

The Dynamics of Competitive Advantage, Risk and Firm Performance : A Study of Indian Pharmaceutical Industry

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Abstract

Sustainable competitive advantage results in long-term superior profitability. The study is aimed at gaining insights into the drivers of profitability of the Indian Pharmaceutical Industry and the impact of different types of competitive advantages and leverage on the profitability of the pharmaceutical companies in India. From an extensive review of literature, the constructs concerning competitive advantage and firm performance are derived. Financial data of the companies are taken from CMIE database and panel regression analysis is conducted to derive the impact of “competitive advantage” and risk on profitability. The results suggest that cost advantage measured by asset turnover has the greatest impact on firm performance, followed by leverage. Differentiation advantage has least impact on profitability. The results are consistent with the nature of the Indian Pharmaceutical Industry,

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Keywords : Cost; Competitive Advantage; Leverage; RoE; Asset Turnover; Profit Margin, Pharmaceutical; India.

I. Introduction

CREATING VALUE IS one of the fundamental dimensions of strategy and value is a valid measure of firm performance. While there is a debate regarding the meaning of value, three definitions of value are commonly used. First and most commonly used definition is accounting value measured profitability, namely return on equity or return on invested capital. The accounting value does not capture the opportunity cost of equity, hence does not reflect the true value. To overcome this limitation of the accounting value, Stern and Stuart came up with the concept of economic value added (EVA) measured as the difference between net operating profit after tax and capital charge, as a better measure of value. Hence, EVA can be the second definition of value. The purpose of business is to create maximum social

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