CHAPTER-1
THE THEORY OF COMPETITIVE ADVANTAGE

1.0.0 Definitions of important terms used.

1.0.1 “Competitiveness” has been defined as the action of competing /rivalry. In the case of a firm / economy it means its ability to compete / gain advantage in the competitive environment which exists in most economies and in the present world economy. It has been defined by Porter (1980) as the positioning of an organisation, relative to its competitors, in such a way that it outperforms them. Marketing, operations and personnel, i.e. all aspects of a business provide a competitive edge. This advantage leads to superior performance and in the case of profit making organisations to larger profits.

1.0.2 “Competitive strategy” has been defined as the strategy adopted by firms to compete and win against their rivals and in the process gain competitive advantage.

1.0.3 “Competitive Advantage” has been defined as the advantage gained by a firm/economy by following a competitive strategy. Porter refers to it as "success" in the context of a country being able to be a center of production for particular goods. Thus, the implication is that for a given quality of goods, production costs must be lowest. But he does not believe low production costs are solely due to comparative advantage. According to him sustaining competitive advantage depends on advances in productivity i.e. the ability to produce more from a given level of inputs using changes in processes, new technology, etc. This, in turn, is based on innovations in delivery processes and upgrading of products, production processes, and/or management methods. He seems to
equate nations and firms; i.e., the competitive advantage of the United States is the same as that of American firms. This may not be quite correct in a world of large scale transnational investment. e.g. Canadian manufacturing firms are to a significant extent American companies locating their manufacturing facilities there to take advantage of the North American Free Trade Area (NAFTA) and cater to the combined American and Canadian markets.

1.0.4 “Competitive Analysis” has been defined as the analysis of the competitiveness of a firm/economy vis-à-vis its competitors.

1.0.5 “Competition” has been defined as the act of competing; rivalry in striving for the same object viz. Greater profits, development, etc. when resources are scarce.

1.0.6 All the above words are terms to describe the positioning of a company or a strategic business unit (SBU) or a state/province/country relative to those that compete with it overall or in an industrial/individual sector for development/investments, etc. The premise behind all these terms is that with the use of competitive analysis and through the formulation of a competitive strategy firms/states/provinces gain competitive advantage. With the increase in competitiveness of the firm/competitive advantage to an economy of the state/province comes economic success. This comes with the concomitant results such as progress in economic development, increase in wealth (and if this is more than the growth in population then increase in per capita wealth) and public welfare.

1.0.7 While doing the research for the analysis of competitive advantage of Indian states, this researcher found that data on many of the parameters was scanty/not available for
many of the smaller and newer states i.e. those with small populations and areas and those that did not exist prior to 2000 and the weights of whose parameters such as total gross domestic product (GDP), etc. did not affect the overall figures for India significantly, if they were omitted. It was also observed that the comparative analysis was not affected much by this lack of data as between 80-90 percent of the weight of each of the parameters was covered by these comparatively larger and important states which this researcher has taken to mean covering the states of Andhra Pradesh, Arunachal Pradesh, Assam, Bihar, Delhi, Goa, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, two of the states in the north-east viz. Manipur and Meghalaya, Orissa, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh. This researcher has included Arunachal Pradesh, Delhi, Goa, Manipur and Mizoram in the above grouping even though they are small states in terms of size and population because at least the first two have significant parameters being evaluated to arrive at the competitiveness of states. The three north-east states have been included because otherwise the analysis would be significantly incomplete.

1.1.0 Development of the theory of competitive advantage in relation to a firm

1.1.1 For a firm/ country/ state/ province to have a competitive advantage means the ability to earn above average profits/ increase in wealth, gain and sustain market share for its products in the country/world and be able to survive economic downturns.

1.1.2 For a firm the sources of competitive advantage can be many. These include:

(i) Government protection and support;

(ii) Industry characteristics; and
(iii) Unique firm resources.

1.1.3 Government protection and support. This can be through

(a) rules and / or regulations which try to obstruct/ prevent the free entry of new entrants. e.g. by setting a high entry threshold;

(b) rules and / or regulations which try to obstruct/ restrict (e.g. by setting a high local shareholding content (e.g. under the former Foreign Exchange Regulation Act (FERA) India placed a minimum of 60% local shareholding (for companies in certain sectors) which led to the withdrawal of IBM and Coca Cola from India in 1977) the activities of potential and existing competitors. This led to the drying up of fresh investment in these sectors as there was e inflow of capital;

(c) subsidies or price support (such as duty drawback, cash compensatory support, etc.) to domestic industry vis-à-vis foreign firms;

(d) loans to domestic firms at rates which are below market rates or giving state guarantees for repayment of loans only to local firms;

(e) guaranteed purchase of all outputs on a cost plus basis by Government, as was being done in the United States in the case of defence purchases;

(f) guaranteeing a specific rate of profit for products and/or giving price preference in procurement to domestic firms by Government irrespective of market price. Examples are the cost plus system of procurement by the Government of the United States in the case of defence purchases; and
(g) provision of scarce/needed inputs at rates which are below those prevailing in the market by Government. This has been done in India in many industries where input costs were heavily subsidised till recently.

1.1.4 Industry characteristics includes

(a) where the threat from substitute products is low, e.g. in the provision of electric power at the local level;

(b) where there are great difficulties for new competitors to enter the industry. This may be because of patent/copyright protection or because the investment involved in setting up a green field plant is too high vis-à-vis an existing manufacturer whose plant is already depreciated. e.g. the case of M/s Bajaj Auto Limited (BAL) versus Lohia Machines Limited (LML) and other companies in the Indian motor scooter industry;

(c) the firms already in the industry have a monopolistic/oligopolistic power over suppliers of inputs to the industry e.g. purchasers of power from State Electricity Boards and independent power producers;

(d) the firms already in the industry have a monopolistic/oligopolistic power over buyers of outputs of the industry e.g. the buyers have little or no choice while purchasing the output e.g. security agencies while purchasing bullet proof jackets who specify the bullet proofing fibre Kevlar by M/s E.I. DuPont; and

(e) competitive rivalry in the industry is low, as was the case in the Indian automobile industry for a long time till recently.

