Firm strategy structure and rivalry business essay

The diamond model of Porter has been exalted as one of the most authentic tools to spot the competitive place of a country in the way of sustaining the global advantage. The theory exhibits a more comprehensive model having a resource based outlook and an integrated concepts from traditional theories to a new strategic view. It tells the function of innovation and modernisation. Grant (1991) states after ‘ Porter’ gave the theory for the first time in 1990 that the diamond model has a rational framework which identifies the most relevant variables those have a direct influence on the industry competitiveness the three most important levels of aggregation nation, industry and firm. Then he modified and presented the theory in a broader concept again in 1998. Though there is no difference in both of the publication, this study utilises the book published in 1998. However, to examine why certain countries get competitive advantage in certain industries or sectors of business, Michael Porter of Harvard Business School conducted a four years investigated study on the ten important trading nations of the world. The diamond model stands on four inter linked determinates- factor conditions, demand conditions, related and supporting industries and lastly firm’s strategy, structure and rivalry. This study endeavours to interpret the competitive factors lie in the world apparel industry and put an emphasis on gazing how Bangladeshi RMG industry can boost its performance in this competitive arena by identifying the obstacles in both national and international levels under the light of summarizing Porter’s Four determinants.

2. 8. 1 Factor Conditions

The factors related to the production are necessary to compete in an industry. Porter (1998) identifies the factors of production are the most imperative onject for a country to get competitive advantage. He categorised the factors or endowments into some broader features like labour, knowledge, skilled human resource and infrastructure. Traditionally it is likely to say capita, labour, technology and a competent infrastructure is mandatory to achieve the competitive advantage (Hill, 2009). Porter's excellence is shown when he further places a discrimination or in essence places an excellence by extending the factors into two more broad categories – Basic and Advance Factors. Porter (1998) describes, the basic factors like unskilled, semi-skilled labour force, friendly climate or capital itself are the passive inheritance of a nation but on the other hand the advanced factors like technological development, skilled or educated human resource are the factors created by a nation rather than getting endowment. He advocates, the basic or generalised factors can bring a competitive advantages but it would be less sophisticated and transitory and hence a successful integration of both the basic and advanced factors can bring a competitive advantage which is more sophisticated and perpetual (Jin & Moon, 2006). Now the question comes how the advanced factors can be crated? The specialised factors can be generated through factor improving mechanism like training, education institutions and so on and Porter states that this is the place where innovation, specialisation, practical improvement, knowledge and science start. According, in describing the Porter's factor determinant and relating it to the Bangladeshi apparel industry, it can be said, the fresh competitive advantage lies in the advancement of the advance factors. The basic factor or cheap and available labour force is not a alone viable to fetch the degree of competitive advantage that Bangladeshi RMG industry is looking for. Rather a convergence of the basic and advanced factors is imperatively a burning question. The universal cheap labour force is the biggest endowment Bangladesh has so far simultaneously strive for crating the technological advancement and expertise personnel like adept fashion designer is the fatal question where the actual competitive performance exists.

2. 8. 2 Demand Condition

It is unavoidably true the local teaching has a massive influence for a firm to compete globally. In his second determinant, Porter (1998) refers to the pattern of home-market requirement for a firm’s service or product. He identifies demand in terms of size of home or local consumers and their nature whether they are sophisticated and demanding. Porter (1998) believes, home demand accelerates the competition between the firms which work as an assistance for the local business to contest internationally. If the local market demand for a company’s product is large in volume, it would teach the company to gather the economies of scale. Besides, countries where the home consumers are sophisticated and urbane, firms there are forced to achieve the high standard and maximisation of performance in responding to the tough nature of the local buyers. Social norms, passions and distribution channel which are the main reasons work behind the demanding needs. As for example Porter (1998) states, the elevated level of Italian consumers’ urbanism are contributed by the distribution channel of the country. In Italy, clothing, furniture, shoes and lighting are sold through giant stores and the constant pressure from these giant retailers put a huge stress to the Italian manufacturers to innovate new models and designs. Same instance, the people of France have a strong passion in fashion genetically which put the nation globally in a competitive position in the fashion industry (Jin & Moon, 2006). Porter (1998) also admits, the domestic demand in an industry is important for a significant economy of scale but he identifies the occurrence of elegant and challenging buyers is more important to impose a successful product diversification through creative designs, branding and obviously with competitive prices. Accordingly, in a country where the apparel trade is not that developed, the mere availability is fair enough to mitigate the consumers get higher which notably influence the overall lifestyle. As for example, the progression of the RMG industry and the availability of readymade garments, the Bangladeshi teenagers now feel more comfort in wearing woven jeans and tops rather than traditional three piece of salwar kamiz (Mohiuddin, 2008).

2. 8. 3 Related and supporting industries

The strong existence of related suppliers or industries whining the nation is very vital tool to make a specific industry globally competitive. Porter (1998) says, the potentially of international success of an industry is positive only when a nation gets competitive advantage in good amount of associated industries as the innovation, technological and product development are being possible which helps the downstream industries, Porter (1998) bring forward the Italian Ski Boot and its colossal connection with the leather industry as an example. Italy has got the world’s finest and standard quality leather industry which has made the Italian Ski Boot industry enable of making the greater quality ski boots in the world market. This determinant of Porter is most important in relation to the Bangladeshi RMG industry which is still far away from being the leader in apparel export because of having lack in the adequate supply of related raw material from supportive industries. If the industry is bought forward, it can be seen that the presence of relative and supportive industry has an enormous influence in the backward linkage and the reductive of the lead time. Because of having shortage in adequate textile production, Bangladeshi RMG’s woven production is highly dependent on the the imported textile from competitor China and other countries which has a direct influence on price competitiveness and delaying in manufacturing and increasing the lead time (Haider, 2007). Simultaneously, the knit department of the RMG is growing more rapidly after the MFA phase out competitive situation because of having a good infrastructure of linkage suppliers.

