

# Entrepreneurship & Management functions (MAN301T)

## Session 4

<https://sites.google.com/a/iiitdm.ac.in/sudhirvs/courses/entrepreneurship-management>



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Sources of Competitive Advantage

Strategy formulation

# After industry analysis, what next?

- Industry analysis will tell you about the industry structure and its profitability
- Within an industry some firms are more profitable than others – why?
- It is important to understand what differentiates firms' performance – what are the sources of competitive advantage and why strategy makes a difference

# Sources of Competitive Advantage

## Positioning Perspective:

Sources of advantage lie in the unique configuration of value added activities that a firm performs in response to a chosen environment

### Proponents of this view:

Michael Porter

**Transaction Costs Theory**

## Dynamic Capabilities View:

Sources of advantage lie in the unique capabilities that a firm accumulates while performing value added activities

### Proponents of this view:

David Teece, CK Prahalad

**Resource based theory**

## Actors & Strategic Nets:

Sources of advantage lie in the unique manner in which a set of actors are orchestrated to generate value

### Proponents of this view:

Gulati, Madhok, Hamel

**Actor Network Theory**

# Identifying a set of inter-related activities in the value chain where a company can out perform competitors

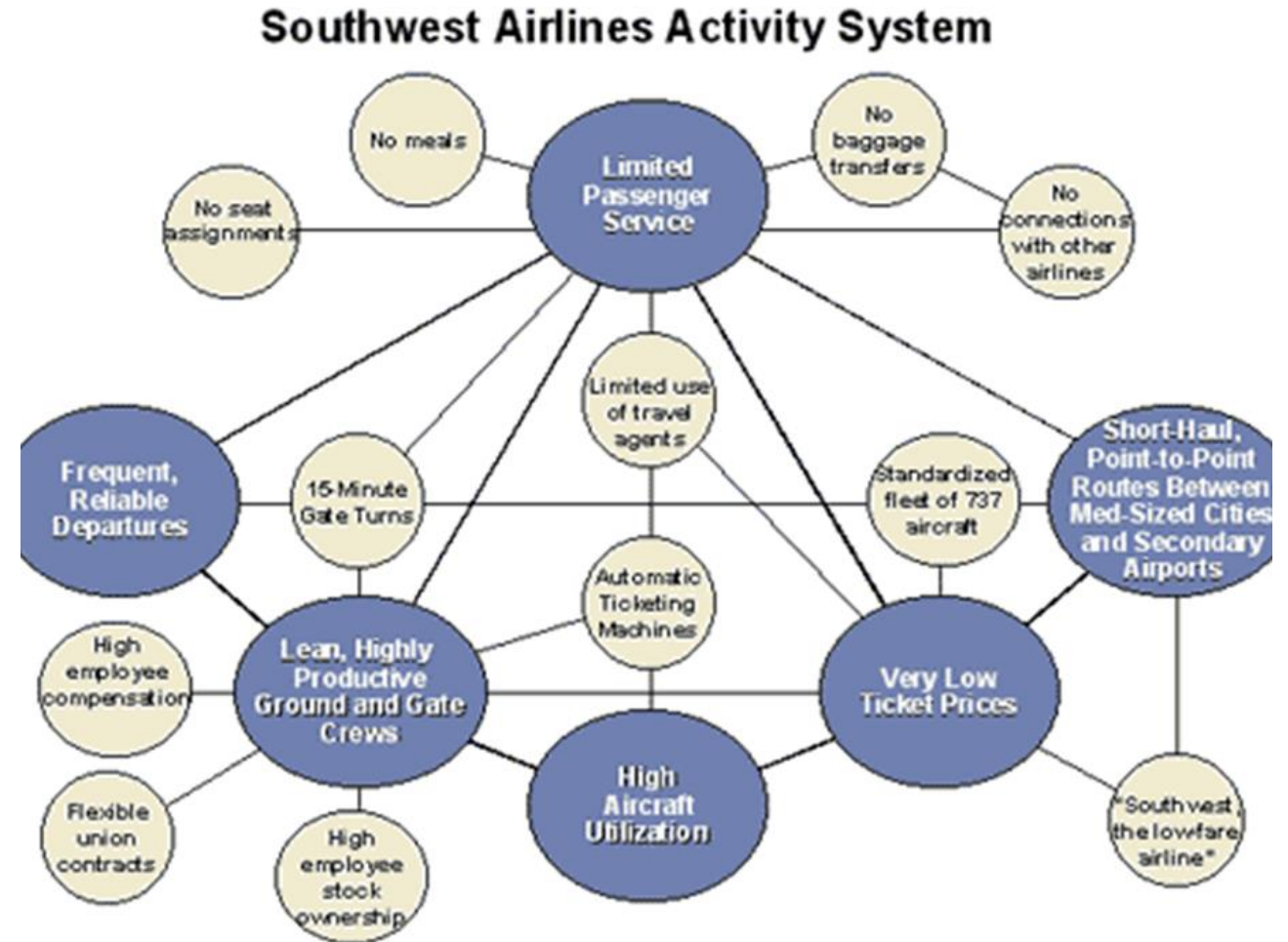


# Example of Dynamic Capabilities

**Capabilities**  
(Ability to build, integrated and reconfigure internal and external competencies to address rapidly changing environments)