1.1.5 Unique firm resources can mean
(a) resources or a group of resources which allow the firm to take advantage of opportunities, such as the availability of existing manufacturing capacity where a new product can be quickly and cheaply manufactured whereas other firms have to set up expensive new manufacturing facilities;

(b) resources or a group of resources which allow the firm to reduce threats to their position of competitive advantage. This is often achieved by buying out/taking over competitors, investing in research and development and in general keeping ahead of competitors;

(c) resources or a group of resources which are held by a few firms. Examples are the possession of an Import Licence in a foreign exchange scarce economy or an exclusive tie up for the supply of proprietary know-how with a foreign supplier; and

(d) resource or a group of resources which are difficult for competitors to obtain/imitate. This would be the case after product patents are started to be given in the Indian Pharmaceutical sector rather than the process patents as at present).

1.2.0 The types of resources giving competitive advantage include:

(a) Tangible i.e. those which are clearly visible e.g. plant and equipment, land, raw materials, etc.

(b) Intangible i.e. those which are not so obvious e.g. Patents, copyrights, goodwill (including reputation), long term or exclusive contracts, financial resources, brand names, etc.

(c) Capabilities which include people based skills, experience, knowledge, unique skills, training, working relationships, etc.
Sustainability which is a function of how difficult it is for other firms/countries/states/provinces to imitate or attain the Competitive Advantage of the leader and includes uniqueness, duration of the competitive advantage and complexity of the products and services.

1.3.0 **What is competitive advantage in relation to a firm?**

1.3.1 Competitive advantage in relation to a firm means a firm having an advantage over its competitors through sales channels, pricing and product differentiation.

1.3.2 According to Porter (1990), national competitive advantage is based on firm competitiveness in the nation. Firms gain competitive advantage through acts of innovation. Companies succeed through the innovation and upgrading of products, production processes, or management.

1.3.3 In his book Porter (1980) has postulated the model given in Exhibit 1.1 to illustrate how firms gain and keep competitive advantage in an industry.

**Exhibit 1.1**

**PORTER’S COMPETITIVE FORCES MODEL**

Porter’s Competitive Forces Model

- Threat of new entrants
- Bargaining power of suppliers
- Intensity of rivalry
- Threat of substitutes
- Industry competitors
- Bargaining power of buyers

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1.3.4 According to this model the competitive advantage of a firm in an industry depends on the following factors:

(a) the number of competitors and the intensity of rivalry between the firm and these competitors;

(b) the threat of substitutes to the products/services manufactured/produced/sold by the firm;

(c) the threat from new firms entering the market with similar/superior (and perhaps cheaper) products;

(d) the bargaining power of suppliers of raw materials/intermediate goods and services (which are used to produce the final products) to the firm; and

(e) the bargaining power of buyers of the goods and services produced/marketed by the firm.

1.3.5 Threats from new/potential entrants

1.3.6 New/potential competitors to an industry may make it more competitive by expanding production capacity/availability even without an increase in market demand; by their need to build up market share in order to penetrate the market to achieve the break even point. This may be both monetarily and in terms of physical capacity. They may also do product and marketing innovations; and in their bidding for production
factors such as men and material, increase costs. The threats from new entrants is minimised by barriers to entry.

1.3.7 However, new/potential competitors may be deterred by the following barriers to entry.

(a) Economies of scale – i.e. lower unit costs by increasing the production run, puts new/potential competitors at a significant cost disadvantage unless they are able to set up operations on a scale to reap similar benefits. e.g. BAL was able to undercut any new motor scooter manufacturer in India because of this, and even LML, even though it had an improved product and the latest technology from M/s Piaggio. BAL had also obtained their original technology from M/s Piaggio. Despite all this LML was not able to compete and went into a loss. According to Christensen (1997) differences in scale can strategically be more important than experience and many sources of competitive advantage are rooted in trade-offs which can with sufficient effort, be broken.

(b) Product/Brand differentiation – established products/brands which satisfy a customer need generate repeat purchase/use and in the process loyalty. It will be very difficult for a new entrant to persuade customers to even try the new product as Heinz is finding out in competing with Hindustan Lever’s Kissan and Nestle’s Maggi in the tomato ketchup market in India’s urban areas.

(c) Requirements of capital – the large amounts required e.g. in the motor car industry, to start minimum manufacturing activities usually deters new entrants.

(d) Switching costs – for switching from one supplier’s products to another also deters new entrants.
(e) Access to distribution channels – this is particularly so because access channels do not easily accept products from new entrants without an established track record.

(f) Cost disadvantages not dependent on economies of scale – this includes optimum location, proprietary products/technology, easier/favourable access to sources of raw materials, subsidies from government and other sources, etc.

(h) legal barriers/government regulations – such as the insistence of the Government of India, through a notification by the Chief Controller of Imports and Exports, on putting the maximum retail price including all taxes on all imported goods, or allowing only imports of certain products through one port where there is not much infrastructure, as was done by the Government of France for Japanese cars at one time.

1.3.8 Threats from substitutes

1.3.9 The most dangerous substitutes are those in whose case the price-performance ratio improves, due to a change in some environmental factor, as compared to an existing product e.g. the use of alloys/composites/plastics in cars as compared to only steel earlier in order to reduce their weight to gain greater fuel efficiency by as required by Government regulations in the United States of America.

1.3.10 A second most dangerous category of substitutes is those in whose case the industries earn high profits and who have the resources available to bring them rapidly into play. e.g. the Swiss made Swatch beating the watch makers in East Asia at their own game of providing quality watches at extremely reasonable prices.

1.3.11 Threats from the bargaining power of suppliers
1.3.12 They do this by proposing to raise prices and/ or proposing/ threatening to reduce the specifications/ quality of the goods and services supplied by them. e.g. the unilateral use of monopoly power by Coal India Limited on its smaller customers.

1.3.13 Threats from the bargaining power of buyers

1.3.14 this can be done either by forcing down prices or/ and bargaining for higher quality/ better services or/ and playing one competitor against the other. According to Porter this is only effective when the purchaser buys a very large percentage of a sellers product and there is no other market, undifferentiated purchases, purchases are a large proportion of the costs of the buyer, buyers are easily able to integrate backward, they are not able to earn high profits and so have to cut costs, the quality of the supplier’s product does not significantly affect the buyer’s product and/ or the buyer has full information.

1.3.15 Intensity of rivalry among competitors

1.3.16 According to Porter each firm employs its own style of competitive strategy in an effort to jockey for better position and gain a competitive edge. Intense rivalry normally happens when there are many equally balanced and diverse competitors, slow rate of growth, lack of much differentiation, high fixed costs in the industry (all of which are present in the European motor car industry), capacity can only be increased by large amounts (i.e. small incremental additions to capacity are not feasible) and there are significantly high barriers to exit from the industry.

