. In particular, two major programs were implemented to revive the Portuguese industry: the Portuguese Industry Specific Development Programmes, PEDIP I (1989-93) and PEDIP II (1994-1999), which aimed to raise the national production in the value chain stimulating the tradable sectors of services to the industry: product engineering, design, global marketing and logistics. These policies contributed to the affirmation of new centers of industrial expertise in electrical equipment, automobile and construction materials. However, the traditional industries of textiles and forest grew below average, and the same is true of the chemical and food industries, and the trade deficit in these sectors has worsened.

Despite these public policies, when Michael Porter returned to Portugal, based on the Global Competitiveness Report of the World Economic Forum (data from 2001), he concluded that the "competitive position of the national economy worsened" (Fernandes, 2002). Portuguese competitiveness – 1994 versus 2002 – was as follows:

- Portugal has made important progress on macroeconomic terms.
- Progress on the microeconomic foundations of competitiveness has been largely absent:
  - There are exceptions (e.g. reduction of government subsidies, privatizations and creation of a more independent anti-trust authority).
  - The exceptions are more a by-product of adopting EU rules than a part of a competitiveness strategy.



- Portugal must address its microeconomic weaknesses if it is to improve or even sustain its prosperity.

**Source:** Porter, 2002

Clusters	Public policies
Automotive	Management capacity
Footwear	Science and technology
Textiles	Education
Wood Products	Financing
Tourism	Forest management
Wine	

**Source:** Forum para a Competitividade (1994)

**Table II.**  
Initiatives for action  
(Porter Report)



In 2002, in Portugal, the Euro currency was already in circulation, which provoked the following comment from Michael Porter: “the monetary reform must be replaced by economy reform”. That is, the effort in meeting the macroeconomic criteria for joining the Euro had not been accompanied by the actions recommended by the Porter Report to increase competitiveness, considered the “cornerstone of prosperity”, reflected in a “weak economic growth and the loss of the exports market share in the international market” (Fernandes, 2002).

Regarding the performance of the Portuguese economy since 1995, Porter pointed out that economic growth was mainly due to the acceleration of consumption (benefiting from lower interest rates and EU funds) (Mata, 2002). Accordingly, in 2002, the economy was characterized by a “very slow productivity growth” and “extremely low innovation rates”, which questions the “sustainability of macroeconomic policies” (Porter, 2002, pp. 15-16). The future scenario reveals that “easy catch-up period is over”, “reduction of EU structural funds is likely”, “ability to use devaluation to prop up ‘competitiveness’ is gone” and “Eastern European countries with lower wages are about to enter the EU market”.

Porter (2002) also establishes a comparison of the Portuguese diamond in 1994 and 2002. Concerning the “factor (input) conditions” after eight years, Porter maintains the evaluation on the “lack of skilled workforce and management”, the low level of R&D is revised to highlight the “low level of scientific and technological infrastructure” and highlights the persistence of infrastructure problems, despite recent improvements. In 2002, Porter no longer refers to the energy costs problem and financial markets inefficiency. With regard to “related and supporting industries” and “demand conditions”, Porter’s appreciation essentially remains intact in the elapsed eight years, that is, the existence of “significant regional clusters”, but with “insufficient linkages” and “lack of strong related and supported industries even in most significant clusters” and a “relatively unsophisticated local consumer and industrial demand”. Finally, focusing on the “context for firm strategy and rivalry” in 2002, Porter considers the low private investment in R&D (whereas, in 1994, the observation was more generic and focused on “factor (input) conditions”), and also highlights the “administrative barriers to business formation” and the “lack of local rivalry”, and no longer refers to the upgrading discouragement and to the lack of emphasis on upgrading and export.

Focusing specifically on the footwear cluster, Porter (2002, p. 28) highlights, compared to 1994, the existence of “moderate improvements in productivity, response times, and technical efficiency”, stressing that progress “suggests potential of cluster development in Portugal” but there is still a lack of “concerted commitment across the country”.

In a broader analysis of the competitiveness in Portugal, Porter (2002, p. 29) recognizes that progress in macroeconomic terms was achieved with little progress in microeconomic terms, except for “reduction of government subsidies, privatizations, creation of a more independent anti-trust authority”, that are more a result of the adoption of European rules rather than a deliberate action. Porter concludes by stressing the need for a new strategy focusing on microeconomics, with long-term plans focused on the business environment and innovation capacity. With regard to clusters, Porter argues that its “aggressive” development should be a national priority. The leaders are responsible for creating a “national economic vision to inspire and motivate the Portuguese people”.

