Competitive Advantage of India for FDI in Retail: A Porter's Diamond Approach

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ABSTRACT

The rationale of the study was to evaluate the strategic competitive advantage of India for foreign direct investment in retail sector and also to analyse the world wide retail market opportunity as compared with Indian retail sector. Objective of this study was to analyse factors of competitiveness of nation or retail industry and relate diamond model to the India's retail industry. Different market research reports on organized retail published by market research firm, government publication, industry news and online resource were used for data analysis. Michael Porter's model on competitive advantage of nation is used here to conceptualise the determinant of diamond model. All the six determinants of competitive advantage are showing favourable sign for competitiveness of retail industry. A factor of competitiveness is support to the proposition of FDI in retail. Similarly; India can get advantage of high market demand, largest market size, economy of scale, low penetration of retail and global sourcing for retail sector.

Keywords: Organized Retail, Nation's Competitiveness, Porter's Diamond Model, Competitive Advantage, Foreign Direct Investment

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Introduction

In the globe, we have seen the nations which are specialised in the particular industry. National competitiveness achieved by nation over the period of doing successful business in the industry. As we know, Japanese are specialised in the car manufacturing and world class management technique. Even if we take the example of Korea, they are also specialised in the electronics and allied businessess. Switzerland is specialised in pharmaceuticals, Britain has got success in Chocolate and biscuit industry and US is expert in weapons and internet business. If we considered these countries for analysis, we can conclude that they have different factor of production, labour cost, and government policies but although, they have got competitive advantage in that particular industry. Proposed study will analyse these factors taking into consideration of Indian retail industry. We have discussed those factors which are important in the competitiveness. The income of an average Indian is increasing and thus there is a proportional increase in the purchasing power. The infrastructure is improving greatly in all regions is benefiting the market. Indian economy and its policies are also becoming more and more liberal making way for a wide range of companies to enter Indian market. Indian population has learnt to become a good consumer and all national and international brands are benefiting with this new awareness. Another great factor is the internet revolution, which is allowing foreign brands to understand Indian consumers and influence them before entering the market. Due to the reach of media in the remotest of the markets, consumers are now aware of the global products and it helps brands to build themselves faster in a new region. Michael Porter's study on the determinants of international competitiveness suggests that the home country demand is the source of competitive advantage for domestic firms. The competitive advantage of any business or country over the others largely depends upon one, or more, of the four key determinants of the nation's international competitiveness. Indication of any industries success in the particular country is based on the demand condition and foreign direct inflow in that country. In short, Porter's model states that a global firm needs to have a sustainable competitive advantage based on the successful utilization of components of its home country diamond (Porter, 1990). Our earlier study on the competitiveness; we have discussed the competitive advantage. We are extending the research work in broad way by taking international factor.

Present study uses "The National Diamond" to illustrate the present situation of foreign direct investment in India for getting competitive advantage in the retail industry. Government of India is in the favour of passing foreign direct investment bill in single brand and multi-brand retail sector and definitely, government decision will help to the retail to compete with other Asian countries. Porter advanced the diamond frame to explain above competitive advantage of Nation. It is significant to analyse the competitive environment of Indian retail sector. Research Problem is "Does Indian retail will get success over the family owned business to compete for competitiveness?" and another research problem is "which is the most important determinant of competitive advantage of India for investment in retail sector? We have set objective in the study is to analyse various factors of competitiveness of nation and relate these factors with Diamond model to the India's retail industry.

Indian Retail Sector

According to CRISIL (2012) analysed that the organized retail is penetrated in Indian retail market at the 10% growth rate. In 2006-07 total retail market was Rs 10 trillion and organized retail had Rs 0.6 trillion (5.4% of organized retail) market size. In 2011-12 organized retail penetrated with 21% growth rate and total retail market size is Rs 23 trillion and organized retail has 1.6 trillion market size .CRISIL predicted the growth of Indian retail in 2016-17 will be Rs 47 trillion and market share of organized will be 10%. India is one of the most attractive retail destinations in the world. FDI inflows in single brand trading during April 2000 to September 2012 stood at US $4270 million as per data released by Department of Industrial Policy and Promotion. The retail sector account for 22% of India's GDP and contributes to 8% of total employment (IBEF, 2012). A.T.Kearney (2012) released report on FDI provides a unique look at the present and future prospect for international investment flows. In their analysis India came on the 2nd ranking in FDI confidence index 2012, it happened because of current stand of Indian government on promotion of FDI policy in India. In 2012 India is emerged as 5th most favourable destination for international retailer to invest in India (A.T. Kearney, 2012). The Ministry of commerce and industry is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sect oral policy (DIPP, 2012).