1.4.0 In addition to the forces mentioned in the model the bargaining power of a firm is dependent on Search related costs, unique product features, switching costs and internal efficiency of the firm.
1.4.1 The comparative efficiency of a firm is dependent on inter organizational efficiency (e.g. through Electronic Data Interchange between firms) and on the internal efficiency of the firm. The competitive advantage of the firm depends on the bargaining power and the comparative efficiency of the firm vis-à-vis others in the areas where it is competing.

1.4.2 Strategic information systems (which are information systems deployed to support competitive strategy) can create competitive advantage by creating barriers to the entry of competitors in the market, building up customers switching costs or operational dependence. e.g. the almost total dependence of many firms on the programs written in programming languages for their mainframe computers and the cost and effort involved in switching over from these created a very strong competitive advantage in favour of IBM. By offering new services, products or information, changing the operations of the organisation in such a way so that efficiency increases significantly also creates a very strong competitive advantage.

1.5.0 Competitive strategies and the value chain

1.5.1 Michael Porter (1985) has postulated that a product’s value chain is the series of activities that create or add value to the product which customer’s then pay for.

1.5.2 In Porter’s Value Chain Model the hierarchy of firm value systems is reflected diagrammatically in Exhibit 1.2.

Exhibit 1.2
PORTER’S VALUE CHAIN MODEL
Porter’s Value Chain Model

Support Activities

- Firm Infrastructure (Management, Finance, etc)
- Human Resource Management
- Technology Development
- Procurement

Primary Activities

- Inbound Logistics
- Operations
- Outbound Logistics
- Marketing & Sales
- Service
- Profit Margin


1.5.3 The implications of this for the information systems in an organisation are large. Due to the Value Chain Model organisations may restructure to keep/continue processes which contribute to value and discard/eliminate processes which contribute little or none to value. Consequently information systems would also have to follow this system too. i.e. evaluate information systems for the value they contribute and provide Information Systems support only for value adding processes.

1.5.4 Firms competing on internal business processes find that process productivity, consistency and cycle time have the potential to affect product cost, quality and responsiveness. When viewing suppliers and customers as part of the value chain one finds that the value chain of a product extends from the company’s suppliers to the organisation itself and its customers.
1.5.5 Firms competing on time have to have a strategy for providing value by doing things faster, bringing new products to market and responding more quickly to customers’ demands and providing faster service.

1.5.6 Firms competing on extending product and service features find that product features are objects or information the customer receives; that physical products derive most of their value from their physical form and operation, whereas information products derive most of their value from the information they contain; that they contain service features, which are actions the seller performs for specific customers.

1.6.0 A product positioning map has been developed for fitting in products such as personal computers, spreadsheet programmes, newspapers, television channels, etc., can be depicted diagrammatically in Exhibit 1.3.

Exhibit 1.3
PORTER’S VALUE CHAIN MODEL
The Value System

Porter's Value Chain Model

The Value System

Supplier → Manufacturer → Distributor → Customer

Upstream Value → Firm Value → Downstream Value

1.6.1 Sometimes there is confusion between the terms competitive advantage and competitive strategy. Products are said to enjoy competitive advantage when they outperform rival products through better features, higher quality, better service, greater availability, etc. Competitive strategy is the search for competitive advantage in an industry either by controlling the market or by enjoying larger than average profits.

1.6.2 Bakos and Treacy have developed a causal model on striving for Competitive Advantage. This is shown in Exhibit 1.4.

Exhibit 1.4
**STRIVING FOR COMPETITIVE ADVANTAGE**
**Bakos & Treacy’s Causal model**


1.6.3 According to them competitive advantage for a firm arises because of bargaining power a firm has and the comparative efficiency with which it operates. Bargaining power is in turn dependent on search related costs, unique product features and switching...
costs. Comparative efficiency is in turn dependent on internal efficiency and inter organisational efficiency (e.g. in electronic data interchange).

1.6.4 Application of their model are in a product positioning map can be explained diagrammatically by Exhibit 1.5.

Exhibit 1.5

STRIVING FOR COMPETITIVE ADVANTAGE

<table>
<thead>
<tr>
<th>Physical Object</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service</td>
<td>Information</td>
</tr>
</tbody>
</table>

Products to fit in:
- Personal Computer
- Spreadsheet Program
- Newspaper
- Television Channel
- BSAD 8030


1.6.5 The Product positioning map has four components defining its competitive advantage. viz. the physical object, the service which it gives, the information available and the product itself. Products/ services for which it can be used to determine their
competitive advantage are personal computers, spreadsheet programs, newspapers, TV channels, etc.

1.6.6 As part of this an Information Intensity Matrix has also been developed for the Cement, Oil Refining, Books, Newspapers and the Airline industries which can be diagrammatically depicted in Exhibit 1.6

Exhibit 1.6

STRIVING FOR COMPETITIVE ADVANTAGE


1.6.7 The competitive advantage of a product is determined by whether the information content of the product is high or low and whether the information intensity of the value chain (i.e. the process) is high or low. examples of low information content and high information intensity are oil refining; of low information content and low information
intensity are the cement industry; of high information content and high information intensity are the banking industry, airlines and the newspaper industry.

1.7.0 **What is competitive advantage in relation to a nation/state?**

1.7.1 Porter (1990) has formulated a Diamond model which is the five forces model with the addition of the role of Government and chance which is represented in Exhibit 1.7

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**Porter’s Diamond**

Adapted from Michael E. Porter “The Competitive Advantage of Nations”  

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1.7.2 As per this model the main factors for the development of competitive advantage in a nation/country are:

1. **Factor conditions** (i.e. the nation's position in factors of production, such as skilled labour and infrastructure);
2. **Demand conditions** (i.e. sophisticated customers in home market);
3. **Firm strategy, structure and rivalry** (i.e. conditions for organization of companies, and the nature of domestic rivalry); and
4. **Related and Supporting Industries** (i.e. suppliers and related industries)

In addition there are two other factors, viz.:

1. **Chance** (i.e. occurrence of certain things because of nature or a statistical probability);
2. **Government** (i.e. the persons/group who politically and economically control the economy of the country).

1.7.3 Details and examples of these factors are given hereafter:

(a) **Factor Conditions**

Factor conditions refers to inputs used as factors of production - such as labour, land, natural resources, capital and infrastructure. This sounds similar to standard economic theory, but Porter argues that the "key" factors of production (or specialized factors) are created, not inherited. Specialized factors of production are skilled labour (this includes the skills required in the services/tertiary sector), capital and infrastructure.