**Competencies**  
(Processes/Routines that enable effective use of resources)

**Resources**  
(incl. Technologies)



Source: Public Information



# Example of Strategic Networks

Alliance network structure across industries



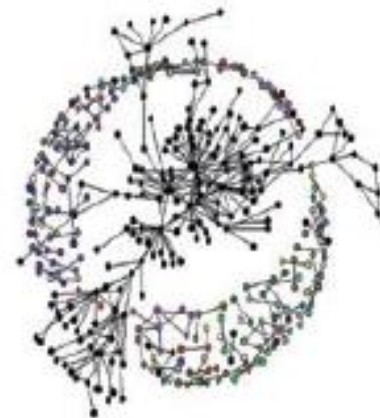
372 Aircraft and parts



281 Industrial inorganic chemicals



384 Medical instruments and supplies



357 Computer and office equipment



366 Communications equipment

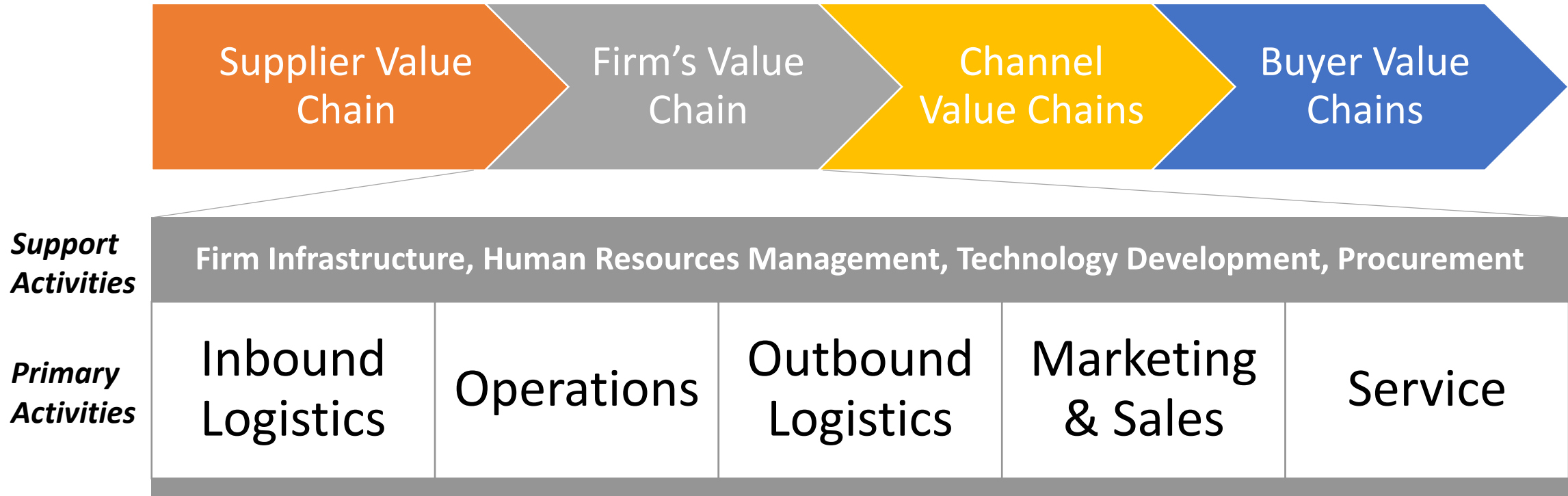


371 Motor vehicles and equipment

Nine industry alliance networks—graphical visualizations

Source: Rosenkopf & Schilling (2007), Strategic Entrepreneurship Journal, 191-209

# Value Chain Analysis: An important Technique in the Positioning Perspective & widely used



Understanding the Value that the buyers are willing to pay and the Cost of performing each activity – where you can outperform competition



# Management Trends over the decades reflect importance of different parts of the value chain

1930s	1950s	1990s	2000s	
Administration	Business Policy	Leadership	Leadership	} Creating meaning in an unstructured environment
Personnel	Human Resource	Managing People	Engaging People	
Sales	Sales & Marketing	Sales & Marketing	Customer Value	
Production	Operations	Adding Value	Supply Chain Mgt / 6 sigma	} Production chain # Value Chain
Accounting	Accounting	Measuring Results	Strategic Cost Redn	
Finance	Finance / M&A	Shareholder Value	EVA	} Extended and Flexible view of accounting - BSC/ABC



# Summary of questions to ask from 3 perspectives

## Stakeholders & Goals

- Who are the key stakeholders?
- What stakeholders goals are addressed by the current value proposition?
- What is the bargaining power with respect to key stakeholders?
- Is it possible to lock-in key stakeholders?

