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Porter's Diamond Model

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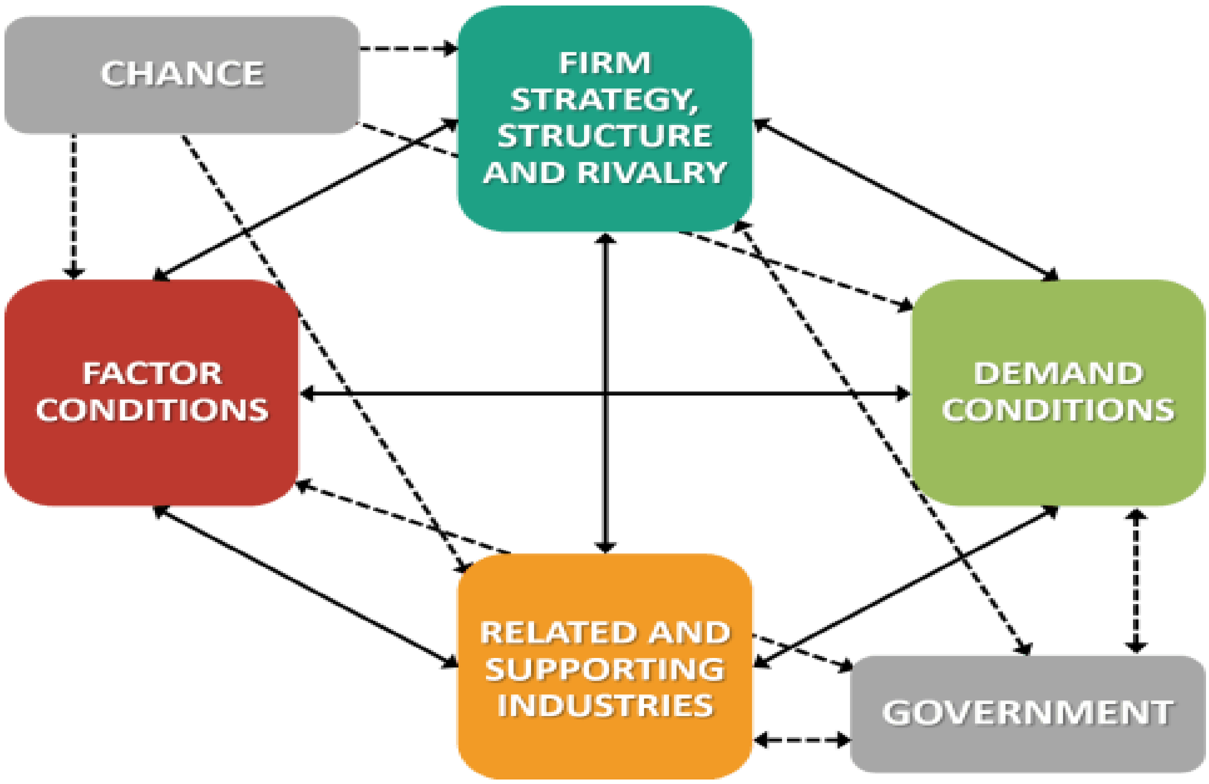

ABSTRACT

Michael Porter's Diamond Model is also known as the Theory of National Competitive Advantage of Industries. It is a diamond-shaped framework that focuses on explaining why certain industries within a particular nation are competitive internationally, whereas many are not. Porter's Diamond Model, examines how nations create competitive advantages in specific industries, considering factors like factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. While Smith focused on broader economic principles, Porter's model delves into the industry-specific drivers of competitiveness.

Keywords: Michel Porter, Diamond Model, National Competitive Advantage of industry, Firm's strategy, structure, and rivalry, Factor Conditions, Demand Condition, Related and supporting industries, Government, Chance, One Billion Vaccination Mark.

To maintain a country's standard of living, organizations and citizens must learn to compete in an ever-tougher world market which is called the VUCA (Vulnerable, Uncertain, Complex and Ambiguous) world. Organizations will sustain the competition in world with help of higher productivity and good product quality. The standard of living of a nation is measured by things that are easily quantified, such as income, employment opportunities, cost of goods and services, inflation rate, infrastructure, quality of education, poverty, life expectancy, and quality of healthcare etc. The government plays a big role in improving standard of living in a country.

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The Diamond Model also talks why certain companies in certain countries are capable of consistent innovation, whereas others are not. Porter argues that any company's ability to compete in the international field is based mainly on an interconnected set of location advantages.

Firm Strategy, Structure and Rivalry; Factor Conditions; Demand Conditions; and Related and Supporting Industries are the four conditions which if are favourable, they force domestic companies to continuously innovate and upgrade. The competitiveness that results from the above conditions is helpful and even necessary when an organization wants to go international and when it is battles world's largest competitors.

FIRM'S STRATEGY, STRUCTURE, AND RIVALRY

This refers to the basic fact that competition leads to businesses finding ways to increase production and to development of technological innovations. The concentration of market power, degree of competition, and ability of rival firms to enter a nation's market are influential here. This point is related to the forces of competitors and barriers to new market entrants. From the national context, the industries in which companies operate largely determine how companies are created, organized and managed. When firms face tough domestic rivalry, it becomes instrumental in fighting international competitiveness, since it forces companies to develop unique and sustainable strengths and capabilities.

The more intense domestic rivalry becomes, the more companies get pushed to innovate and improve in order to maintain their competitive advantage. In the end, this helps companies to enter the international market. Porter believes that domestic competition is critical to spurring innovation within a nation and that monopolies impede this from happening.