1.7.4 "Non-key" factors or general use factors, such as unskilled labour (this includes the skills required in the raw materials/primary sector) and raw materials, can be obtained by
any company and, hence, do not generate sustained competitive advantage. However, specialized factors involve heavy, sustained investment. They are more difficult to duplicate. This leads to a competitive advantage, because if other firms cannot easily duplicate these factors or they create large barriers to the entry of firms into the industry, they are valuable.

1.7.5 Porter argues that a lack of resources often actually helps countries to become competitive (he calls it selected factor disadvantage). Abundance normally generates waste and scarcity generates an innovative mindset. Such countries are forced to innovate to overcome their problem of scarce resources.

1.7.6 He has cited the examples of Switzerland which was one of the first countries to experience labour shortages. The Swiss who had developed a great competitive advantage in a highly labour intensive watch industry, with the advent of competition from Japan and East Asia, abandoned the lower priced watches and concentrated on innovative/high-end watches where high wages could be supported even though the assembly of these watches continued to be labour intensive. However, this strategy almost proved the undoing of the Swiss watch industry as they quickly lost market share and they could only re-enter the lower end segment through the Swatch. In Japan the price of land is extremely high and so factory space is at a premium. This lead to just-in-time inventory techniques (Japanese firms cannot keep a lot of stock, taking up valuable space, so they innovated and changed traditional inventory control techniques and eliminated safety stocks order lead time, etc.). Sweden has a short building season and high construction costs. These two things combined created a demand for and
development of pre-fabricated houses. In the researcher's view other examples are that of
the city of Mumbai in India where land is extremely scarce and this has led to the
movement of the textile industry, in which Mumbai had an overwhelming competitive
advantage elsewhere and the redevelopment (despite difficulties in obtaining the requisite
Government permissions) of some of the land so vacated into flats and service industries;
the non availability of cheap gasolene in Europe and Japan led to the development of
small fuel efficient cars and an overwhelming competitive advantage for such cars in the
American automobile market when the oil crises of 1971 and 1978 hit the world, created
shortages and raised crude oil prices to very high levels. However, the flexibility of
American motor car industry (along with legislation by the United States Congress)
which started producing fuel efficient cars eroded this significantly within a few years.

(b) Demand Conditions

1.7.7 Porter argues that a sophisticated domestic market is an important element to
producing competitiveness in an economy. Firms that face a competitive/ sophisticated
domestic market are likely to produce/ sell superior products because the market demands
high quality and a close proximity to such consumers enables the firm to better
understand the needs and desires of the customers.

1.7.8 He cites the example of the Japanese market for certain goods where the internal
market is highly competitive and this has led to the extreme competitiveness of Japanese
firms in these industries. e.g. motor cars. If the nation’s discriminating values spread to
other countries, then the local firms will be competitive in the global market. example
cited is that of the French wine industry. The French are sophisticated wine consumers.
These consumers force and help French wineries to produce high quality wines. In the researcher’s view it is the intense competition in the financial sector in the city of Mumbai which has lead to its becoming and continuing to remain the financial and economic capital of India.

(c) Related and Supporting Industries

1.7.9 Porter’s argument is that a set of strong related and supporting industries is important to the development of competitiveness among firms. This includes suppliers and related industries. This usually occurs at a regional level (in the form of clusters) as opposed to the development of competitiveness at a national level.

1.7.10 The phenomenon of competitors (and upstream and/or downstream industries) locating in the same area is known as clustering or agglomeration. Examples include Silicon valley (for computers/software), Detroit (for the motor car industry) both in the United States, Northern Italy (leather shoes-other leather goods industry), Mumbai (earlier) and now Coimbatore (for the textile industry), Firozabad (for glassware) and Sivakasi (for firecrackers) in India.

1.7.11 One of the advantages to locating close to your rivals may be potential technology/knowledge spillovers, an association of a region on the part of consumers with a product of high quality (e.g. Sheffield in the United Kingdom and Solingen in Germany with high quality cutlery) and therefore with ability to command a premium in the market, or an association of a region with the availability of a competent and sophisticated labour force. e.g. the city of Mumbai with availability of staff with expertise in the financial/banking
sectors and stock broking led to the headquartering of both the leading stock exchanges in India in the city.

1.7.12 Some disadvantages to locating close to your rivals are the potential for the poaching of employees by rival companies and with the increase in competition the definite decrease in markups in the local market.

(d) Firm Strategy, Structure and Rivalry

Strategy

(a) Capital Markets

1.7.13 The state of the capital markets within a country affect the strategy of firms. Some countries’ capital markets have a long-term outlook, while others have a short-term outlook. Industries vary in their definition of how long the long-term is.

1.7.14 Countries with a short-term outlook (like is said to be the case of the United States where in many firms the next quarterly results determine the continuance of Chief Executive Officers) will tend to be more competitive in industries where the investment required is also short-term (e.g. in the computer/software industry). Countries with a long term outlook (like Germany, Japan and Switzerland in many industries) will tend to be more competitive in industries where investment is long term (like the consumer goods and pharmaceutical industries). However, a country need not be short-term or long-term in all industries. The United States has taken a very long term view with regard to its space programme and because of this has a significant competitive advantage in this area.

(b) Individuals’ Career Choices
1.7.15 Individuals base their career decisions on opportunities and prestige.

A country will be competitive in an industry whose key personnel hold positions that are considered prestigious. E.g. in the U.S.A. service business (e.g. in the financial / legal sector) is considered to be prestigious and therefore the U.S. is extremely competitive in this sector. In Asia on the other hand e.g. Singapore Government Service is considered extremely prestigious and the small island nation has one of the most competitive/ efficient Governments in the world.

(c) Structure

1.7.16 Porter's argument is that the best management style for an industry varies from industry to industry. Many countries are oriented toward a particular style of management (though this may change with time and the firm). Those countries will tend to be more competitive in industries for which that style of management is suited. Viz. Germany tends to have a hierarchical management structures composed of managers with strong technical backgrounds and Italy has smaller, family-run firms and they are respectively more competitive in these areas/ industries. The United States has a much flatter company structure in the software industry and is, therefore extremely competitive in this sector. It also tends to have a short term outlook in many industries with hire and fire policies and great flexibility. The United States thus has a competitive advantage in those industries where such a structure is required. However, not all American firms have a hire and fire policy. Firms such as Eastman Kodak, GE and IBM have not normally fired their managers/ Chief Executives based only on the performance of the last quarter. However, with increasing competition this is policy of these companies is also now changing.
(d) Rivalry

1.7.17 Porter’s argument is that intense competition spurs innovation. Domestic competition is particularly fierce in Japan, where many companies compete vigorously in quite a few industries. Hence Japanese companies are more competitive in these industries. In fact for Japanese companies in these sectors international competition is not as intense and motivating.

