

Strategic Management – The Competitive Edge

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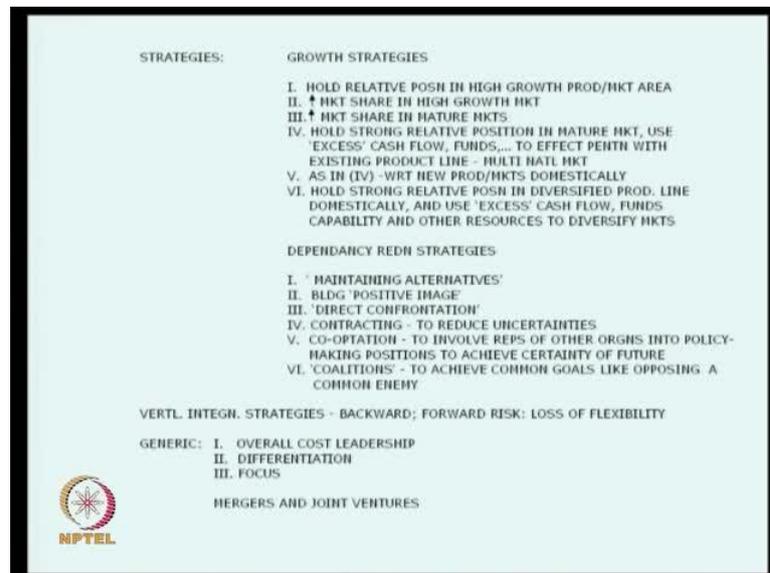
Module No. # 01

Lecture No. # 02

Concept of Corporate Strategy

Welcome to this session. In the last session, we discussed what is meant by a strategy; the background for strategy, starting from our epics down to the modern day; then, we discussed what a mission statement is; how does the mission statement lead to a business mission. Then we discussed, what are the different types of strategies that a firm can adopt. We discussed the different examples of growth strategies.

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Let us now discuss the second heading on strategies that is, dependency reduction strategies. The examples of dependency reduction strategies - I am again going to give you six examples. The first example is maintaining alternatives; what do we understand

by this term maintaining alternatives? A firm or an organization should not be entirely dependent on one plan of action. Suppose, it finds that the plan of action it has considered for execution is somehow not making the impact for whatever reasons, then the organization should be in a position to introduce the second course of action. In other words, the organization should have a backup plan ready. This we see in different games also.

One of the most popular games that we have in our country is cricket. So you see these strategies play in all our one day internationals. If something goes awry, immediately it is replaced, because it is a time bound match in the sense that, each side has got only 50 overs to bowl. In the 50 overs this side is interested in keeping the runs down of the other side - all these types of things.

Similarly, with respect to an organization, we are looking at a quarter. When we are looking at a quarter, we want to ensure that in that quarter, we are going in the right direction. If for some reason we find that this is not the direction to be perceived, we should have an alternate plan ready.

I give you an example which happened in the Indian context. A well known manufacturer of detergent powders, was finding that its well known brand was getting affected by the introduction of another brand of detergent, which this company considered is nowhere comparable to its product but much lower in price to this company's product. That is company A's product was priced at level x , company B introduced one more detergent which was priced at price y much lower than x .

Now, in a market which is highly price sensitive, a certain section of the market is likely to be influenced very strongly by price considerations. So this is what really affected company A in spite of the quality of the product being considered much higher than the company's B's detergents.

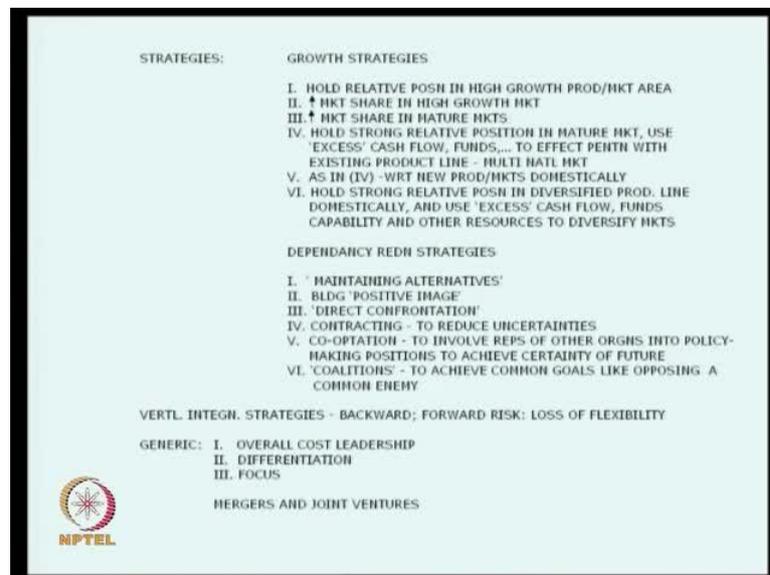
Now, what did company A do? The question that came was, how should you really tackle this situation? To tackle this situation not by reducing the price of its product, but coming out with a strong communication to the market that is, a strong advertisement exercise saying that company A's product is like this, company B's product is like this. If you use company A's product, it is likely to result in this end result and if you use