## Value Proposition

- What are the elements of current value proposition?
- How distinctive are these elements?
- What are the key assumptions guiding these?
- What is the cost involved in delivering this value?
- Is it possible to configure the elements into a new value proposition?

## Dynamic Capabilities

- What capabilities has the organization accumulated over time by delivering certain value proposition?
- How strong and distinctive are these capabilities/assets?
- How well are they aligned to the value elements
- Is it possible to create new value elements from current capabilities?

## Actors

- How many actors are involved in creating value?
- Which actors help create, sustain, protect value?
- Are these internal or external (partners)?
- Strategic flexibility emerging from the choice of actors?

## Competitive Threat

- Who are the current and potential competitors?
- Which sources of strategic advantage cannot be easily replicated or diluted or disrupted by competitors?

# Exercise 4.1: Define your industry & firm value chain and identify your advantages & scope



# Contents

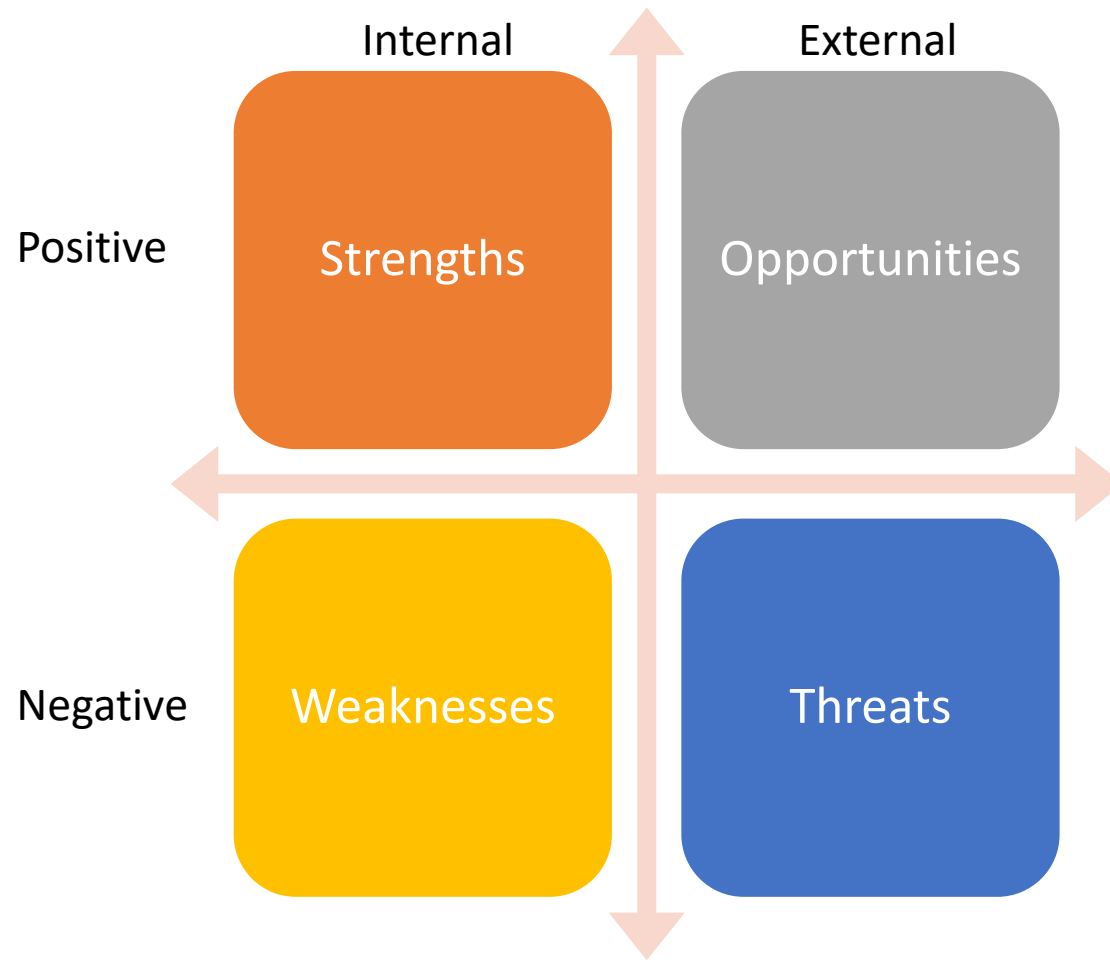
Sources of Competitive advantage

Strategy formulation

# What is strategy?

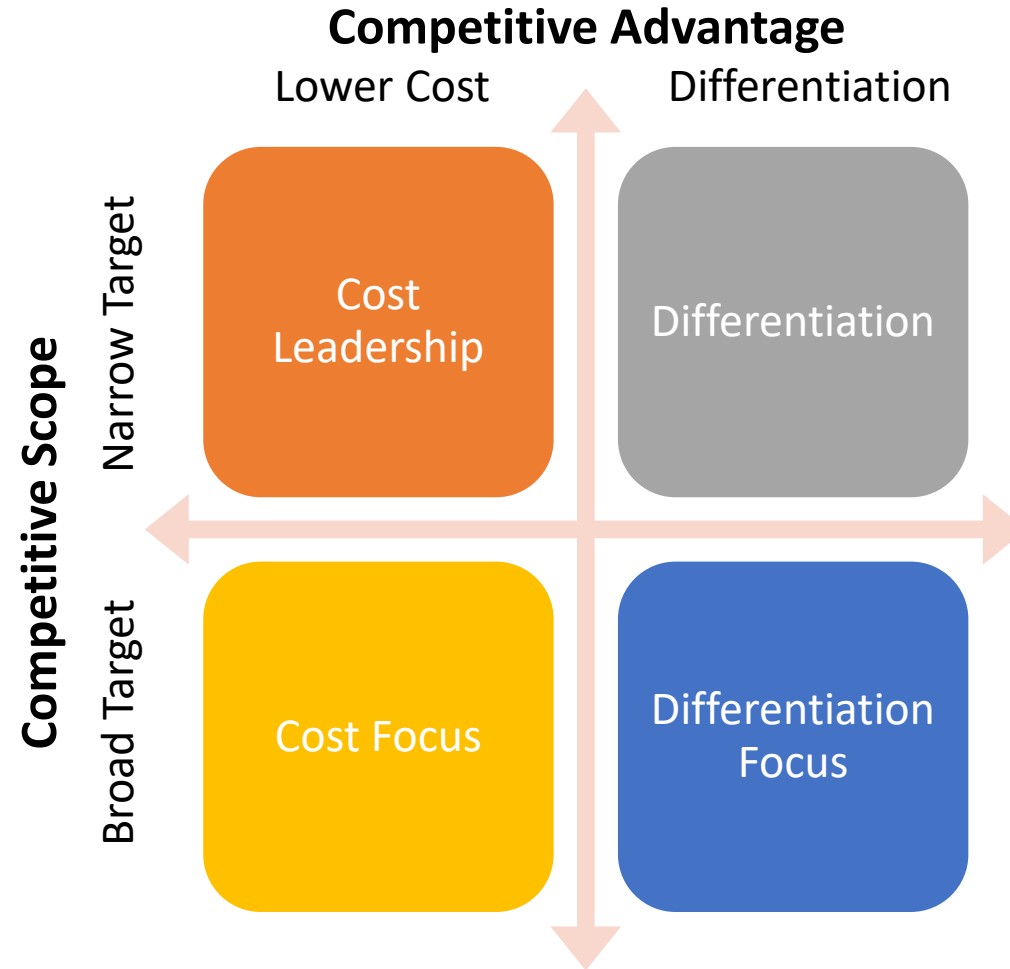
- The most basic idea of strategy is the application of strength (advantage) against the most promising opportunity and mitigate risks due to weaknesses
- Advantages could be due to scale, scope, network effects, reputation, patents, brands and several others
- Strategic choices have a big impact on the firm's future ... it is like 'concept design' in new product development