The Diamond as a System

1.8.0 The points on the diamond constitute a system and are self-reinforcing. Domestic rivalry for final goods stimulates the emergence of an industry that provides specialized intermediate goods. Keen domestic competition leads to more sophisticated consumers who come to expect periodic/regular upgrading and innovation. The four main points of the diamond clearly show the importance of clusters in the establishment of competitive advantage.

1.8.1 The example of the ceramic tile industry in Italy has been quoted by Porter to illustrate the role of the diamond and the importance of clustering. He also places great importance on the role of chance in the model. According to him random events (i.e. chance) can make or mar the competitive position of a firm. Chance can be anything like major technological breakthroughs or inventions, acts of war and destruction, or dramatic shifts in exchange rates due to market perceptions unrelated to economic conditions.

1.8.2 Clusters become self-reinforcing when there is a large industry presence in an area, because they increase the supply of specific factors (e.g. workers in Sivakasi, Tamil Nadu, India who are trained to be extremely deft in assembling fire crackers and workers
in Ferozabad, Uttar Pradesh India who are trained to be extremely deft in preparing glass bangles) since the industry in these clusters will tend to get higher returns and workers have less risk of losing employment because in case they are fired/ retrenched they can gain employment with a competitor.

1.8.3 Upstream firms (i.e. those who supply intermediate inputs) will invest in the area. They will do this to save on transport costs, tariffs, inter-firm communication costs, inventories, etc.

1.8.4 At the same time, downstream firms (i.e. those that use another industry’s product as an input) will also invest in the area. This causes additional savings of the type listed earlier.

1.8.5 Finally, attracted by the good set of specific factors, upstream and downstream firms, producers in related industries (i.e. those who use similar inputs or whose goods are purchased by the same set of customers) will also invest in the industry. This will trigger subsequent rounds of investment in the industry in the same place.

1.9.0. **Shortcomings of Porter’s theory** (partly adapted from Sharp and Dawes (1996)).

1.9.1 Porter developed this model based on case studies and the examples cited by him tend to only apply to advanced economies.

1.9.2 He also argues that only outward-Foreign Direct Investment (FDI) is likely to create competitive advantage. According to him inbound-FDI normally does not increase domestic competition significantly because the domestic firms in lack the capability to defend their own home markets and face a process of market-share erosion and decline. However, there seems to be little empirical evidence to support such a conclusion.
1.9.3 The model also does not adequately address the role of multi national corporations (MNCs). In fact there is sufficient evidence to show that the diamond is significantly influenced by factors outside the home country. Porter also never specifically defines exactly what is competitive advantage. He only refers to it as "success" in the context of a country being able to become a center of production for particular goods. Thus, the implication is that for a given quality of goods, the production costs must be lowest. But at the same time he does not believe low production costs are solely due to comparative advantage.

1.9.4 Sustaining competitive advantage depends on increases in productivity i.e. the ability to produce more value with a given level of inputs. This, in turn, is based on innovation and upgrading of products, production processes, and/or management.

1.9.5 Further Porter appears to equate nations and firms i.e., the economy of the United States is the same as that of American firms. This may not be quite correct in a world of multinational investment. The main manufacturing companies in Canada are American firms.

1.9.6 His study has mainly been with reference to countries (with the exception, in so far as is known to the researcher, of the state of Massachusetts in the United States) (mainly developed ones). He did not make a study of the states/provinces of large developing countries such as India, China or Brazil, a characteristic of these countries is that are not very open economies and not very dependent on exports for their development. Furthermore, even within these countries there are vast differences between the component states/provinces with the coastal states/provinces being by and large more
open/ dependent on exports for their development (as in the case of India and China). This does not seem to have been studied in detail by Porter even though there is a chapter on emerging nations in the 1970s and 1980s in his book on the Competitive Advantage of Nations (1990). Therefore his model which is a simplification of reality needs to be significantly modified when applied to large federal countries such as India where there is a large (earlier dominant) public sector and where there are significant transfer of resources from the Central/ federal Government not only to the states but also directly to the city and local Governments and where the state Governments have to by law transfer significant resources to the city and local Governments.

1.9.7 Porter’s model has been further modified by Macmillan and Tampoe taking into account other factors viz. lobby groups, complementors and fashion and fickleness enumerated by Grove (1996) (adapted from figure 9.3 of “Strategic Management” by the same authors (Oxford University Press, 2000).

Exhibit 1.8
CORPORATE SURVIVAL MODEL

Corporate Survival Model

Threats to corporate survival

- Potential Entrants
- Lobby Groups
- Buyers
- Complementors

Factors:
- Government/ Ideology and Policy
- Redefining industries and markets
- Suppliers
- Bargaining power of suppliers
- Fashion and Fickleness
- Increasing rate or degree of change
- Threat of new entrants
- Changing ground rules and values
- Bargaining power of buyers
- Loss of support

Source: Adapted from Porter (1985) and Grove (1996)
1.9.8 Lobby groups implies changing ground rules and values, e.g. the effect of the anti-plastic green brigade in convincing the Municipal Corporation of Greater Mumbai to ban and strictly enforce the ban on the use of plastic bags of thickness less than 20 mm. because they were not easily biodegradable and were causing choking up and other problems in sewage and waste disposal.

1.9.9 Complementors implies loss of support to corporate survival, e.g. the development of internet marketing methods for consumer durables and non perishables have resulted in small producers (particularly in the USA) having the same reach as major producers/marketers, increasing the intensity of rivalry and giving a competitive advantage to such organisations in terms of reduced costs. Another example is the take-off of online banking in the Indian metropolitan cities by private and foreign banks which significantly reduced the earlier competitive advantage the State Bank of India had because of its large branch network and the ability to give banking facilities virtually in all parts of metropolitan cities and even in the remotest parts of India.

1.9.10 Fashion and Fickleness implies increasing the rate or degree of change in goods or loose competitive advantage to others, e.g. The seasonal changes in the fashions of clothes forcing garment manufacturers to come out with a new lines or loosing customers.