company's B's product, it is likely to result in this end result. Now, you pick up whichever product you want whether it is A or B. It left the decision to the market.

The result was the market could understand that company A's product is a much better product than the company's B's product, so it is priced higher. The result is the company A could sustain its market share in the market. Now, suppose that exercise of communicating to the market had failed. Let us say, company A should have looked at other alternatives of approaching the market in a different way, so these are called maintaining alternatives.

Now the second one is building positive image (Refer Slide Time: 06:28). Any company which wants to enter the market, it has to have a positive image. If it does not have a positive image then, the market is likely to perceive slightly in a negative way. Take for example, the image of Infosys in the market. Today, Infosys is what it is in the ITES market because it has built a very strong image. Similarly, it is conveying its mission through its punch line that is, 'powered by intellect; driven by values'. All this has helped Infosys to build a very strong positive image in the market.

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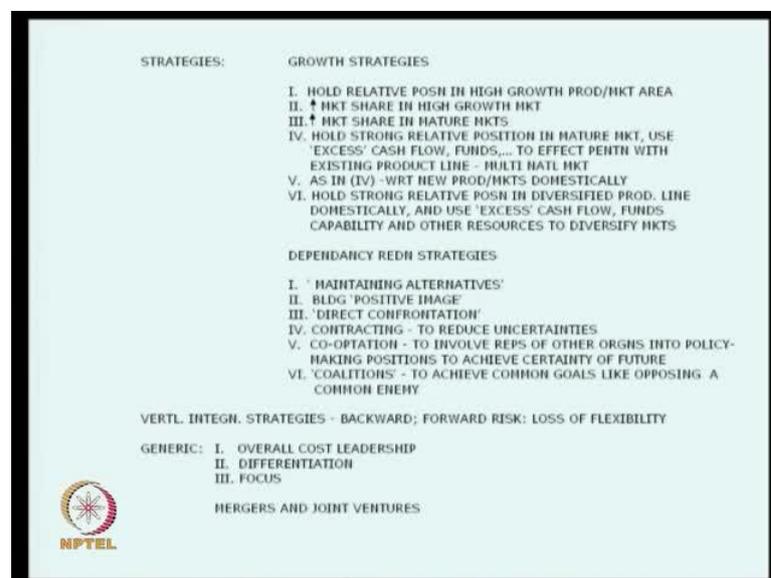
Then, what is the third strategy example that you can think of? This is direct confrontation. When do companies use direct confrontation? Companies resort to direct confrontation when they find that other methods are not working in the market place.

Suppose, you are number 2 in a market place, you want to become number 1 in a market place; many times it may be advisable to attack the leader's weak points directly. This is direct confrontation in the market place.

The fourth strategy that we can think of on dependency reduction is contracting that is, to reduce uncertainties (Refer Slide Time: 08:23). Why does any firm want to reduce uncertainties, is the question. A firm might want to reduce uncertainties, because it wants to be more certain of the future; what do you mean by more certain of the future? Let us say, we have started a production line and the production line is dependent on so many actors in the self in the supply chain. Each actor in the supply chain has to perform his role properly in order to ensure that the supply chain works without interruption.

So, in order to ensure that it works without interruption many of the services the company might like to contract it outside. They may say this part of supplying the raw materials is entrusted to this; this part of distribution is entrusted to so and so. So that this supply chain is kept uninterrupted and so the uncertainties are avoided.

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The fifth strategy example that I am giving you is what is called co-optation. What is co-optation? To involve reps of other organizations into policy making positions, to achieve certainty of future. None other than an example of software companies; many of the software companies you name it, whether it is Wipro or Infosys or TCS the Indian

majors, what are they trying to do? Their board is represented by many of their stakeholders that is, the market interest are represented on the board. So these board members are trying to take personal interest into the different market segments which the company is addressing so that the company can have a reasonable good market share in those segments.