# SWOT: A simple & popular technique



List the key points under each category and make an assessment

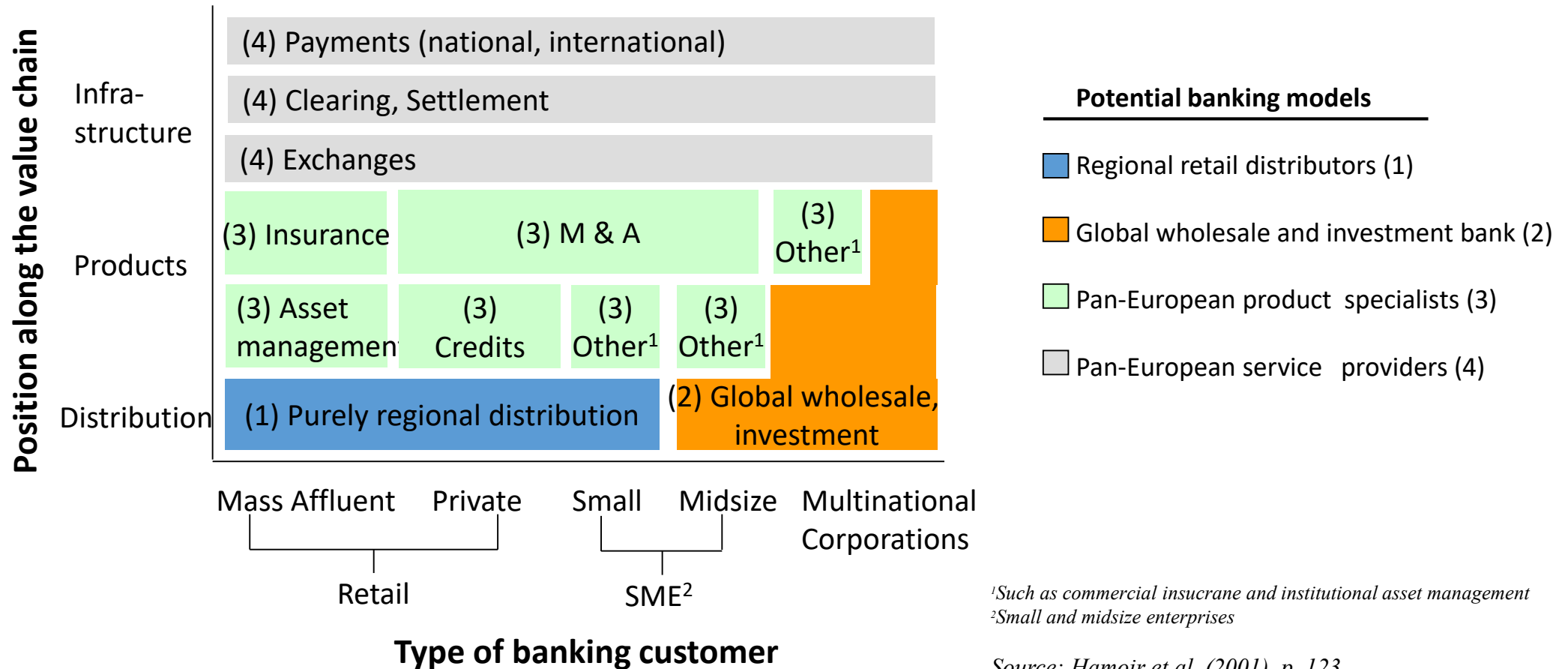
# Generic Strategies (Porter)



*General recommendation: Firms have to make a choice between one or the other. They cannot be in both places*