1.10.0 Implications of the models for business:

(a) Location Implications; and

(b) First-Mover Advantages.
1.10.1 **Location Implications:** Firms will have to concentrate production in the place with the best diamond for the industry. This may seem to rule out geographic separation of assembly and parts manufacturing (The diamond apparently works best when these two are close). However, Porter also acknowledges that for economic/cost cutting reasons a firm may want to source some materials and some components overseas such as is being done by MNCs who import high value electronic components from Taiwan and Hong Kong, assemble them into the final product in China and export this under the company’s brand name to the United States.

1.10.2 An example of this is the production of laptop computers.

1) Basic research and design is done in Japan or the United States where highly skilled but expensive workers are available. Manufacture of the standard electronic components is done in Singapore, Thailand or Malaysia with reasonably priced semiskilled labour. Manufacture of advanced components is done with skilled labour (e.g. in Japan). Final assembly is done with low skilled labour (e.g. in Taiwan and Mexico) and software is designed in India with highly technically educated, and reasonably priced personnel.

2) Low cost production might require centralizing production in nations that have the best diamond for the industry, e.g. an important market like the United States or the European Union.

1.10.3 **First-mover advantages:** There a number of advantages associated with early entry into an industry such as low production cost due to depreciation of plant and machinery, customers loyalty, easier access to distribution channels and economies of scale.
Snowballing of early advantage occurs when all the points on the diamond are mutually reinforcing. To be a first mover, firms will have to continuously innovate.

1.11.0 Role of governments in the diamond. (see also Michael E. Porter (1990) figure 3-1 on p.72, notes on pages 124 to 128 and Chapter 12 pp. 617 to 682, in particular pp. 657 to 673) and (1998) pages 184 to 191).

1.11.1 The government plays an important role in Porter's diamond. Porter argues that there are some things that governments do, that they shouldn't, and other things that they do not do but should. He says,

"Government's proper role is as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance" (Porter (1990) pp. 617-619)

1.11.2 The connections in the diagram of the diamond show that governments can influence all four major determinants which form part of Porter’s model through:

1) Subsidies to firms, either directly (monetary) or indirectly (examples are provision of excellent infrastructure, etc. for which economic charges are not levied).

2) Liberal tax codes applicable to corporation, business or property ownership and returns in the initial years from the date the investment is made.

3) Educational policies that develop higher skill level by workers in the area.

4) It has also been suggested that governments should only focus on specialized factor creation and enforce high and tough technical and product standards.

1.11.3 However, this could be counterproductive if the wrong industries are targeted.
1.12.0 Implications of Porter’s diamond for governments.

1.12.1 The position explained in the above three paragraphs gives rise to a question as to whether the diamond is an argument for intervention by government?

1.12.2 This is because theoretically an early lead in an industry (perhaps engendered by government subsidies or protection) is reinforced through the dynamics of the diamond.

1.12.3 However, there is a view that government should only focus on specialized factor creation such as education, support for basic research, install high-quality infrastructure, etc. and limit direct cooperation among industry rivals. A recent development is cooperative research ventures among industry rivals. While on a limited basis for developing broad-based technology such ventures may provide immense benefits, in the long run they will blunt the motivational force of strong rivalry.

1.13.0 Policy implications

1.13.1 According to traditional economic theory, countries are generally best off by maintaining free trade. As the factors with which a nation is endowed are fixed, unless the characteristics of the residents are changed, government can normally have little impact on factor abundance. However, this does not mean that governments can do nothing. The Japanese Ministry of International Trade and Industry has targeted industries to give them competitive advantage and has been fairly successful in this. According to economic theory under the assumption of perfect competition, there are no "winning" of "losing" industries. However, increasing productivity in industries is important because it raises the standards of living.
1.13.2 Trade barriers are generally harmful: they raise prices to both consumers and business (e.g. machine tools in the U.S., consumer goods in Japan)

1.13.3 Porter’s analysis is not an argument for government intervention. He only says that an early lead in an industry (perhaps engendered by government subsidies or protection) is reinforced through the dynamics of the diamond.

1.13.4 Government should enforce strong domestic competition policies. While strategic alliances and mergers and cooperative research ventures have become popular and may provide benefits, they will blunt the motivational force of strong rivalry.

1.13.6 Government should enforce strong domestic antitrust policies: While strategic alliances and mergers have become popular, they undermine the creation of competitive advantage.

1.14.0 In his books Porter has expounded his five forces model of competitive analysis / studied the theory of competition, competitive advantage, advantages of clustering, etc.

1.14.1 According to Porter (1990) a nation’s competitiveness depends on the capacity of industry to innovate and upgrade. Competitive advantage also arises from fierce competition, pressure and challenge. National competitive advantage depends on strong domestic rivals, aggressive home bound suppliers and demanding local customers. According to him the factors in national success/ competitive advantage is through a highly localised process and the factors include national values, culture, economic structures, institutions and history. These also include the critical nature of the home environment in terms of being forward looking, dynamic and challenging.
1.14.2 His view is that it is wrong to say that competitiveness of a country is determined by labour costs, exchange rates or economies of scale or of a firm by company mergers, strategic alliances, collaboration and supranational globalization or by government policies.

1.15.0 In short, according to him the determinants of national competitive advantage involve:

(a) Factor conditions- i.e. this is the nation’s position in factors of production such as skilled labour or infrastructure necessary to compete;
(b) Demand conditions- i.e. the nature of home market demand for the industry’s product or service;
(c) Related and supporting industries- i.e. the presence or absence in the nation of supporting industries and other related industries which are internationally competitive;
(d) Firm strategy, structure and rivalry- i.e. the conditions in the nation governing how companies are created, organised and managed, as well as the nature of domestic rivalry;
and
(e) Role of government- as a catalyst and challenger; as a transmitter and amplifier of the forces of the diamond.

1.16.0 According to him the recommended policy approach for obtaining national competitive advantage should be:

(a) focus on specialised factor creation;
(b) avoid factor and currency market intervention;
(c) enforce strict product safety and environmental standards;
(d) promote competition by sharply limiting direct cooperation among industry rivals;
(e) promote goals that lead to sustained investment;
(f) deregulate competition;
(g) enforce strong domestic anti monopoly practices; and
(h) reject managed trade.

