

Strategic Management – The Competitive Edge
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National Diamond

So, welcome to this session. We will look at how Porter looked at nations competitive advantage, different nations.

This is referred to as National Diamond. Why national diamond? Because it is valuable, it adds value. Why should you look at this national diamond in the present-day context? Because it is the most appropriate thing to look at with respect to our country, because the country is progressing fast. When it is progressing fast, it can make, it has made an impact in the global market. So, when it has made an impact in the global market, it is time for the country to prove its mark in different fields.

So, some of the points which Porter gave with respect to national diamond where a nation's competitive advantage is looked at. So, national diamond, because it is valuable, adds value to the country, you look at it in four parts. One is factor conditions. If you really look at these factor conditions, he mentions land, labor, capital, entrepreneurship. Now, look at it with respect to India.

All these are favorable. A favorable climate for entrepreneurship is there, supportive government is there available for youngsters who are prepared to take risks to come out with their own product. And the government itself has coined the slogan 'Make in India'. That being the case, instead of the present day youngsters looking for jobs, they have to create jobs. This would be the best thing for them to do in the present day context.

So, instead of keeping on harping, will I get a job here? Now, why not create your own enterprise, create jobs. So, this is what is happening also in the present day setup in the country. You have a large number of startup units. So, many of them have made a mark. And I can quote one of the many entrepreneurs who have made a mark.

One of these young entrepreneurs came out with an idea which is called Sainikcars, Passenger cars operated by Ex Defence Personnel. This is operating in select cities, now in Bangalore. It gives terrific competition to established players like Ola and Uber. So, operated by ex Sainiks of the Indian Armed Forces safety of the passenger is 100 percent guaranteed. And most of these vehicles being electric vehicles, the cost per kilometer is also less.

The result is the total cost paid by the customer, if you take a typical ride say from Bangalore South to airport where you will always be paying something around thousand five hundred rupees to reach the international airport, a distance of nearly 60 kilometers.

With these Sainik Cars, you can do it less than one thousand rupees. In fact, I was given to understand it may cost only some 700 to 800 rupees with such a safe ride. So, the result is it has got wide raving reviews saying that one of the best services to be introduced in the country by these young entrepreneurs.

So, these types of units are on the increase in the Indian context. What is it that is contributing for this type of a change? The contribution for this type of change is a supportive climate which is, which the government is offering now. It is saying that instead of going for a job, why don't you be a job creator?

Especially, if the person is from a well-known place like the IITs or the IISc, or NITs, it would be worth the while to take a risk and engage in startups. So, some years back, four students from NIT Suratkal started a startup with reference to food industry and it operated so well. The result was a major player like Zomato came in to acquire the startup.

So, these things are also common happening in the marketplace. So, this is a type of entrepreneurial advantage that you have. These four young students who started it, being engineering graduates with probably, some of them armed with management degrees made a good profit out of this startup unit by selling it to Zomato and started with their own individual businesses, I understand.

The second part of this national diamond is the demand conditions. If you really see in the present day Indian context, the transport, especially safe transport and the food industry are in high demand. If you are able to provide good hygienic food at a reasonable rate, you can expect a very good demand for your service, for this particular portfolio.

Then role of supporting industries, firm structure, rivalry and strategy. This rivalry and strategy is to be expected in a competitive market. Whether one likes it or not, it will be there. Even within the firm also this rivalry and strategy will be there and you have to live with it.

This competitive advantage of nations, Porter looked at four decisive elements with reference to differences. He said, availability of strengths in certain narrow technical fields. Some of the countries, especially, in the Middle East, so, there was a very big war which took place between Iraq and Kuwait.

If you really see that is the middle-east war. Kuwait was getting the support openly by the United States and covertly by Israel. Both of them were supporting Kuwait. The result was, at that point of time, Iraq under the rule of Saddam Hussein, it was not able to completely take control of the oil fields of Kuwait. It was the intention of Iraq to take control of the oil fields of Kuwait. Why did he want to take Kuwait?

It was not his intention to destroy Kuwait but he wanted to have the control over its oil reserves. So, when Iraq found that they were not really winning the war and they had to retreat, what they did was, they put the oil wells in Kuwait, while retreating, on fire.

Kuwait faced a very strange situation. It has not lost the war but its oil reserves, its oil wells have caught fire. Again, it went back to the United States and requested them to help in dousing this oil wells' fire. So, this is where one of the companies, well known company in U.S., offered its expertise and said we will douse this oil fire. Do not worry.

So, this company was having its strength in this narrow technical field, a terrific competitive advantage. Though these oil fires raged for months together, this company was able to put out those oil fires, doused it. So, the result is oil in high demand in the whole, home country, especially, in the middle-east and also in the world. So, in fact, it was the oil economy which was surviving or which is still surviving most of the mid-east countries.

Now, this is a reason, if you really look at it, the present Indian government and also some of the global governments, especially, in the United States, they are saying go for electric vehicles. So, these electric vehicles, comes with different accompaniments, which should come along with it. That is, the charging stations should be made available for these electric vehicles.