If you really see, there are many foreigners also on the board of many of the companies. The best example to quote would be that of Mr. Larry Pressler being on the board of Infosys. What does the company gain by Mr. Pressler being on the board of Infosys? It gains his wisdom of knowledge of the US markets and the tremendous amounts of contacts which he has got in the US market to leverage on.

The sixth example of dependency reduction strategy which I am giving you is, what is called the coalitions (Refer Slide Time: 11:42). What do you mean by coalitions? The coalitions are done in the modern day market context to achieve common goals like opposing a common enemy. In the present day market trend, it may so happen that a single player may not be able to take the competition whole hog; the result is that single player may like to combine himself with 1 or 2 other major players so that he can corner the market.

This coalition is happening in different forms; it may be in the present day context that is a modern day context. It has taken the connotations of joint ventures and mergers which I am listing down below. Sometimes, when a merger is not possible; it may also lead to the buyout of the companies itself. We will go more on that when we go further along in this course.

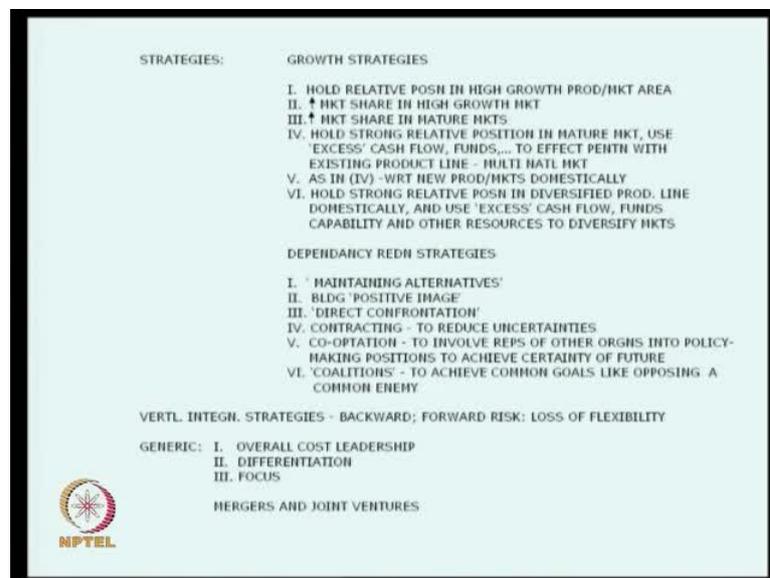
The third type of strategies is what is called the vertical integrations strategies (Refer Slide Time: 12:50). There are three types of vertical integration strategies: one is the backward, the second one is the forward. Correction, there are two types of vertical integration strategies: one is the backward, second is the forward. What is likely to happen when you are going in for these vertical integration strategies? There is a risk that is involved; that is, you may lose the flexibility of operations.

What do we mean by losing the flexibility of operations? Backward linkages means, you take charge of your control supply line. Forward linkages means you take charge of your

distribution line. Suppose, you take charge of your supply line; you may stick to the same supplier may not be looking at other suppliers in the market place.

Similarly with respect to distribution, you may be keeping your eyes close to the market other than your distributors. So with the result, what is likely to happen? These actors or these players in your distribution line or supply line may enforce certain amount of restrictions on you. This is what usually happens in many of these setups in a present day market situation.

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The next step of strategies is called generic strategies. These generic strategies are three in number. The first one is overall cost leadership; the second one is differentiation; the third one is focus. What is overall cost leadership? It is not enough that a company provides service. It is also required for the company to provide that service at a cost which is acceptable to the market or at a cost which the market is prepared to bare.