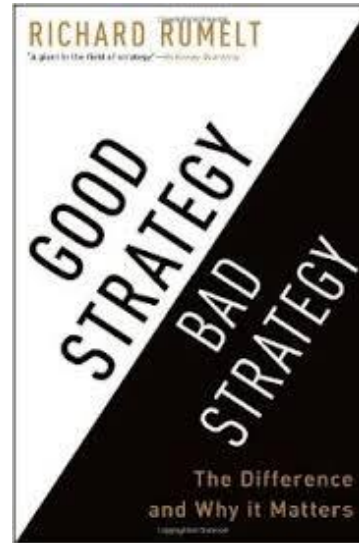


# Financial Industry Value Chain & Banking Models

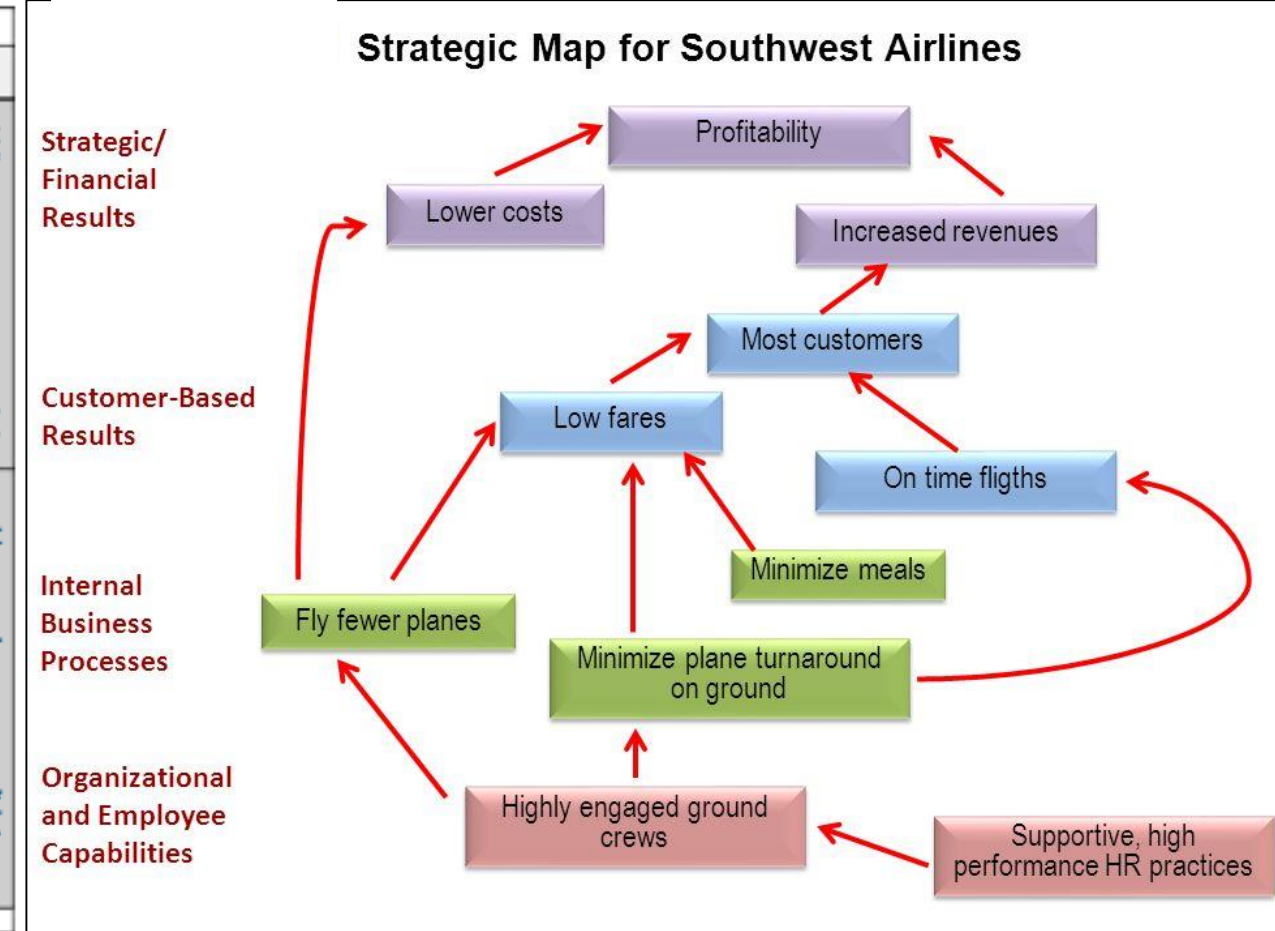
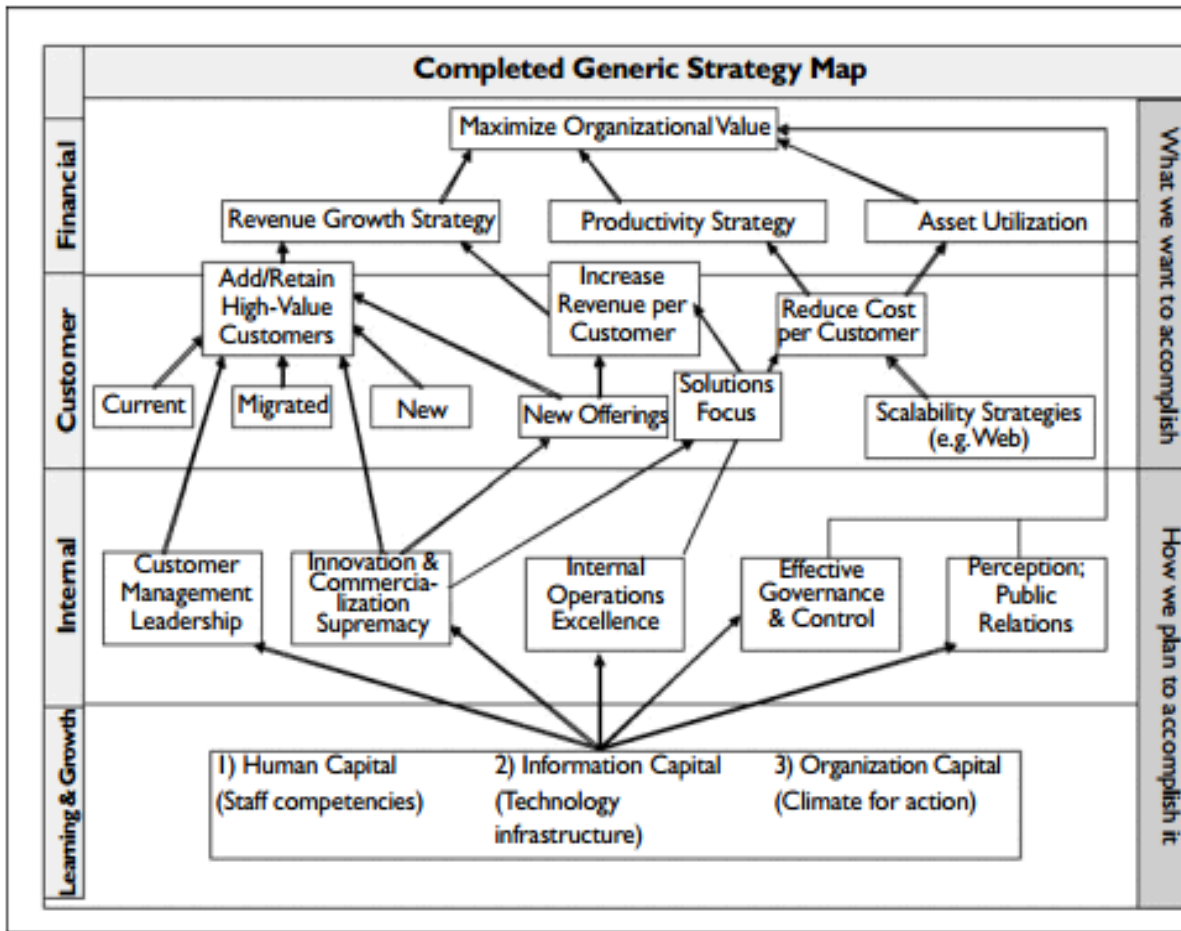