Japanese automobile industry consists of intense rivalry among players such as Nissan, Honda, Toyota, Suzuki, Mitsubishi and Subaru. Because of their own fierce domestic competition, they have become competent to fight in foreign markets as well.

Factor Conditions: Focuses on the domestic buyers of the country; the target market is the local buyers. Factor conditions in a certain country refer to the natural resources; for example Saudi Arabia has the second-largest proven petroleum reserves, and is the largest exporter of petroleum in the world. It also has the fifth-largest proven natural gas reserves and is considered an energy superpower. The economy of Saudi Arabia is heavily dependent on oil, and the country is a member of OPEC (Organization of Petroleum Exporting Countries). This nation controls about one-third of OPEC's total oil reserves, plays a leading role in the organization.

Factor conditions relate to the different types of resources that are present or absent within a nation. Resources can be typed into basic and advanced ones. The basic ones include useful natural resources and the availability of skilled labor, technology advancement, specialization and skilled knowledge and expertise, availability of capital, infrastructure, etc.

Porter does not give too much importance to natural resources as compared to the created resources because he observes that competitive advantage develops in industries in particular nations which are able to create these advanced and specialized factors.

It is important that these created factor conditions are continuously upgraded through the development of skills and the creation of new knowledge. Competitive advantage results from the presence of world-class institutions that first create specialized factors and then continually work to upgrade them. Nations thus succeed in industries where they are particularly good at factor creation. Singapore has achieved an extraordinary level of prosperity. The country has maintained a remarkably open and corruption-free environment, stable prices, and a per capita GDP higher than that of most developed countries.

Demand Condition: Demand conditions invariably talk about the domestic demand which indicates how successful a particular industry within a certain nation is. A strong home demand of industries in their own nations creates a large market for them and therefore, creates opportunities for them to grow. When a country experiences presence of sophisticated demand conditions from local customers it pushes the organizations to grow, innovate and improve quality. When organizations strive to satisfy their domestic demands and when they face challenges to satisfy domestic demand the condition drives companies to scale new heights and possibly gain early insights into the future needs of customers in international market.

Nations thus gain competitive advantage in industries where the local customers are demanding and pressure companies to innovate faster and achieve more sustainable competitive advantages than their foreign rivals.

Singapore Airlines has a range of subsidiaries and associate companies in diverse fields of the aviation industry to support its operations. For instance, it wholly-owns three airline subsidiaries, namely SilkAir which operates regional flights to secondary cities, and Scoot and Tigerair which operate in the low-cost carrier sector. The world-famous company is acclaimed for the stellar service standards of its kebaya-clad flight attendants. The airline is also famous for luxurious flight experiences across cabin classes, with state-of-the-art entertainment options, spacious cabins and a commitment to making flying a personal experience.

It is worth noting that aviation in Singapore is a key component of the Singaporean economy in its quest to be a transport hub of the Asian region. Besides currently the sixth busiest airport and the fourth busiest air cargo hub in Asia, the Singaporean aviation industry is also a significant aerospace maintenance, repair and overhaul centre. More demands inevitably mean more challenges, but these challenges turn the companies toward innovation and improvement. The size of the market, the growth rate of the market, etc. are some indicators of the home demand.

RELATED AND SUPPORTING INDUSTRIES

According to Porter, the level of success of one industry can be related to the success of related and supporting industries. The role of suppliers is equally important. The suppliers help in advancing innovation processes through shared resources- technical and other types of aids. A reputable supplier should have a history of supplying acceptable product and value-added service, as evidenced by the number of years in business, customers' opinions, financial stability and past audit results. Organizations are often dependent on alliances and partnerships with other companies in order to create additional value for customers and become more competitive.

The automobile industry is one of the most important drivers of economic growth of India and one with high participation in global value chains. The growth of this sector has been on the back of strong government support which has helped it carve a unique path among the manufacturing sectors of India. The auto components manufacturers have backed the automobile industry to a great extent. The timely upgradation of syllabus of automobile engineering has also added essence to industry. Lastly, automobile manufacturers could invest and collaborate in joint R&D and other innovation.

Government: Governments should encourage and push companies to raise their aspirations and move to even higher levels of competitiveness. This can be done by stimulating early demand for advanced products by focusing on specialized factor creations such as infrastructure, the education system and the health sector (factor conditions); promoting domestic rivalry by enforcing anti-trust laws; and encouraging change. The government can thus assist the development of the four aforementioned factors in the way that should benefit the industries in a certain country. The major functions of governments in market economies are: the governments provide the legal and social framework, maintain competition, provide public goods and services, redistribute income, correct for externalities, and stabilize the economy.

Chance: Even though Porter originally didn’t write anything about chance or luck in his papers, the role of chance is often included in the Diamond Model as the likelihood that external events such as war and natural disasters can negatively affect or benefit a country or industry. However, it also includes random events such as where and when fundamental scientific breakthroughs occur. These events are beyond the control of the government or individual companies.

COVAXIN®, India's indigenous COVID-19 vaccine by Bharat Biotech is developed in collaboration with the Indian Council of Medical Research (ICMR) - National Institute of Virology (NIV). The coronavirus disease 2019 (COVID-19) pandemic continues to bring in its wake not only morbidity and mortality but also an unprecedented challenge to public health, food systems, human dignity, and work across the world. This is an apt example of chance. India celebrated the milestone of administering 1 billion COVID-19 vaccine doses on Thursday, 22nd October 2021. Covaxin has helped the nation in achieving the one billion mark.

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