The National Diamond Model

This is an economical model of competitiveness study developed by Michael Porter in his book The Competitive Advantage of Nations, where he has published his concept of national competitiveness on why particular industries become competitive in particular locations and in the particular business. Afterwards, this model has been expanded by many researchers (Porter, 1990).

Literature Review

A nation's prosperity depends on its competitiveness, which is based on the productivity with which it produces goods and services. Sound macroeconomic policies and stable political and regularity of institutions are necessary but not sufficient conditions to ensure a prosperous economy. Competitiveness is rooted in a nation's microeconomic fundamentals-the sophistication of company operations and strategies and the quality of the microeconomic business environment in which companies compete. An understanding of the microeconomic foundations of competitiveness is fundamental to national economic policy (Porter, 1990). World Economic Forum (2012) in its global competitiveness report 2011-2012 defines competitiveness as "the set of institutions, policies, and factors that determine the level of productivity of a country". National competitiveness is a nation's ability to improve the economic and social welfare of its people through active and purposeful participation in the global market (Ali, 2008). World Economic Forum considered the determinant for the competitiveness of nation on basis of twelve pillars of competitiveness. These pillars are institutions, infrastructure, microeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, innovation, etc. The evolution of concept competitive advantage came in the existence in the 1970s (South, 1980). South described the process of strategic management and the management of competitive advantage as specifically identifying, developing, and taking advantage of the enclaves through which a tangible and sustainable business edge can be achieved. However, the concept of competitive advantage truly became popular with Porter's works (1980, 1985) in the strategic competitive management discipline.

According to Porter (1990) competitive advantage grows from the value a firm is able to create for its buyers that exceeds the firm's cost of creating the product or service. Karnani (1984) concluded concept of competitive advantage for competitiveness analysis and it results from a combination of cost and differentiation as alternative strategy for competition. Day (1988) stated that competitive advantage is not a single entity, but a complex construct consisting of the sum of many parts, and "there is no common meaning for the term competitive advantage". He stressed that a complete definition must describe not only the state of the advantage of competitiveness but also how that advantage was gained as well with the help of past cases of successful industries in different country. Competitive advantage in their eyes consists of positional and performance superiority as a result of relative to the competition in the skills and resources a business deploys. These skills and resources make up the positional advantages stress on productivity as of cost and differentiation. Thus, a competitive advantage is defined as a significant edge over one's rivals in the marketplace in cost, differentiation. Porter (1992) conceptualized three generic competitive strategies like cost, differentiation and focus stratergy. Most of the firm uses this generic competitive strategy to differentiate themselves from competitor."In the generalized double diamond model, national competitiveness is defined as the capability of firms engaged in value added activities in a specific industry in a particular country to sustain this value added over long periods of time in spite of international competition". This double diamond model is being criticised on the porter's model of competitive in advantage the certain issues. National diamond model has considered domestic factor of production in his theory but he did not include the foreign activity in the same business which for both domestically owned and foreign owned firms. Michael Porter does not incorporate International business activities into his model as he makes a distinction between geographic scope of competition and the geographic locus of competitive advantage. Second, sustainability may require a geographic configuration spanning many countries, whereby firm specific and location advantages present in several nations may complement each other. According to Porter, the primary sources of competitive advantage of Singapore are basic factors such as location and unskilled/semi-skilled labour which are not very important to national competitive advantage. Double diamond model is further extended by some researcher on the basis of consideration of international factor. In fact, Singapore has been the most successful economy among the NICs. Singapore's success is mainly due to inbound FDI by foreign multinational enterprises in Singapore, as well as outbound FDI by Singapore firms in foreign countries. The inbound FDI brings foreign capital and technology; whereas outbound FDI allows Singapore to gain access to cheap labour and natural resources. It is the combination of domestic and international diamond determinants that leads to a sustainable competitive advantage in many Singaporean industries.

Research Framework

Analysis of competitiveness is possible through the understanding of secondary data and government figures like reports, government publication, research database, books, journals and newspaper. Researcher used descriptive and comparative research methodology to conclude this research. Michael Porter has developed this model for analysis of competitiveness of country and individual industry. Michael Porter's National diamond model is used to set the proposition of validity of statement. Hypothesis is evaluated by using proposition of the current scenario of Indian retail industry. Analysis of competitive advantage of India for foreign direct investment (FDI) is concluded on the basis of Porter's suggested determinant of competitiveness of Nation's and Global competitiveness Report 2011-2012 which is published by World Economic Forum. We have used our earlier work for present study also. This study is extension to our earlier research work which is mentioned in the conclusion also.