Referring to the education system, Porter considered that it is “not producing enough quality to turn the Portuguese economy more competitive and productive”, also highlighting the gaps in the link between universities and the businesses, which is reflecting in the innovation potential (Mata, 2002).

In short, Michael Porter considered that the “country lost eight years”, that the policies followed neglected microeconomics and as the external environment becomes more aggressive, the competitive position of Portugal thus suffered degradation. On the other hand, he stressed the importance of going from the reports and initiatives into action with the necessary mobilization of the private sector, without depending exclusively on the Government.

#### 4. Present assessment

The weak progress in the competitiveness of the Portuguese economy, after 2002 until the present time, is clear and has been highlighted in the evocative conference of 20 years on the Porter Report held at ISEG (School of Economics and Management, University of Lisbon) in 2014:

Our country’s response to this new paradigm has been mediocre. Business “communities” supported in knowledge are fragile, the “technology parks” are, generally, warehouses or companies’ dormitories with reduced cross-fertilization actions, the integration into “knowledge and international technological development networks” are isolated and poorly structured and the use of “digital platforms” for the construction of these “business knowledge communities portals” are weak (Todo Bom, 2012).

In turn, in a more positive tone, Mira Amaral (2014, pp. 4-5) highlights the contribution of the Porter Project for “obvious improvements in traditional sectors such as footwear, textile, clothing and apparel” as well as in wine and furniture. He adds that the implementation of the project “had a very strong focus on the diamond production factors”. But, on the downside, he points out that the project had a “medium impact on demand conditions”, “low effect on the rivalry, structure and strategy of the companies” and “related and supporting industries” and that few improvements were introduced in public policy to support the “horizontal variables”.

The trajectory of the footwear and wine sectors has been very positive. Fortunato Frederico, President of APICCAPS (Portuguese Association of Footwear Industry, Components, Leather Goods and their Substitutes), highlights the importance of the Porter Report as “guide to successive strategic plans designed for the sector”. The initial focus of the industry was aimed at “the increase in capacity and innovation” and, subsequently, at the “foreign trade promotion”. In the case of the wine sector, which was studied in detail by Michael Porter in 2004, Jorge Monteiro, the President of ViniPortugal highlights that “60-70 per cent of the proposed measures at that time have been or are being implemented” despite changes in the sector (e.g. new markets) (Pinto, 2013).

Meanwhile, new public policies to promote competitiveness were carried out under the Third Community Support Framework (2000-2006) and the National Strategic Reference Framework –QREN (2007-2013) successively agreed with the EU, and are claimed to be explicitly based on Porter’s proposals.

Recognizing that the Portuguese economy was over-specialized in low added value, reduced knowledge intensity and oriented to the domestic market sectors, new tools have been developed to support competitiveness strategies undertaken collaboratively by economic actors and public officials in various clusters, with particular attention to

the territorial context. QREN undertook, as a priority, the promotion of the Portuguese economy based on what was called “virtuous triangle of internationalization-innovation-clustering”, mobilizing for this the major part of the support available under the Competitiveness Factors Operational Programme (COMPETE).

New instruments to contextualize the public policies and economic and social actors’ initiatives are adjusted, with emphasis for the Collective Efficiency Strategies (EEC) where the principal is the clusters typology, which were defined in 2008. The EEC recognized the role of clusters as collaborative innovation platforms and channeled some resources of the COMPETE program to support their growth.

The starting point were the active clusters:

- *In the north and central coast:* Textile and Leather; Cork, Wood and Paper; Habitat; Plastics; Equipment and Automotive; Information/Communication; Health.
- *In the south and central coast:* Information/Communication; Creative Industries; Automotive; Plastics; Agribusiness; Construction/Public Works.

To these clusters, more have been added, which were formed either by bottom-up initiatives of economic actors (the Pole of Manufacturing Technologies, for example) or by top-down action of their own public agency (Case of Tourism Pole) adding up to 19 clusters. Many of these are of low technology intensity (Table III). The activities have been limited, in many cases, to the implementation of anchor projects and coordination of the partnership with public funding available, given the limited experience in leveraging clustering processes (Sociedade Portuguesa de Inovação and inno TSD, 2013).

