Chapter-9

Conclusions and recommendations

9.0.0. The theory of competitive advantage was discussed in Chapter 1 of this dissertation. Development of the theory of competitive advantage in relation to a firm was discussed in Chapter 1. It was also mentioned that for a firm/ company the sources of competitive advantage included government protection and support, industry characteristics and unique firm resources. Details of these were discussed earlier in Chapter 1.

9.0.1. The types of resources giving competitive advantage to a firm were discussed earlier. These included tangible, intangible, capabilities and sustainability. Details of these four types of resources were also discussed earlier in Chapter 1.

9.0.2. What is competitive advantage in relation to a firm was discussed in paragraphs earlier in Chapter 1. Porter postulated a competitive forces model to illustrate how firms gain and keep competitive advantage in an Industry. This was discussed earlier in Chapter 1 also and the working of the model was explained. According to this model the competitive advantage of a firm in an industry depends on the number of competitors and the intensity of rivalry between the firm and these competitors; the threat of substitutes to the products/services manufactured/ produced/ sold by the firm; the threat from new firms entering the market with similar/ superior (and perhaps cheaper products; the bargaining power of suppliers of raw materials/ intermediate goods and services (which are used to produce the final products) to the firm; and the bargaining power of buyers of the goods and services produced/ marketed by the firm.
9.0.3. A detailed discussion of these forces leading to the competitive advantage of a firm were done earlier in Chapter 1. Additional forces leading to the competitive advantage of firms viz. Search related costs, unique product features, switching costs and internal efficiency, etc. were discussed earlier in Chapter 1. Competitive strategies and the value chain and its applications were discussed in detail in paragraphs in Chapter 1 of this dissertation.

9.0.4. The question of what is competitive advantage in relation to a nation/state was also discussed in detail in Chapter 1 of this dissertation.

9.0.5. In chapter 1 while discussing in detail the reply to the above question and Porter’s Diamond (1990) was also discussed and the role of two additional factors viz. Chance and Government was also discussed.

9.0.6. The shortcomings of Porter’s theory have been discussed in detail in Chapter 1 also. To overcome some of these shortcomings the modifications suggested by Macmillan and Tampoe to take into account other factors enumerated by Grove in his book “Only the Paranoid Survive” (Harper Collins, 1996). These are lobby groups, complementors and fashion and fickleness (adapted from figure 9.3 of “Strategic Management” by the same authors (Oxford University Press, 2000) have been discussed in detail in Chapter 1.

9.1.0. The application of this modified model/theory to large federal countries like India and the need for modifications was mentioned in Chapter 1 also.

9.1.1 The implications of the models for business have been discussed in detail in Chapter 1.
9.2.0. The role of governments in the diamond has been discussed in some detail in Chapter 1. That this can sometimes also be count-productive if not targeted has been mentioned in Chapter 1.

9.2.1. Implications of Porter's diamond for government and policy implications have been discussed in detail in paragraphs in Chapter 1. His views on competitiveness of nations has been discussed in detail in Chapter 1. His views on the determinants of national competitive advantage have been discussed in detail in Chapter 1. His views on the recommended policy approach for obtaining national competitive advantage and the company competitive agenda have been discussed in detail in Chapter 1.

9.3.0. Other research and some views of this researcher have been discussed in depth in Chapter 1.

9.4.0 In Chapter 2 while discussing Economic developments in some Indian states some relevant features and criteria for making comparisons, competitiveness and the role of State Governments in large federal polities have been discussed in some detail in Chapter 2.

9.4.1. Why economic competitiveness for a state cannot be the same as for a firm has been and what is meant by the term that a state is extremely competitive is explained in Chapter 2.

9.5.0. Why competitiveness matters has been examined in some detail in Chapter 2. The Role of State Government in Increasing economic competitiveness has been discussed in Chapter 2.
9.5.1. The criteria to determine competitiveness of states and how to compute the relative standing of each of the components of competitiveness have been discussed in Chapter 2. The 57 criteria which could be used for arriving at the competitiveness of Indian states have been enumerated in Chapter 2.

9.6.0. The application of this theory to measure the competitiveness of the states of India has been discussed in some detail in paragraphs Chapter 7. As mentioned earlier in Chapter 7 in large countries like India macroeconomic policies and conditions are generally determined by the Central Government and most states have very little influence on the macroeconomic policies of the country. However, the local microeconomic policies to a large extent are determined by the states and these play an equally important role, need to be understood and addressed by both the private sector and government and explain much of the variation in state's NSDP per capita.