1.17.0 According to him the company competitiveness agenda should include:
(i) creating pressures for innovation;
(ii) seeking out the most capable competitors as motivators;
(iii) establish early warning signals;
(iv) improve the national diamond;
(v) welcome domestic rivalry;
(vi) globalize to selective advantages elsewhere; and
(vii) use alliances selectively and locate the home base to support competitive advantage

1.18.0 Other Research

1.18.1 While analysing the competitiveness of an organisation the most important points which should be considered are:

(1) the nature and structure of the industry i.e. the number of firms, their sizes and relative power, the rate of growth of the industry and the ways they compete (this last is by Thompson (1980). According to him each rival tries to formulate a winning strategy, i.e. one that will gain it some sort of attractive competitive edge over its rivals). According to Clark (1961) (pp. 473-474) it may be that only a few firms are likely to
initiate fresh strategic moves and this may not even be often. But to the extent they are able to make a mark on the market with their initiatives, the give and take of strategic response spreads and continues. Depending on the prospects of the industry and its growth/ profit potential an industry may be attractive to a company. Similarly in the case of a country the number of countries, their export capacity and relative power, the ways they compete and the rate of growth of imports, have to be considered. Depending on the prospects of the industry in the importing countries and its growth / profit potential an industry may be attractive to a country.

(2) The position of the organisation/country within the industry. i.e. whether it enjoys specific and recognised competitive advantage and whether it has particular appeal to selected segments of the market.

1.18.2 A country/ organisation is unlikely to be able to compete successfully in a particular industry even though it has both growth potential and offers profits unless it has a means for obtaining competitive advantage. Conversely, even though a company / country may have competitive advantage in an industry it should not concentrate all its efforts on increasing this without assessing the growth potential/opportunities of the industry. Because there is no point in having an overwhelming competitive advantage in an industry which may be stagnant or dying. this is because soon the company / country will discover that it has to abandon the industry and change over/ diversify into other industries. e.g. the experience of the American automobile industry which continued to produce bigger more luxurious and more expensive high petrol consumption cars (where they had an overwhelming competitive advantage) in the 1970s whilst the Japanese
concentrated their efforts on the small, defect free, cheaper petrol economising cars (where they soon obtained an overwhelming competitive advantage). In the process the Japanese car manufacturers were able to capture over one fourth of the American car market because people preferred to buy petrol economising cars due to the increase in gasoline prices due to the two oil crises in the early and late 1970s.

1.18.3 It is finally the income which a company/country earns over expenditure and the efficiency of utilising this for investment purposes which determines growth of the firm/economy and which finally generates higher income and the feeling of well being.

1.18.4 Thus according to Thompson (1980) sustaining competitive advantage rather than creating it initially for a short period and then loosing it is the real challenge. In the experience of this researcher in both the government and industry the most successful competitors not only create value but also create competitive advantage in delivering that value. This they do by operating their business both efficiently and effectively. There is no point in running a business only efficiently if it does not create sustained competitive advantage. For generating sustained competitive advantage all the above three factors are crucial.

1.18.5 Conversely there may be certain services and products where even though productivity may not be high or production is less efficient as compared to competitors, still the firm/country has competitive advantage. e.g. India produces very little of the raw materials required for the manufacture of gem and jewellery. It may not even have the highest efficiency/productivity in the manufacture of gems and jewellery, because most Indian jewellery is hand crafted and not machine made. Till almost the 1990s the
government also did not do much to promote/ encourage production export. However, despite all this India has managed to obtain a significant and sustained competitive advantage in this sector which at present constitutes 13% of its total exports.

1.18.6 Sustaining competitive advantage requires that the firm/country constantly innovate and be subjected to constant competition. If it does not keep on its toes it will be a looser in terms of well being in the case of a country and loss of profitability (though this may not lead to immediate death/closure) in the case of a firm.

1.18.7 The thing that clearly sets a country/ state within a country/ an organization apart from its competitors and gives it an advantage over them in development/ in the marketplace is called competitive advantage.

1.19.0 Things that affect this competitive advantage are the general economic environment, socio-cultural issues, legal/political concerns, technology, the natural environment, and changes in the methods of management.

1.19.1 The general environment of a country/ state within a country includes those conditions in the external environment that can substantially influence the operations of organizations. The components of the general environment include:

(i) Economic conditions - which deals with the general state of the economy of the country/ state within a country (in large countries such as India there are large variances between states) in terms of inflation, income levels, gross domestic product (GDP), unemployment, and other related indicators of economic health;

(ii) Socio-cultural conditions - the state of prevailing social values (in large countries such as India there are large variances between states) on such matters as human rights
and environment, trends in education and related social institutions, as well as demographic patterns;

(iii) Legal-political conditions - general state of philosophy and objectives of political parties running the government (in large countries such as India there are large variances between states), as well as laws and government regulations;

(iv) Technological conditions - general state of the development (in large countries such as India there are large variances between states) and availability of technology in the environment, including scientific advancements;

(v) Natural environment conditions - general state and nature and conditions of the natural or physical environment.

1.19.2 In order that their state/ country obtain and continue to hold a competitive edge/ advantage over their competitors, the political masters/ elected representatives/ Ministers must be aware of economic conditions/ transitions at the national level, as well as globally, and must help their states compete in times of economic decline as well as economic growth. The political masters/ elected representatives/ Ministers must be increasingly aware and skillful in dealing with multiculturalism, and diversity of their population (due to migration and increased integration almost all the states in India have a population with culturally diversity), and use these elements to create and keep a competitive advantage.

1.19.3 The Specific environment includes the actual organizations, groups, and persons with whom an organization must interact in order to survive and prosper. Important elements include:
(a) Customers - specific individuals or groups and organizations that purchase the organization's goods and services.

(b) Suppliers - are the specific providers of human, information, financial resources, and raw materials needed by the organization in order to operate.

(c) Competitors - Specific organizations that offer the same or similar goods and services to the same customer or client base.

(d) Regulators - specific government agencies and representatives, at the local/state/national levels that enforce laws and regulations affecting the organization's operations.

1.20.0 Other challenges facing today's political masters/ elected representatives/ Ministers include:

(i) Meeting the needs of an aging workforce (people are living longer because of better disease prevention);

(ii) Integrating disadvantaged sections of society/ minorities more fully into the workforce;

(iii) Changing traditional lifestyles and methods of working; and

(iv) Improving education and skills of disadvantaged workers.

1.20.1 While the quest for competitive advantage is great, it must be pursued with a focus on public expectations for ethical and socially responsible behavior, and within the framework of laws and regulations that support these expectations. Governments are expected to meet high standards of social responsibility. Political masters/ elected
representatives/ Ministers and government employees are expected to meet high standards of ethical conduct.