EEC with low technological intensity activities related to the traditional sectors

EEC with low technological intensity/knowledge activities valuating natural/endogenous resources

EEC with medium-low/medium-high technological intensity

EEC with high technological/knowledge intensity activities

Sustainable Habitat Cluster

Furniture Cluster

Fashion Poles

Agro-industrial Poles

Centre Agro-industrial Cluster

Ribatejo Agro-industrial Cluster

Forest Base Industries Poles

Sea Cluster

Natural Stone Cluster

Tourism Poles

Wine Cluster

Energy Poles

Engineering and Tooling Poles

Mobility Poles

Industries Refining Poles

Manufacturing Technologies Poles

Creative Industries Cluster

Health Poles

Information Technologies, Communications and

Electronics Poles

**Table III.**  
EEC groupings according to the degree of technological/knowledge intensity

**Source:** Sociedade Portuguesa de Inovação and inno TSD (2013)

The whole of the Portuguese economy presents notorious difficulties to reverse the national competitiveness losses in the period after the EU integration. Between 1994 and 2010, unit labor costs were aggravated by over 21 per cent compared to the EU average. In addition, convergence in terms of GDP in 2002 had already been interrupted (Mateus *et al.*, 2013). Nevertheless, there is undoubtedly an emerging sector of innovative firms, oriented to external markets and able to articulate with each other in dynamic clusters.

From the second half of 2008, the global economic and financial crisis has imposed, on the most advanced economies, important barriers to the growth pace of the wealth creation potential, which has generated great difficulties in the management of public budgets in most countries. In Portugal, following the crisis in its external financing, the financial adjustment supported in fiscal and government budget measures led to strong containment of earnings and domestic demand and has resulted in the longest and more intense period of recession in economic activity and private consumption in the country's recent history. The export sector seized the moment and, for example, companies supported by COMPETE showed a clearly better performance than the one registered by the business universe as a whole, with regard to exports, employment gross value added (GVA) and R&D expenses. The most significant differences are noticeable in terms of exports, employment and total expenditure on R&D (Augusto Mateus & Associados and PwC Portugal, 2013) (Table IV).

The update of the Portuguese diamond (Figure 2) and an analysis of the trajectory of each initiative for action arising from the 1994 report (Table V) also allow some conclusions.

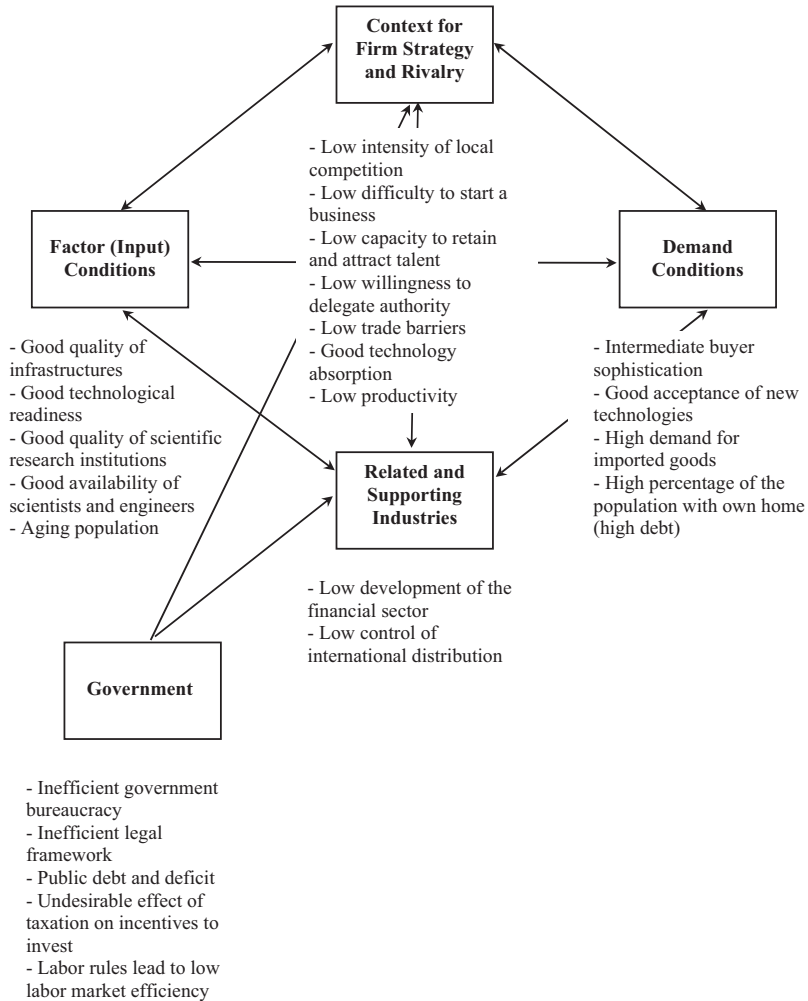
Reviewing the public policies that are somehow comparable over the years and with other countries, based on the Global Competitiveness Report (Management Capacity, Science and Technology, Education and Financing), it is possible to verify that Financing is still the pillar where Portugal is more distant from the top positions and the relative position regarding some of the specific indicators was degraded over the past years. Regarding the Management Capacity, based on the recent progression of the management schools' quality in the past six years, as a consequence of the effort in the preceding years, it is expectable that this quality will benefit the Management Capacity in the near future. Similarly, the effort directed toward the improvement of the education system is evident in the evolution since 2008, and nowadays aligned with the overall position of the country in the Global Competitiveness Index. The progress of the country is now also clear in terms of the Science and Technology-related indicators. In sum,