9.6.1. Taking into consideration the above peculiar conditions Porter’s diamond when applied to conditions in India, its states and local Governments will have to be modified considerably. In addition to the three factors, viz. lobby groups, complementors and fashion and fickleness mentioned earlier there are other factors and many links which are unique. These are discussed in the subsequent paragraphs.

9.7.0. In India in that in addition to transfer of resources to the state Governments, the Central Government and after the passing of the 73rd and 74th amendments to the Constitution of India) the state Governments also transfer significant resources to the City/ Municipal and rural local bodies mainly for development works/ provision of infrastructure (either directly or through District Rural Development Authorities).
9.7.1. Lobby groups in India in the form of influential Non Government Organisations (NGOs) operate at all levels, viz. the Central Government, the State Government, City and local Governments (the Village Panchayats, the Panchayat Samitis and the Zilla Parishads).

9.7.2 Infrastructure is affected by the Central Government (national highways, interstate waterways and electricity grid, railways, airlines, etc.), the State Government (state highways, local waterways, electricity boards), City (intra city roads, water supply, local electric supply, etc.) and rural local Governments (major district roads, link roads, village roads, regional water supply schemes, etc.)

9.7.3. Fashion and fickleness are affected by chance and local conditions (such as the weather (the extreme cold and heat in North India, the all year around heat in South India and the all year round warm and sticky weather in coastal areas like the city of Mumbai), culture (the fashion conscious newly rich in Mumbai and Delhi, the need to cover themselves allover in rural areas) and other factors) and effect demand conditions.

9.7.4. Complementors affect demand conditions and local and supporting industries and are extremely important in the location of a business. e.g. the excellent transport and infrastructure conditions in Mumbai together with the existence of an excellent deep water sheltered port all led to the establishment of a large number of manufacturing and service industries in the city.

9.7.5. Chance affects demand conditions, factor conditions, structure of firms and rivalry, related and supporting industries and fashion and fickleness.
9.7.6. The Central/ federal Government affects not only demand conditions, factor conditions, structure of firms and rivalry, related and supporting Industries but also state governments, city and local governments and infrastructure.

9.7.7. The acts of the state Governments affect not only demand conditions, factor conditions, structure of firms and rivalry, related and supporting Industries but also city and local governments and infrastructure.

9.7.8. The city/ local Governments affect not only demand conditions and infrastructure but also local conditions.

9.7.9. Local conditions affect both demand conditions and the availability of local infrastructure.

9.8.0. The final picture on the competitive advantage of states in India, which has to take into account various factors such as local (mainly rural) and city governments, infrastructure (which is provided by all the three levels of Government (federal, state and local/ city) and local conditions which are extremely specific to competitive advantage in parts of local/ city areas such as the sugar belt in western Maharashtra and western Uttar Pradesh, the concentration of financial institutions in south Mumbai, etc. is very complex and shows most of the links between the various factors, because of the number of links and factors involved would be as in Exhibit 9.0 (this is adapted from Macmillan and Tampoe (2000). The exhibit is a simplified picture of a very complex model of linkages which determine the competitive position of a state/ part of a state in India in increasing the welfare of its people.

Exhibit 9.0
9.9.0 Earlier based on his personal experience this researcher had postulated a north-east south-west divide within the country with the states in the south and west having a large competitive advantage over those in the north and east with the exception of Delhi and to some extent Punjab and Haryana.
9.9.1. This hypothesis was examined in Chapter 7 of this dissertation with reference to the state wise figures available on various parameters and found to be substantially true. Applying the linkages shown in the model shown in Exhibit 9.0 to the position of the various states clearly shows that where infrastructure is excellent, where city/local and state Governments function reasonably efficiently and where the available resources are not squandered away in corruption (as in the states in the South and West of India) the competitive advantage is much more than in those states where such conditions are not prevalent.

9.9.2 The mere possession or accumulation of natural resources is insufficient (witness the position of South Bihar (now Jharkhand) which is one of the most resource rich areas and where the investment made by the Government of India is one of the highest (and which despite this has one with the lowest GDP per capita in India). Unless the available resources are deployed efficiently and this is accompanied by rising productivity, a state's standard of living cannot continue to improve at the pace it is improving in other states and therefore it will seem to comparatively regress.