So, innovations are taking place, if you really see with respect to this also. They are now trying to find out without even your, what you call, putting the vehicle through the electricity switching units, that is the charging units, Whether the charge can be done, what do you call, hands free type of charging as they are saying that where the vehicle moves under a bed of solar paneled charging units. And the solar panel charging units charge these electric vehicles.

So many things are happening in the present day setup. And if you really look at the demand for such services in a country like India, very high demand. Related and supporting industries in the home country, again a very good opportunity for entrepreneurs to step in. Suppose, you have the wherewithal, start these type of units, offer them throughout the country, that is, these electric charging stations. It is likely to be a roaring success.

Strong domestic rivals, local rivalry, these are the types of differences which you have. So, these, even these differences could be turned into advantage if you are an entrepreneur. So, all this is referred to as the national diamond by Porter. And if you really look at India in the day's context, all these points can be tapped into by the present day younger generation to keep this country going or in the forefront with respect to technology.

If you really look at the implications for strategic management, this is what Porter says. According to him, devaluation is bad for competitiveness. That is, do not devalue your currency. But sometimes, there may be no option. You may have to devalue; sometimes your currency may have no value also.

That is also possible. Because if you really look at the present day context, some of India's neighbors, their currency does not have any value. Whereas, internally there is a lot of hue and cry saying that the price of the dollar is going up. That is, the rupee versus dollar exchange rate is going up.

That is one of the charges which is being made by the present day political parties in the opposition, saying that the dollar is trading at 77 rupees which is very high according to them, but if you really look at many of the things which are happening around, many times you have to think, with all the negative things which are happening around, still India is able to have this.

Some of the neighboring countries are not even able to supply fuel to their population. So, whereas in this country, a large country, you are able to have this fuel resource. Not only have them supplied in the present today context, at a reasonable rate though may be high for the common/ middle class. So, he may still want some benefits, some reductions.

So, relaxing antitrust is bad. So, this antitrust is what companies have to think about. That is, the trust that you have with respect to the running of a unit whether it is ethical, moral or whatever you may term that, if that is broken, then it is very bad. So, the antitrust laws must be very strong. And if you really look at it in the present day context also, in India, many of these antitrust laws are fairly strong enough.

Relaxing product safety and environmental regulation is bad. So, do not allow all types of products to enter into the market. So, this was being voiced against the markets against the products coming from India's neighboring countries, especially China. So, the Chinese goods were flooding the Indian market and the Indian general population, not the discerning population, they used to take these Chinese goods because they were coming at a price advantage.

So, many of these goods would serve them for a very small period with respect to the life of the product then they are gone it cannot be repaired. Take the example of electric shades. Most of them made from China. Once it came to repair, many of them found out that it is not repairable. So, you have to junk that shade. You put a lot of money on taking that shade, and it was giving lights in different colors.

One of the shades which I saw, was giving colors in 32 combinations. So, if it was working, those shades were looking very good, if it was not working, gone, it could not be repaired. Then relaxing this product safety and environmental regulation is bad. So, the government has to step in, in these types of circumstances so that the ordinary citizen does not get cheated; so, he is not in for a huge loss making scenario.

Then, deregulation is good, happening. Promoting of inter firm cooperation is bad. Then, orderly marketing agreements are bad. Increasing defense contracts are bad. This is the view of Porter for strategic management with respect to competitive advantage of nations.

Now, some more, some of these other terms which I want to just discuss with you before we go further on strategy implementing. This is called X efficiency. What is this X efficiency? The measure of a firm's management in minimizing the cost of producing a given output or maximizing the output given a set of inputs. Kindly note this terminology.

Measure of a firm's management in minimizing the cost of producing a given output. That is, cost reduction to the extent that is possible. So, in line with the generic strategies of Porter or maximizing the output given a set of inputs. So, here, so many other things come into picture, can be the experience curves also.

You should have skilled labor. That skilled labour's efficiency you should translate it into increase in production units. And when it gets translated to increase in units of production, probably, the cost per unit will also come down. All these types of things coming under this X efficiency.

Supposed to capture the discrepancy between the efficient behavioral forms as implied by economic theory and their observed behavior in practice. So, this happens to almost all industries. In fact, these points were being raised by, on a very regular basis, in meetings with in the PSEB that is the Public Sector Enterprises Board.

So, they were trying to highlight that you have got a labor force which is highly experienced, why not make use of this experienced labor force to bring down the cost per unit. So, make use of their experience curves. Libenstein introduced this theory of X efficiency. That is,

inefficiency generated due to lack of competition. So, this is what many economic personnel advocate. That is, they say, put competition.

When you are introducing competition, the economic experts, keep on saying, competition will help the unit to find its place in the market. There is the next term which you should know is what is called 'the strategic control grid'. This strategic control grid is to measure the power that a firm is able to establish in its working environment. Mapping of this control grid with respect to competitors can give the strategist useful ideas of the appropriateness of the strategy. So, five elements are given here for this manifestation- position, profits, process, product and perception.