Selected indicators	Starting value (2007)	Variation 2007-2011 (%)
GVA	7 897 <sup>a</sup>	+4.5
Employment	196 580 <sup>b</sup>	+7.1
Average productivity	[39 941] <sup>c</sup>	-2.1
Exports	8 408 <sup>a</sup>	+15.3
Average export orientation	(29.1%)	-0.7 p.p
Total expense in R&D	76,3 <sup>a</sup>	+49.1
FTE researchers number	13 156 <sup>b</sup>	+81.7

**Notes:** <sup>a</sup>Million Euros; <sup>b</sup>Units; <sup>c</sup> Average value (thousand Euros)

**Source:** Augusto Mateus and Associados and PwC Portugal (2013)

**Table IV.**  
Selected indicators  
evolution between  
2007 and 2011



**Figure 2.**  
Portuguese Diamond  
(2014)

**Sources:** Selected information from World Economic Forum (2014) and authors

regarding the public policies, the country took a long period of time to implement the necessary actions and the results of those actions are yet to reach their full impact on the competitiveness of the country. However, the Financing issues are still unaddressed and this is the pillar were the country classifies poorly regarding the other comparable public policies recommended in the Porter Report.

### 5. Conclusions

The media dimension of the project and the creation of “task-forces” including managers, business associations and public administration to implement the project’s recommendations generated lasting dynamic effects in the society and in the Portuguese

Initiatives for action	Main changes	2014
Automobile	New agreement signed with Autoeuropa in 2003 enabling a new investment in the sector	The automobile sector maintains high importance in the Portuguese GDP
Footwear	Very positive path, starting by the improvement in capacity and innovation and, after, with international promotion Introduction of new technologies Investment in design, small series and quick answer to market requests	Portuguese products are well-known internationally by their quality and design Portuguese brands were developed and are known internationally High specialization
Textiles	Introduction of new technologies Investment in design, small series and quick answer to market requests	High specialization
Wood products	Improvements in quality and design	International awareness of the quality and design leading to high growth in exports in the 2000 decade
Tourism	Development of international promotion campaigns (e.g. announcements, participation in international fairs) Increase of the reputation of touristic destination Supply qualification	The impact of tourism in Portugal is above the European average
Wine	Very positive trajectory with high implementation of the Michael Porter's proposals in specific study for the sector	There was capacity to adjust, for instance identifying new markets The quality is internationally recognized
Management capacity	Reinforcement in the management schools with international accreditations	Currently, Portugal is in the fourth position in the quality indicator (World Economic Forum)
Science and technology	Considerable public investment leading Porter in 2002 to focus the problem on the private investment	An approach to the European standard was achieved
Education	Role of the large companies in R&D Sharp rise of the younger generations' qualifications Public spending directed at education has been higher than the European average	Some mismatch between supply and demand Persistence of low education levels among older generations There are signs of some inefficient use of financial resources
Financing	Modernization and strong innovation in banking Investment in information systems and technologies	The balance sheets of Portuguese companies are greatly affected by the higher debt levels compared with the European counterparts
Forest management	Introduction of forest management plan Establishment of forest intervention zones Introduction of certification practices	Forest fires remain a major threat Decrease of the weight of forestry in national GDP

**Table V.**  
Initiatives for action  
evolution since the  
Porter Report until  
2014

economy. After the publication of the report, the “Forum para a Competitividade” would lead the implementation of the Porter Report, thereby continuing the work begun. However, government and public policy changes limited the action.