Determinants of Porter's Diamond Model (Porter, 1990)

Factor conditions are human resources, physical resources, knowledge resources, capital resources and infrastructure. Specialized resources are often specific for an industry and important for its competitiveness. Specific resources can be created to compensate for factor disadvantages.

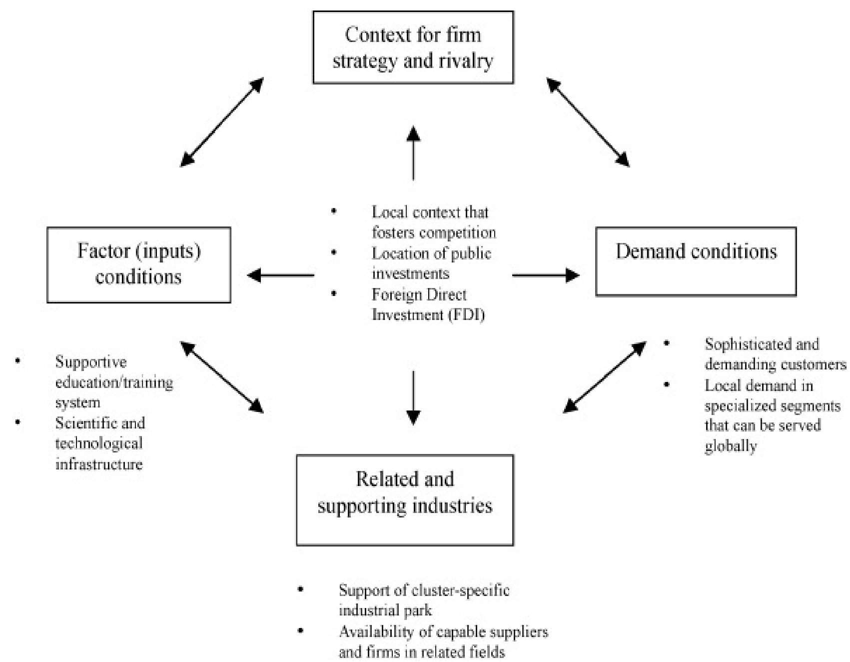
Demand conditions in the home market can help companies create a competitive advantage, when sophisticated home market buyers pressure firms to innovate faster and to create more advanced products than those of competitors.

Related and supporting industries can produce inputs which are important for innovation and internationalization. These industries provide cost-effective inputs, but they also participate in the upgrading process, thus stimulating other companies in the chain to innovate.

Firm strategy, structure and rivalry constitute the fourth determinant of competitiveness. The way in which companies are created, set goals and are managed is important for success. But the presence of intense rivalry in the home base is also important; it creates pressure to innovate in order to upgrade competitiveness.

Government can influence each of the above four determinants of competitiveness. Clearly government can influence the supply conditions of key production factors, demand conditions in the home market, and competition between firms. Government interventions can occur at local, regional, national or international level.

Chance events are occurrences that are outside of control of a firm. They are important because they create discontinuities in which some gain competitive positions and some lose.



Source: Wonglimpiyarat (2010), "Innovation index and the innovative capacity of nations". *Futures*, 42(3), 247-253.

Factor Condition

Factor of production are often described in very broad term such as land, labour and capital, which are too general to bear on competitive advantage in strategically distinct industries (Porter, 1990).we have analysed factor condition related to the retail business. Basically, human resource, physical resource and knowledge resource are the important factor of production and competitiveness.

Human resources – We considered human resource is key source of the business success and it helps to the getting competitive advantages. Seventy percentage of Indian population is under age thirty-five (Yaohua, 2012). Young population is definitely an advantage for economy growth because these are the productive population group. According to UN and Goldman Sachs bank's research report predicted that Indian's population is growing up and now India is the second largest population of the world. Population will increase in higher percentage of growth rate in the next forty years. It indicates that labour force is increasing and the cost of effectiveness is possible through working population. India does possess a number of remarkable strengths in the more advanced and complex drivers of competitiveness. This reversed pattern of development is characteristic of India. The countries boast a vast household market that allows for economies of scale and attract investors. It can rely on a well-developed and sophisticated financial market that can channel financial resources to good use, and it boasts reasonably sophisticated and innovative businesses (WEF, 2012).