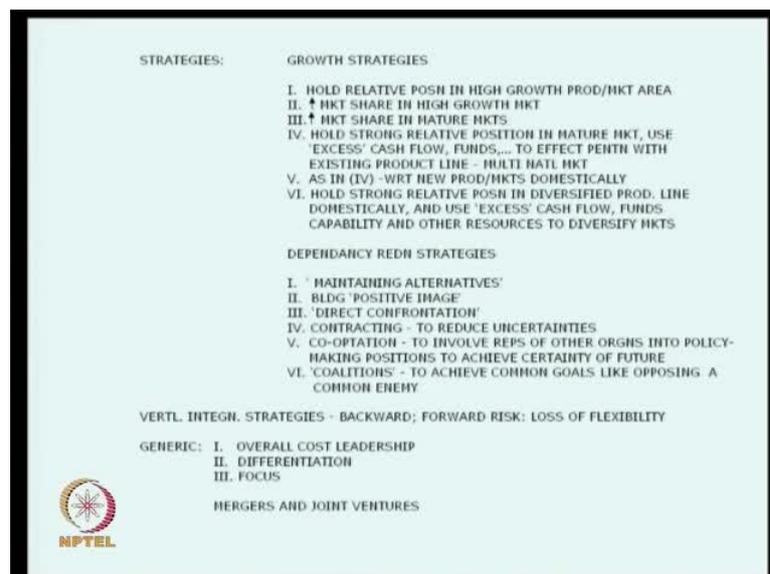
What do we understand by this? I give you the example of this low cost airline. The first of these low cost airlines which enter the market in the world is the South West airline in the United States. What were the characteristics of this South West airline? It was operating the services without frills that is, you did not have very costly meals on flights. So, the number of attendants or the crew on the flight was minimal. What all you had on

the flight was also minimal, so no extra vacancy at all; the booking of tickets, also everything was. Wherever cost cutting exercises was possible it was resorted to.

What happened in the whole process? South West airline started cutting into the market share of the well known Delta airlines which was priding itself in giving wonderful customer service. Now, what is the impact of this type of entrant into the market place? The impact was that Delta was forced to look at the cost of the service it is providing. The cost of the service it was providing was much higher than the South West airline, this got reflected in the ticket price that is being charged. When it was getting reflected in the ticket price that is being charged, the result was the demand for Delta airline tickets was coming down drastically and the company suffered very badly in the market place.

This is what I have brought out in my exhibit 1.1 in my book on strategic management that is, strategic management at delta airlines they called this exercise of cost cutting as leadership 7.5. So they brought down the money spent on each airline seat form 9.6 cents in 94 to 7.5 cents in 97 per flight mile. The result is the program seems to be working and they had to reach 7.5 cents by June 97 which they reached to achieve the corporate objective of reducing annual expenses by 2.1 billion dollars, so which the company did.

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Now the second generic strategy is; what is called differentiation. What do we mean by differentiation? How do you differentiate your product from the others in the market

place? What are the characteristics which differentiate your product from the other players? Question is, if all the products are similar then, what is going to happen? You find that the buyer has got a wide choice of selection, which is presently happening in most of the product categories in the market place. The buyer has got a huge choice before him and he can make whichever selection he wants.

Now, look at it from the company's angle, suppose the company's product were to be preferred over the competitor's product; how is it going to be preferred? Now simple hunch tells you, your products - that is a company's product - will have preference over the competitor's product. Suppose, when the company's products has characteristics which the competitor is not able to match that is, you are able to differentiate your products in a much more effective manner than the competitor.

I give you the example of this triggering event which happened for this. You have a company called Iomega Corporation; it is a successful manufacturer of computer storage devices. Its most popular line of products is the zip drive; a book sized portable storage device that uses floppy disk with a capacity of 100 megabytes equal to 70 standard floppy disks. It earned 8.5 million dollars on a 326.2 million dollars sale in 95.

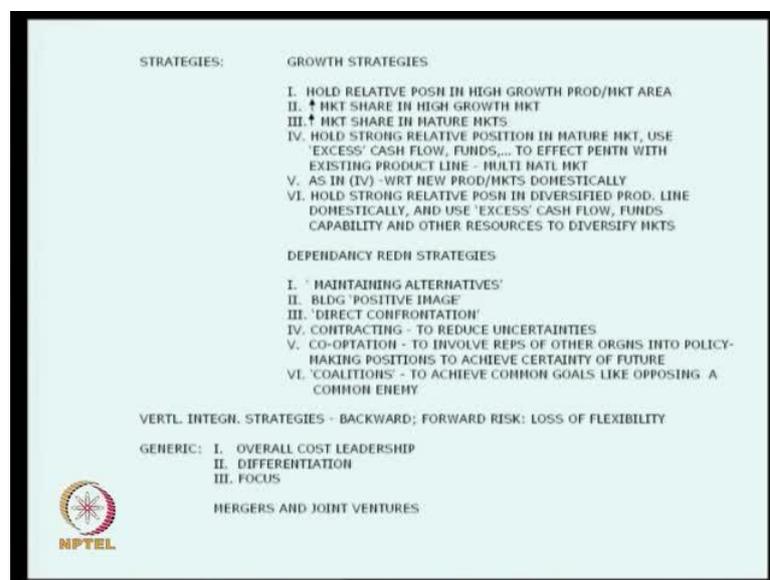
The company's stock escalated from 5 dollar per share in 95 to 112 dollars in April 96. This gentleman Kim Edwards took over as Iomega CEO in 93; the company was providing this Nish computers storage products; what did he do? He asked his team to name some potential new markets for the company's products. After a long pause, one person said the air force really likes our Bernoulli box, then Edward thought 'oh! this is not good'. The Bernoulli box was a powerful storage device but it was so expensive and specialized that only you have few buyers such as the military had any use for it. What did he do? He realized that the company had no clue that there was a market out there waiting for a fun product.