Nevertheless, the analysis of the potential of traditional industries clusters presented by Porter indicated that the introduction of new technologies in these traditional sectors was a basis for future competitive advantage, contributing to its survival and its transformation. This allowed:

- Evident improvements in traditional sectors such as footwear, textiles, clothing and apparel (design, small series and quick response to market demands);
- improvements in wines, with obvious increase in quality and, where a dynamic approach was followed, incorporating the changes resulting from the emergence of new markets in addition to those identified in the Porter Report; and
- highly visible improvements in furniture quality and design.

As noted earlier, the Porter Project allowed a focus on the diamond production factors, but had only a medium impact on demand conditions and had a low effect on the context for firm strategy and rivalry as well as related and supporting industries, and few improvements were introduced in public policies to support horizontal variables.

Focusing the analysis on the goals that motivated the Porter Project, particularly in the contribution to the development of the Portuguese economy, the contrast with the competitive position of Portugal seems to show a failure in the achievement of those goals, though, as pointed out by Michael Porter in due course, the results of the investment in competitiveness only become visible in the medium or long term.

From 1992 until today, the business environment has changed. Small and micro-enterprises gained more expression, although with higher mortality in the first years of life than most counterparts in EU countries. Companies with fewer than 50 employees ensured 49 per cent of employment in 1992 and moved to 64 per cent in 2009 (Mateus *et al.*, 2013). This evolution resulted from movements of diverse natures. The crisis and unemployment fostered the entrepreneurial spirit in traditional sectors through the creation of self-employment.

There was also a surge of technology-based start-ups (especially in information and communication technologies), supported by the structural funds and the new forms of financing associated with these (venture capital and business angels). These companies have lower mortality in the early years than small- and medium-sized traditional businesses; employ people with higher qualifications and regularly carry out R&D activities. As for the large companies in the tradable sectors, these learned how to modernize, develop R&D activities and qualify more their human resources, adopting strategies for global markets. The indicator of expenses on R&D clearly illustrates this positive evolution, having surpassed the barrier of 1 per cent of GDP in 2006 and currently approaching 2 per cent.

However, the most innovative companies’ ability to drag the whole business community and the Portuguese economy seems hampered by what, sometimes, is described as the dualistic character of the Portuguese economy in which there are two sectors, a modern and a traditional, without significant synergies among them (Fernandes, 2014).



The concrete analysis of clusters demonstrates that a very important route has been travelled, clearly in line with the recommendations of Michael Porter, but it has happened more slowly than it would be desirable. While assessing the impact of the recommendations, it is also necessary to understand the specific context of the Portuguese economy and exogenous shocks, cultural and other issues that make change and the guidance for the long-term difficulty. Regarding the public policies recommended by the Porter Report, as noted previously, Financing is still a problematic area, while the others, due to the late implementation of actions, are yet to reach the full contribution to increase the competitiveness of the country.

Despite the difficulties in the implementation of the Porter Report in Portugal, those difficulties are mostly due to the lack of prompt action by the Government in the implementation of the public policies and the inability of the institutions for collaboration to enact the type of actions that led, for instance, to the success in the footwear cluster. Considering the Portuguese context, the success of the Report implementation would not only require the Government to rapidly implement the public policies but also to influence the Portuguese diamond (for instance, through the sophistication of the public demand). Additionally, the Government should have granted more support to the institutions for collaboration and specific cluster-related institutions to surpass the lack of tradition and support these institutions have in Portugal. Another field of improvement relates to the implications of the European integration that would become clearer if incorporated in the recommendations of the Report. Finally, a calendar for implementation with specific goals (especially in terms of public policies) would add a direct reference to assess the progression of the country, as it happened in terms of the EU convergence criteria.

The strategy preconized in the Porter Report is still valid. The country competitiveness will benefit in the next years from the improvements in the Science and Technology and Education. The Management Capacity will (hopefully) tend to increase following the improvement on the quality of management schools. Financing will probably follow the improvements on the quality of management schools and Management Capacity (if qualified managers demand high-quality solutions from financial institutions and some restructuring occurs). The success stories in some clusters will influence others. Nevertheless, the country must recognize the importance of the medium- and long-term objectives and the political parties must agree on the most relevant reforms regarding competitiveness, thus avoiding the mistakes from the past, and the country will have to find ways to make those competitiveness reforms compatible with short-term macro-economic objectives.

#### Note

1. Mira Amaral was, in 1992, Industry and Energy Minister and, in that position, was responsible for the invitation made to Michael Porter.

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