Entrepreneurship in India

Its Current and Future Impact on Competitiveness

Amit Kapoor — PART 6 of 8
DOES LACK OF TRUST UNDERMINE COMPETITIVENESS?

Trust and Competitiveness
Effect on National Diamond

Context for Firm Strategy and Rivalry
- Low level of trust in market competition leads to collusion and informal cartels as well as corruption.
- Low trust also results in negative perception of the regulators
- Trust in regulators and rule of law also critical for smooth functioning
- Independent regulators critical for institutional trust

Demand Conditions
- Quality, Price and differentiation are the main considerations
- Essential for the consumer to trust the producer.
- If the consumer does not trust the producers sale may not happen
- Effect is a slowing down economy with low level of consumption and investments
- Safeguards in the economy include quality certifying institutions as well as branding of the product

Related & Supporting Industries and Institutions
- Low level of trust in institutions undermines the rule of law.
- Low level of trust leads to non sharing of know how resulting in lesser network externalities of agglomerations
- Trust in Institutions undermined when they harass companies.
- Vicious cycle also leads to poor quality services as nobody is willing to provide them in an over-regulated economy.

Factor Conditions
- Trust is critical in factor markets for appropriate resource allocation.
- Rent seeking reduces trust and forces creates an atmosphere of corruption
- Inadequate / arbitrary policy design leads to erosion of trust.
- Risk of the market is in the form of the trust that the goods and services produced will be consumed.

Source: Institute for Competitiveness Analysis
IMPACT OF TRUST ON THE VALUE CHAIN OF A FIRM

With lesser trust, sub-optimal level of support activity is observed both at firm level and cluster level. Example of low technology adoption rates within small firms in India is a classic case in point.

Trust issues can arise between primary and support functions - Ex. R&D and Marketing Department of Electrotherm India

Lack of trust results in interdepartmental/inter primary activity conflict and can result in in longer lead times and sales cycles at minimum and complete shutdown of operations at maximum.

Source: Michael E. Porter and Institute for Competitiveness Analysis
2 kinds of trust:
• Intrafirm – Within the firm
• Interfirm- within the cluster
• Analysis is done here on Indian Pharmaceutical Cluster

Bargaining Power of Suppliers: Medium-high.
• Large number of suppliers for various API Inputs.
• Clusters are normally dense with large number of suppliers as large clusters of pharmaceutical industry are present.
• Suppliers include Chemical companies.

Rivalry amongst Existing Firms: High
• Tough Competition (>35 players) among existing players to capture market.
• Strong segmentation is seen.
• Value is driven by relationship with doctors as well as the fact that the drug is branded or generic.
• Disruptive innovation is observed in certain select cases.

Threat of New Entrants: Low
• Technology and capital Intensive business
• Pharmaceutical drugs are a necessity
• Huge marketing, sales, branding and regulation prevents new players from coming in.
• Know how of Indian conditions is a must for entry into the business.

Threat of Substitute Products: Low-medium
• People still rely on doctors for prescription
• Ayurveda, homeopathic systems not very viable
• There is tussle between generic and patented drugs...
• It will take a lot of time before India has a total patented regime

• Lack of trust will further decrease the threat of new entrants
• Piracy will be rampant and nobody will invest in patents as there will be no barriers to entry in an environment of low trust.

• Medium-High
• Buyers have rising disposable incomes due to growth of the economy
• Buyers have a range of segments and players to choose from
• Doctors act as significant influencers for Buyers

• Lack of trust gives the buyer to switch in favour of alternative products
• Calls for government to intervene to produce better medicines that might not be economically efficient

• Lack of trust gives the incentive to move out of the business – Sub optimal cluster performance
• No trust on regulatory regime resulting in low investment in drug research

Source: Michael E. Porter and Institute for Competitiveness Analysis
HI-TECH MANUFACTURING IN BILLION OF USD

HI-TECH MANUFACTURING AS A % OF WORLD OVER THE YEARS