The next term which is, which you should be knowing is what is called 'the web structure'. What is this web structure? A set of companies that use a common architecture to deliver independent elements of overall value propositions that grow stronger as more companies join. So, you become strong when you have the support of more players.

Two conditions are mentioned. One is a common platform either technology or geography. Then, increasing returns to scale. So, this gentleman Hagel refers to three types of webs. One is a market web, that is, a shopping malls. You are seeing all this in the Indian context. Then the consumer web, readers digest. That also high- is there. Then, the technology web. That is, a tech platform, Windows.

So, this is very much there in the present day Indian competitive scenario. There is something called the Space Matrix. What is the space matrix? The space matrix is strategic position and action evaluation matrix. It helps in determining an organization's overall strategic performance. It is, basically, a four quadrant framework- Aggressive, conservative, defensive and competitive. So, you have this type of network coming in, in the four quadrants, giving you this space matrix.

The two internal dimensions that you have to consider are the financial strength FS. How do you consider the financial strengths? The financial strengths is with respect to cash flows, liquidity, return on investment, ease of exit from the market. So, how do you look at competitive advantage?

The competitive advantage is with respect to market share, product life, customer loyalty. What about external dimensions? The external dimensions are with respect to environmental stability, that is, technological changes, rate of inflation, demand variability. What about the industry strength?

The industry strength is with respect to growth potential, profit potential, technological know how. So, if you really see this matrix under these heads, if you go to that, take the FS, CA, IS and

ES. You have in the top right hand block the aggressive. Then, the next one at the conservative. The third one at the defensive. The fourth one is at the competitive. So, if you really look at, that this is the way you can put the units under the different quadrants.

The next one which you should know is what is called the economic value added, that is, the EVA. This EVA is the after tax cash flow generated by a business. That is, the cost of capital it has deployed. That is, the EVA is the after tax cash flow generated by a business minus the cost of capital that it has deployed to generate that cash flow. How can it help?

It can help in evaluating the performance of a company. So, when you are looking at strategy formulation, this EVA has an important role. Four M's are usually given with respect to this implementation. One is measurement, second is management system, third is motivation, fourth is mindset. So, if your mindset in a competitive market, if it is not positive, then you have a real problem.

So, some diagrams are given here. This is called the cobweb theorem. This cobweb theorem gives you some ideas about convergence and divergence. What is this convergence and divergence? So, if you really see, some of these, the top figure here puts you under convergence. The bottom figure, under divergence. So, what is this convergence telling you?

Equilibrium need not necessarily be established in any iterative process. It was originally conceived to explain why inflation may arise through a mismatch of expectations. But in the present day context, it has got good applicability in pricing strategies. This diagram, denoting demand supply imbalances. One process guarantees converging, the other, diverging equilibrium.

So, this is where we look at some of the impacts that most of these terminologies can have, some of these theorems which are, like the cobweb theorem. They can impact the unit's functioning. Some of the portfolios might be having convergence effect, some of the portfolios might be having divergence effect. In other words, what is the type of inference that you can draw. The type of inference that you can draw is the present day strategic planning process is highly challenging.

So, the present day competitive market, especially, in a country like India, if you are a strategic planner, your hands are full. Many times you think in a particular direction and when you go home your mind is still reflecting on the type of directions which you thought the company should take with respect to strategy. It will be haunting you in your sleep also.

So, many times when you get up, you may change this direction. So, this is what is happening with respect to most of the IT companies. The strategic planners that is the planning managers,

they went with a certain plan when they went home, the next day they find that the planning decision itself has gone through, perhaps a U-turn also. So, they have changed the decision 180 degrees. So, this is what competitive markets can do.

And many times, market intelligence makes them to change the strategies. They will not allow the strategies to be static. So, in fact, the strategic planning process itself is dynamic. When it is dynamic, there is no point in keeping on to age-old convention. Because in a market places, in the competitive market, you should be able to get over the sentiments.

This is what I told earlier with respect to the Ambassador car. So, Ambassador car gave a very good service to the Indian consumer. Many times, it used to get passed on from one generation to the next. But never did Ambassador thought, the competition in the automotive field will be so huge and so cut-throat that it would be eliminated from the marketplace.

ITI, one which was acting as a unifier in spite of all types of insurgencies in the border state. So, but what really happened? The terrific competition in the telecommunication industry forced ITI to look at different portfolios instead of hanging on to the age-old crossbar and strowger, then on to these electrical systems through which it came out with smart, what you call, slimline phones.

Now, if you really see, the telephone instruments which you are getting in the present day Indian houses is likely to be from any other company except ITI. That is the present today scenario. May be, the public sector unit of BSNL might be still purchasing from ITI, its telephone sets. But this is what competition can do for the market.

We will stop here. In the next class, we will discuss the functional strategy. Thank you.