2. 8. 4 Firm strategy structure and rivalry

It is more than important how a firm is created, governed and managed domestically. Porter (1998) states, nations with having success in good management practices are ease to achieve the competitive advantage. Besides, the domestic rivalry is very important as it has the powerful influence on the other dominants of Porter (Jin & Moon, 2006). Porter also suggests that managerial style directly relates to the countries’ getting competitive advantage. If the Bangladeshi RMG is brought as an example, the firm structure is a big issue regarding the practice of code of conduct or compliance. Weak organisational structure in the Bangladeshi apparel firms with a feeble governance practice put a huge question mark in getting orders from the world standards buyers or retailers (Baral, 2008). Most of the small firms are in the lack of a well organised management structure which resulted as the low revenue generation. However, Porter also states, the note of geographic concentration expands the power of domestic rivalry. If the rivalry are more localised, the competition will more intense.

In addition to the above four determinants Porter (1998) most importantly suggests two more important external factors-chance and government activities which greatly influence the implementation of the four dominants.

2. 8. 5 Role of Government

In this theory (1998) identifies, the government as the " challenging and catalyst" which he said a body to employ push and pull to determine whether a moving or performing according to the high level of standard to affirm the competitive advantage. According to Porter (1998), the means of the anti-trust rules or lessening the direct assistance government has the direct influence on the domestic rivalry. Vice versa government can motivate the firms to excel the performance and by concentrating on the advanced creation.

2. 8. 6 Chance

Porter (1998) describes chance as an absolutely external entity on which an industry has no control. He states, chance just happens, but he argues nations with a good ' diamond' structure is likely to alter chance in to competitive advantage. The continues rising of the labour wages in the world's apparel export leader China and other East Asian industrialised countries (NIC) like Korea and Hong-Kong would open a new window for the

Bangladeshi RMG sector. Future market diversification or lessen the excessive concentration on the USA and EU is a question of the time for the Bangladeshi RMG now. He suggests and anticipates; soon China will remove them from the apparel export like other Asian NICs and other industrialist countries because of rise in wages. So Bangladesh can grab the chance to capture the mammoth Chinese market and the can be a big apparel exporter to China, if the RMG industry plans it from now on and strive to build a solid ground to grab the chance or facility which might create.

2. 8. 7 Criticism of Porter

Fitzgerald (1994) extremely doubts the feasibility of Porter's diamond in the Eastern Asian context. Some other critics tell Porter put an exaggerated emphasis on the home base economic activities and failed to concentrate both outbound and inbound Foreign Direct Investment (Moon et al 1995, 1998). Singleton (1997) evaluates, the model can merely help the investigator to achieve the frame but not adequate to determine where the actual competitive advantage of a nation lies in a broad sense. Besides, in their new ' double diamond' doctrine Jin & Moon (2006) advocates the factor condition of a country lies in advanced or specialised factors; the use of basis factors are no more applicable in this era of modernisation. They put the realistic example of Nike, the GAP and Liz Claiborne and those retailers outsourcing of both raw materials and labours without owing any production facility just by means of having advanced technology. In criticism of Porter they Jin & Moon (2006) also says, now most in the apparel industry raw materials are widely outsourced, so having strong structure of linkage industries in the home market is not that important as Porter suggested.

According to Lui and Chiu (2001), Hong-Kong is not competitive because of its having factor or demand condition rather having a strong coordination in apparel manufacturing with the production headquarters of giant retailers like GAP and many other USA and EU companies' buying houses which can be called the ' virtual factories'. Moreover, in relation to apparel industry, high quality design is one of the major tools for competitive advantage. Countries like USA, France and Italy have succeeded because of their ability to produce innovative designs and still they transfer their own designing method in most of the RMG orders to the countries exist in their procurement channel. However, Jin and Moon (2006) suggests, a new term named ' agility' should be added along with the high quality design. The apparel industry is proved as the most uncertain industry because of existence diversification in design and fluctuations of consumers' demand. As a response to the rapidly changing market ' Agility' can be most important tool in achieving competitive advantage. According Moon et al. 2006, in fashion industry agility means something more than speed. Mcguire & Vitzthum (2001) states, agility means a firm's ability to respond quickly according to the demand, to clear lines that do not sell, to avoid plenty of clearance sales, and finally the ability to with relatively smaller stockrooms and lesser inventory costs. ' Zara' is the most suitable example of getting competitive advantage by means of agility. A skirt takes no more than 2 weeks to reach in their Tokyo or Paris store. Moreover, the company can ship the fluctuated items twice a week worldwide (Jin & Moon, 2006). Besides, the internet economy is highly emerged since the last decade. Rocklies (2001) assumes, the present global economy has been altered immensely due to the rapid growth of globalisation, deregulation and digitization and the overall advancement of the business and hence he argues Porter’s theory is fully pertinent for the back age of ICT development.