1.20.2 Technology is also a driving force in helping governments to gain a competitive advantage. Electronic commerce is becoming increasingly important, as is e-mail and the Internet. This mode of communication has made it easy to disseminate as well as gain access to information quickly and with ease. It puts a state at a major disadvantage when its ability to support the latest technology is not as state of the art as other states.

1.20.3 Factories in India suffer from actual and potential ecological damage, industrial accidents. However, disaster proneness varies from state to state and this gives competitive advantage to states with strong and efficient enforcement machinery such as Maharashtra and Gujarat.

1.21.0 In his paper Christensen (1997) provides a summary historical perspective on how the theory of competitive advantage evolved amongst researchers in firms. This paper also shows that many of what historically have been the most valued sources of competitive advantage - resources, assets and market positions - have proven to be transitory, rather than sustainable. This is because many of them are grounded in compromises or trade-offs, which innovating companies have been able to circumvent over the last decade. Hence, the very paradigms of what can constitute sustainable competitive advantage may be crumbling.

1.22.0 THE PARADOX OF COMPETITION

1.22.1 According to Emmerij (1999) the origin of the verb ‘to compete’ is ‘cum petere’, which means searching together. Which is a far cry from what it has become in the era of
globalisation. In fact it has become an arm to wipe out one’s adversary (competitor). It has become an ideology, an imperative and even according to some people a gospel, an answer/panacea to all problems of globalisation. According to him this is aggravated with the development of indexes to measure competitiveness (such as the ones developed and published every year by the World Economic Forum based in Davos and the International Institute of Management Development based in Lausanne, both are in Switzerland) of countries due to which the countries concerned are under ever increasing pressure to improve their performance.

1.22.2 Competitiveness/efforts to gain national competitive advantage pushed to an extreme may have socially undesirable side effects such as distortions in the national economies (including the so called hollowing out of the advanced economies—whereby manufacturing is transferred to cheaper offshore locations), increase in unemployment (of persons unable to gain higher value skills), downward pressure on salaries and incomes (particularly in real terms) and growing inequalities. E.g. in the United States of America 50 percent of the labour force saw its income decrease in real terms between 1973 and 1993.

1.22.3 According to him extreme competitiveness/competition diminishes the degree of diversity in a society and contributes to social exclusion, whereby individuals, institutions, cities, states and countries that are not competitive are being marginalised and eliminated from the race for development. This is economically inefficient and also not acceptable in moral terms. Further, the more a nation, individual, institution, city, or state strives/tries to gain competitive advantage through specialisation/concentration on
doing a few things extremely well, the more it loses its flexibility/capacity to renew itself and the greater it danger of loosing the very advantage if circumstances/the economy changes. The very idea of competition devalues cooperation i.e. searching together (the words from where to compete was derived), wipes out solidarity.

1.22.4 The question which therefore arises is what the final winner in the competitive rat race will do all by himself after all the others have been eliminated. Competitiveness/competition is incapable of reconciling social justice, economic efficiency, sustainability of the environment, democracy and cultural diversity (which most large countries have)

1.22.5 Yip’s (2001) view is that we have moved from the world of comparative advantage to a world of competitive advantage. According to him the types of international competition are:

(1) Multi-country competition (beer, appliances, cereal)
- Competition in each national market is independent of competition in other national markets
- No “international” market
- Rivals compete for market leadership country by country
- Works best when
  1. Market conditions are diverse among countries
  2. Buyers insist on highly customized products
  3. Buyer demand for product exists in few markets
  4. Host government regulations preclude uniform global approach
- Drawbacks:
1. Entails little coordination across countries

2. Not tightly based on competitive advantage other than in single country

(2)Global competition (automobiles, television, tyres, textiles)

- Competitive conditions across national markets are linked to form an international market (standardization & demand conditions)

- A firm’s competitive position in one country affects & is affected by its position in other countries (ability to cross-subsidise)

- Leading competitors compete head-to-head in numerous countries (Kodak & Fuji)

- Works best when

1. Great similarities in products & buyer requirements exist among countries

   It involves

1. Coordinating firm’s strategic moves worldwide.

Selling in many, if not all, nations where significant buyer demand exists

   Allows firm to concentrate on securing competitive advantage over

1. Both international & domestic rivals

1.22.6 One notices that global competition applies mostly to high value added industries, or link-technology industries (NEC: computers and communications) Now, remember Porter: Growth in diversification works when there is opportunity to transfer skills and/or share activities.

1.22.7 Key Principle: A global competitor’s market strength is directly proportional to its portfolio of country-based competitive advantages.

1.23.0 Global strategy & competitive advantage
1.23.1 A global strategy provides two avenues to gain competitive advantage

1. Locating activities among nations in ways that lower costs (i.e., low wages) or helps achieve greater product differentiation (i.e., R&D skills).

2. Coordinating dispersed activities in ways domestic-only competitor cannot.

1.23.2 The competitive advantage of a multi national corporation is based on its ability to transfer technology, manufacturing know-how, brand name identity, marketing, and management skills from country to country, achieve efficiencies higher than could be achieved by any host country competitor and being able to minimise overall costs so that it is able to deliver value to its customers locally while at the same time maintaining common standards (e.g. McDonalds).

1.24.0 Differences in competitive advantage of states in large countries

1.24.1 These occur because of historical factors (such as the development of London at a crucial river crossing site), better infrastructure (such as ports for exports), communications (road, rail, air and sea), greater availability of educated manpower at economical wages (such as for the software industry in the south and west of India and the toys, sports goods, etc. industries in the coastal provinces of China), greater average income per capita income (giving people the buying power to purchase goods and services), emergence of a sophisticated buyer’s market (as for financial services in New York and in south Mumbai), etc.

1.24.2 These differences in competitive advantage once established tend to increase with time (unless there is a sudden change in economics such as occurred in northeast China (the former Manchuria where all the iron and steel industries became economical and had
to be closed down) which led to high unemployment and lowering of incomes, lead to establishment of clusters of industries and services, lead to migration of the educated and skilled from the areas with lesser competitive advantage and create a competitiveness divide. This is very clearly seen in the competitiveness divide between the states in the south and west and those in the north and east in India, the coastal and interior provinces of China (Pei (2002), the states of New South Wales and Victoria and the rest in Australia (Sheehan(2000), the north south competitiveness divide in the United Kingdom (Brown (2001)).
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