Physical resources – It is dificult for the any industry to establise their business in the country without proper infrastructure.We have considered this subtitle with relevance to the retail development.Retail can be developed initially in the metro cities and for such development transport system,electricity and support of construction industry is required. Infrastructure is a major sector that propels overall development of the Indian economy. The Secretariat for infrastructure in the planning commission is involved in initiating policies that would ensure time-bound creation of world class infrastructure in the country. This section focuses on power, bridges, dams, roads and urban infrastructure development. Details of the projects, organizations, policies, timelines, schemes, spending on infrastructure are provided for the users (Government of

India, 2012). India does have good infrastructural development to enter into the competition.

Knowledge resources – "India has all the ingredients of a knowledge-based economy by virtue of its human resource strength," said Ajay Dua, secretary, Department of Industrial Policy and Promotion, at a session 'FDI: Boom times ahead.' The session was held in the India Economic Summit 2005, jointly organized by the Confederation of Indian Industry and the World Economic Forum in Delhi on Monday. "Dua said that among the 102 countries listed in World Economic Forum, India ranks third as far as availability of engineers and scientists is concerned, its quality of management schools comes eighth, its educational institutions are ranked 28, while the quality of its research institutions stands at 20" (Rediff.com, 2005).

Demand Condition

Demand condition is another important determinant of national competitiveness. Burenstam Linder (1961) argues that there must be local demand for product before a nation exports that product, because local demand is necessary to allow local firms to learn how to succeed in the industry. Basically demand condition of any industry depends on size of home demand, demand size, pattern of growth and number of buyers. This is most important factor in the concept of competitive advantage. Retail business depends on the local demand and supply of the products. India is 2nd largest populated country, due to this reason we have examine the demand factor as important determinant in the analysis.

Local demand – According to the (MHA, 2012) estimated in census 2011 that urban population of India is stood at 31.16 percent which was 27.81 in 2001. Urbanisation of country is right indicator of development and it is growth engine of economy. Purchasing ability of any country is depending on disposable income of country. Disposable incomes of Indian consumers have increased significantly between 2001-02 and 2010-11. The share of households with low income levels has fallen over the years, while the share of those falling in higher income brackets is on the rise. Going forward, we expect favourable demographics to drive consumption growth (NCAER, CRISIL**,** 2012). Even comment made by Tushar Poddar (2012) chief India economist in Global Investment Research Division, Goldman Sachet discusses that India's economic development over the last decade has been quite notable: real GDP growth was approximately 8% annually over that period, driven by a combination of rising investment as well as consumption demand and greater productivity growth. The country's demographic dividend will be substantial over the next couple of decades.

Related and Supporting Industries

Business can't sustain without proper support of related and supporting industries. The presence or absence in the nation of supplier industries and related industries that is internationally competitive. Hirschman (1988) stated that in his book economic development emphasize the importance of complementarities and linkage among industries to the development process.

Availability of cluster specific supportive industry – India is refers as the nation of shopkeepers; India has highest density of retail outlets-over 15 million in the world. Most of outlets in India are located in unorganized sector (independent store); the average size of these is much smaller than 500sq.ft. (Assocham, 2012). Related to retail industry there are various major retails are India like Future Group, Shopper Stop, Treant, Landmark, Reliance, Aditya Birla etc.These above retailers are already in India with hypermarket, Specialty store, departmental store, Superstore formats. India has both related and supplier retail industry and both are positive proposition to get competitive advantage. Now a day, India is developing cluster specific industries and providing them integrated logistic system with specialized transport hub and store facility.

Availability of capable supplier – India is the world's largest producer of fresh fruits and vegetables, milk, spices, meats, fibrous crops such as jute, several staples such as millets and castor oil seed. India is the second largest producer of wheat and rice, the world's major food staples. India ranked within the world's five largest producers of over 80% of agricultural products, including many cash crops such as coffee and cotton (F.A.O, 2010).There are some other industry clusters also present in India like Auto cluster in Pune, Pharmaceutical cluster in Solan , Baddi and proposed DMIC project, etc. All these clusters are helpful for the retail growth in India.

Firm Strategy, Structure and Rivalry

The competitiveness depends upon how companies created, organized, and managed, and the nature of domestic rivalry. There could be different strategies for running firm and growing from small to the larger on. India does have such corporate culture to run international firm in the Indian business environment.

Economy of scale – In the relation of national competitive advantage, India has significant advantage in terms of low labour cost, availability of raw material, etc., and many foreign retailers such as Arrow, Levis, JC Penny, Wal-Mart, and Gap are already sourcing their products from India with rising labour cost in developed countries (Pawar & Veer, 2013). Many companies are shifting their operation to developing countries such as India and China. Wal-Mart has decided to set up a completely owned subsidiary in India for product sourcing (Mukharji & Patel, 2005).