9.9.3. Even an advantageous location (such as that of Maharashtra with one of the largest concentration of industries and two of the busiest ports in the country (accounting for almost 50 percent of India’s foreign trade)) is no longer decisive and other states (such as Gujarat, Karnataka, Tamil Nadu and Andhra Pradesh) have to a significant extent overcome this overwhelming natural /early mover advantage. Instead, how a state or a local area and its residents choose to establish conditions to improve efficiency/productivity is the most important factor giving competitive advantage over others in a
large and complex economy like India's with a large number of diverse states at various stages of development.

9.10.0 The gut feeling of this researcher mentioned earlier in Chapter 7 is that it is cities/local areas and states which are highly developed in the areas of the knowledge economy, have developed their human resources and have a reasonably effective/good administration is supported by the available data.

9.10.1 As discussed in detail in chapter 7 of this dissertation the states in the south and west of India are the ones which lead the country in GDP growth, productivity, exports, HDI, etc. all of which enhances their competitiveness and the competitive advantage they enjoy vis-à-vis competing states in the North and East. As discussed in detail earlier in Chapters 4 and Chapter 7 it is these states which have been able to attract a disproportionate proportion of the FDI into India since the start of the opening up of the economy in 1991. As mentioned in chapter 7 the state of Maharashtra led all the other states of India with almost 18.5 percent of the number of approvals in this three year period. Tamil Nadu followed with approximately 10.9 percent, Karnataka was third with approximately 9 percent with Gujarat being next with almost 5 percent. Andhra Pradesh followed with 4.3 percent. In terms of the amounts approved it was Maharashtra (14.6 percent) followed by Delhi (11.96 percent perhaps because it has a very strong competitive advantage in that it is a city state) which led the pack followed by Karnataka (9.55 percent), Tamil Nadu (7.94 percent), Gujarat (6.77 percent) and Andhra Pradesh (5.71 percent). The figures given by Majumdar (2000) discussed in detail in Chapter 4 and again in Chapter 7 show that it is the western region (which even though during the
period February 1997 to December 1999 had a slightly lower figure than the southern region has in the period January to May 2000 once again regained its premier position with a very large margin of almost one and a half times) and the southern region of the country which has continued to attract a disproportionate share of the FDI made into India.

9.10.2 The south-west north-east divide in terms of competitiveness/ competitive advantage within the country is clearly shown in chapter 7. The pre eminent position of Maharashtra in this respect has been shown in the SWOT analysis of the areas of competitiveness/ competitive advantage of the state in chapter 8 and analysis of the opportunities and threats to this position have also been discussed. In fact the state will have to continue to be on its toes if it wants to maintain this position in the future.

9.10.3. This researcher is also of the view that even in the so called advanced states (like Maharastra, Gujarat, Andhra Pradesh, Tamil Nadu and Karnatakta) not all areas are equally developed and equally competitive with the other parts. e.g. in Maharashtra the advanced Mumbai-Pune-Thane- Nasik belt in western Maharashtra close to the city of Mumbai is more developed than backward areas such as the districts of Nandurbar and Gadchiroli or the Melghat area in Amravati district which are as uncompetitive/ competitively disadvantaged as the BOMARU states. In Andhra Pradesh the area around the twin cities of Hyderabad and Secunderabad is more developed than the Telangana part of the state. The available evidence supports the conclusion that even within these states it is the cities like Mumbai, Pune, Bangalore and Hyderabad and advanced rural areas like Anand (in Gujarat), Warna and Baramati (in Maharashtra) which lead all other
parts of their respective states in the their ability to attract FDI and in the competitive advantage they enjoy over the other parts of the state.

9.10.3. Furthermore even in comparatively backward states like Uttar Pradesh there are areas like the New Okhla Industrial Development Authority (NOIDA) (close to Delhi), Pitampur (near Indore) in Madhya Pradesh which are more developed/ competitive/ having greater competitive advantage than the backward areas of advanced states and are comparable in competitiveness/ competitive advantage to the developed areas of the advanced states.

9.10.4 Competitiveness/ competitive advantage is to a significant level affected by the acts of the state and local governments in the complex milieu prevailing in India in providing the requisite infrastructure, atmosphere for business to develop and in improving its HDI parameters.
References

1. 73rd and 74th Amendments to the Constitution of India.