# What is a Good Strategy?

- A good strategy relies on two fundamentally important and natural sources of strength
  - **A good strategy** doesn't just draw on existing strength; it **creates strength through the coherence of its design** ... most organizations don't do this... rather they pursue multiple objectives that are unconnected with one another or worse conflict with one another
  - The creation of new strengths through **subtle shifts in viewpoint**. An insightful framing of a competitive situation can create whole new patterns of advantage and weaknesses. The most **powerful strategies arise from such game-changing insights**
  - Source: Richard Rumelt (Good Strategy, Bad Strategy)



# Kaplan & Norton's Strategy Map & Balanced Scorecard



# ISM: A semi-mathematical model for Strategy Formulation

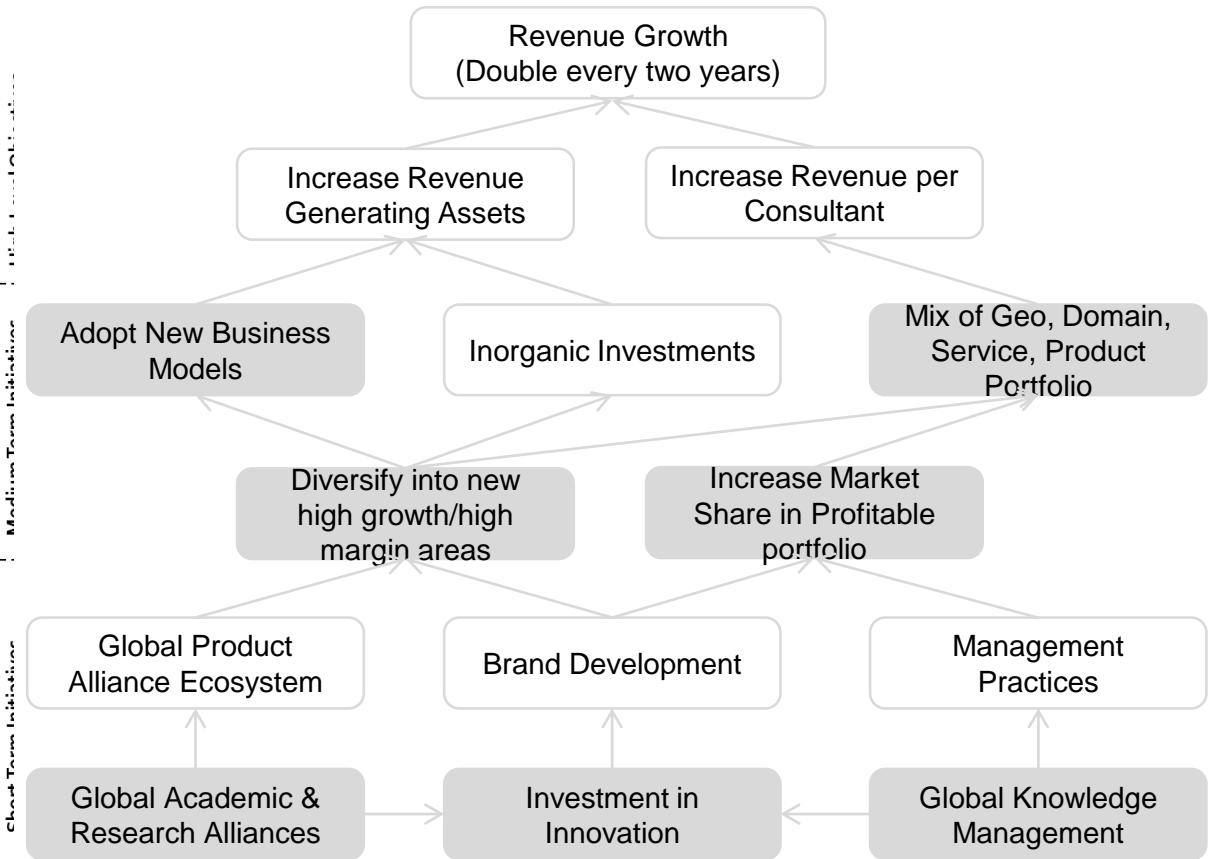
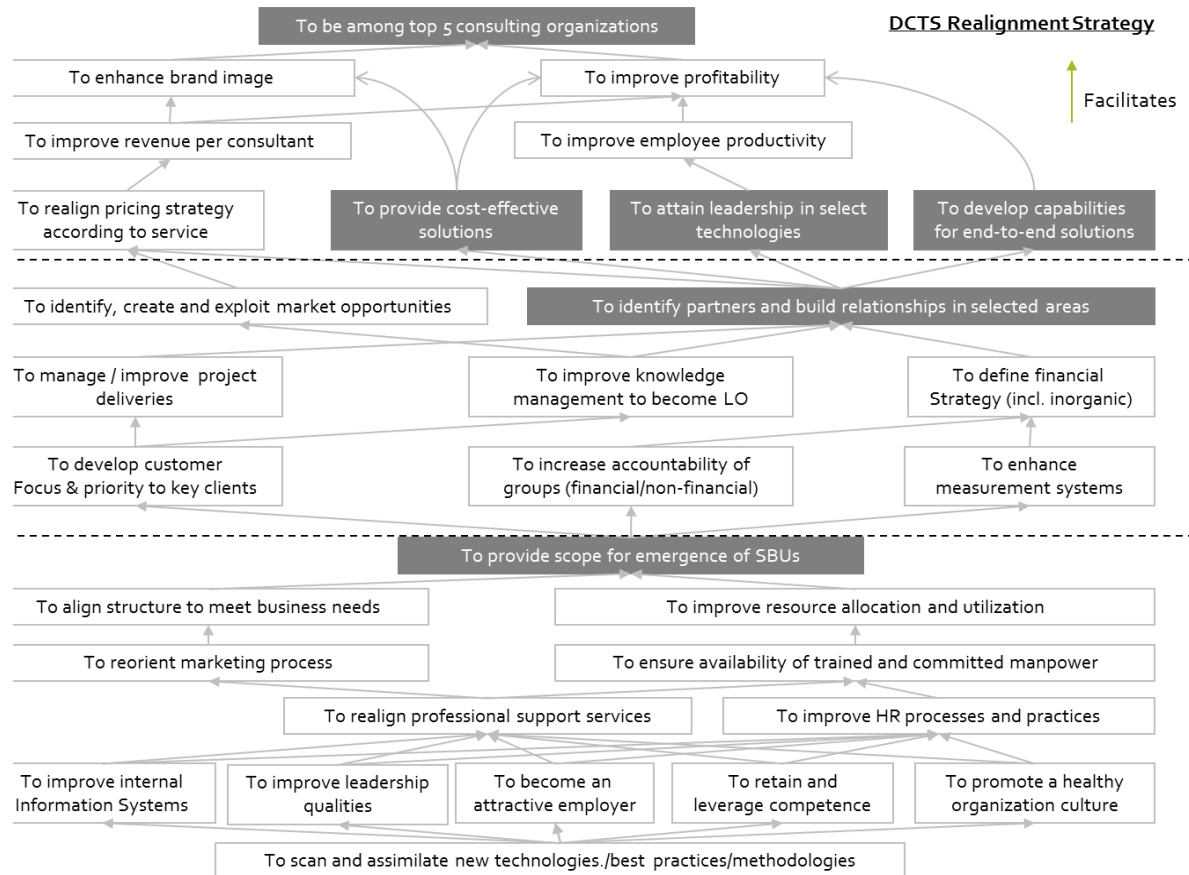


# Signs of Bad Strategy

- Failure to face the challenge ... bad strategy fails to recognize or define the challenge
- Bad strategic objectives ... when they fail to address critical issues or when they are impracticable
- Mistaking goals for strategy ... Many bad strategies are just statements of desire rather than plans for overcoming obstacles. Example, “we want to be a billion dollar company”
- Fluff... use of abstruse and unnecessary words and concepts to create the illusion of high-level thinking. Example:
  - A quote from a major retail bank “Our fundamental strategy is one of customer-centric intermediation”
  - “An elastic execution environment of resources involving multiple stakeholders and providing a metered service at multiple granularities for a specified level of quality of service”

Source: Richard Rumelt

# Paradoxical Challenges & Strategy Formulation



# A company that is able to grapple with paradoxes

Case of Singapore  
Airlines





# Exercise 4.2: Formulate your business strategy



# Things to find out before next class