Corporate Governance – India has changed his bilateral trade relation after 1991 and got more liberalised in the business term. A variety of corporate entered into the India after this liberalisation decision. The organisation goals, strategies, and ways of organizing business are different in every nation. National competitive advantage results from a good match between these choices and the sources of competitive advantage in a particular industry. The way of one firm's management and its competitive form is affected by national circumstances. No one managerial system is universally appropriate. Nations will tend to succeed in industries on the premise that the management practices and modes of organization favoured by the national environment are well suited to the industries sources of competitive advantage (Porter, 1990).

Government

Government can influence each of the four determinants either positively or negatively, as it should be evident from some example related to investment decision in India because government approval is the first entry rout. Before October, 2012 clarification of policies on FDI in retail was restricted to single brand only (DIPP, 2012). Now Government of India approved FDI in single and multi brand on certain rules and regulation. Due to this policy many foreign retailer are entering into the India through direct investment route. They are already entering into India though joint venture e.g.Wal-Mart with Bharti enterprises and Spencer's with RPG group. Initially, it was difficult to business with India because of rigid trade barriers were their but after liberalisation all barriers are being broken down. Now a day, Government is going to allow FDI in the retail trade also. Obviously, this decision will be more favourable and achievable for foreign retailers.

Proposed FDI bill on the retail:

FDI in multi brand retail: Status: Under planning 51% (DIPP, 2012)

- 30 percent procurement of manufactured products must be from SMEs
- Minimum investment cap is USD100 million
- Minimum 50 percent of total FDI must be invested in back-end infrastructure
- 50 percent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from farmers

FDI in single brand retail: Status: Policy passed 100% (DIPP, 2012)

- Products to be sold under the same brand internationally
- Sale of multi brand goods is not allowed, even if produced by the same manufacturer
- For FDI above 51 percent, 30 percent sourcing must be from SMEs

Chance

One of the important outcomes of competitive advantage is innovation in business practices and negotiation in bilateral trade. Competitive business environment creates pressure on the existing businesses and practices, due to these companies are trying to do more research on the existing work. Impact of this competition is innovation and it leads to higher in the productivity. Events are occurrences that are outside of control of a firm. They are important because they create discontinuities in which some gain competitive positions and some lose. It is another determinant of competitiveness plays important role in the competitive advantage of nation. The European sovereign debt crisis is a financial crisis in the European Union that has made it difficult or impossible for some countries in the euro zone to repay or re-finance their financial bodies without the assistance of third parties. Countries like Spain, Greece, Ireland, Portugal and Cyprus are in bad debt (Haidar, 2012). Eurozone crises shifted the foreign investment in Asian countries. Debt crises situation is not favourable for investment and indirectly India is getting benefits of financial crises in Europe. A.T. Kearney (2012 published report on FDI confidence index 2012 given the 2nd rank to India as favourable investment country. There are some reasons to diversify this investment in India like government decision Eurozone debt crises and demand condition of India. Government also promoting investment policies in multi-brand retail and ready to provide infrastructure and government support to invest in India. These factors are favouring India as place for foreign direct investment (FDI) in retail (Pawar & Veer, 2013).

International Factor

In this research, we have used domestic factor in the earlier discussion for competitiveness study. After the extension to the Porter's diamond model some research has introduced the theory of double diamond while considering international factor. In this analysis two variables were used as for the understanding of international factors. Outbound FDI and Inbound FDI are two types of investment made by international firms. Outbound FDI indicates the external investments being made by domestic industry players, while inbound FDI shows the foreign interest in the domestic market. It is probably fair to assume that organized retail and its related industries represent a proportion of these inbound and outbound FDI.We must have to understand the impact of international factor on the competitive advantage. Initially, India's trade in the outbound FDI is not significant. Currently; research work can't assess the international factor for competitiveness of India.

Conclusion and Discussion

The purpose of this research was to analyse various factors of competitiveness of nation and to relate Porter's national diamond model to the Indian retail industry. First, we used Porter's diamond model for analysis of competitive advantage of India for FDI in retail. By using this we were able to examine considerable factor of competitiveness of retail industry with respect to investment decision. All the six determinants of Porter's National diamond are showing favourable indicator for competitiveness of retail industry. A factor of competitiveness is support to the proposition of FDI in India. Similarly, Our study also supports to this research in the present analysis that India can get advantage of high market demand, largest market size, economy of scale, low penetration of retail and global sourcing for retail sector (Pawar & Veer, 2013).

In the further discussion, present research could not consider the extended factor of competitiveness like international factor. There is scope for the study of international factor and it's implication in the analysis of competitive advantage.

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