What did the company do? Come out with to appeal to this market it came out with the zip drive, the ditto backup - tip backup system, the jazz removable hard drive which holds one gigabyte of data 10 times as much as the zip. This is how this company was able to differentiate itself in a market place.

Similarly the same company established focus. What do you mean by focus? Focus refers to the market segment that the company is focusing on. What is the type of market segment it is focusing on?

So the same company, if you could see which was just coming out with un-glamorous computer storage devices was coming out with large number of fun products starting from the zip drive. Now you find using the zip drive very commonly even in the present day context to zip many of our large files.

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Then the next example of strategies is what is called the mergers and joint ventures. I discussed these mergers when I was looking at this dependency reduction strategies. When do two companies merge? The companies would like to merge when they feel there is a very strong synergy between them and they are coming out with products which can appeal better to the market place when they come up together.

Similarly, when does a company go into a joint venture? The company finds that it is strong in one particular aspect of the operations. The other one might be very strong in marketing; so when you combine the operations and the marketing you have a very strong setup of a joint venture. This is the next example of strategies which I just told you.

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STATEGIES:

GROWTH STRATEGIES

- I. HOLD RELATIVE POSH IN HIGH GROWTH PROD/HKT AREA
- II. ↑ HKT SHARE IN HIGH GROWTH HKT
- III. ↑ HKT SHARE IN MATURE MKTS
- IV. HOLD STRONG RELATIVE POSITION IN MATURE HKT, USE 'EXCESS' CASH FLOW, FUNDS,... TO EFFECT PENTH WITH EXISTING PRODUCT LINE - MULTI NATL HKT
- V. AS IN (IV) - WRT NEW PROD/HKTS DOMESTICALLY
- VI. HOLD STRONG RELATIVE POSH IN DIVERSIFIED PROD. LINE DOMESTICALLY, AND USE 'EXCESS' CASH FLOW, FUNDS CAPABILITY AND OTHER RESOURCES TO DIVERSIFY MKTS

DEPENDANCY REDN STRATEGIES

- I. ' MAINTAINING ALTERNATIVES'
- II. BLDG 'POSITIVE IMAGE'
- III. 'DIRECT CONFRONTATION'
- IV. CONTRACTING - TO REDUCE UNCERTAINTIES
- V. CO-OPTION - TO INVOLVE REPS OF OTHER ORGNS INTO POLICY-MAKING POSITIONS TO ACHIEVE CERTAINTY OF FUTURE
- VI. 'COALITIONS' - TO ACHIEVE COMMON GOALS LIKE OPPOSING A COMMON ENEMY

VERTL. INTEG. STRATEGIES - BACKWARD; FORWARD RISK: LOSS OF FLEXIBILITY

GEHERIC: I. OVERALL COST LEADERSHIP
II. DIFFERENTIATION
III. FOCUS

MERGERS AND JOINT VENTURES

TURNAROUND STRATEGIES - ENTREPRENEURIAL AND EFFICIENCY



The next one is what is called the turnaround strategies? These turnaround strategies are resorted to by companies which can be of two categories: one can be an entrepreneurial turnaround; the other could be an efficiency turnaround. What do we mean by an entrepreneurial turnaround? A single person turns around an organization. You have the wonderful example of Sylvania Laxman which was coming out with electric bulbs which turned around by an entrepreneurial leader.

Sylvania Laxman was making huge losses turned around due to his extraordinary entrepreneurial skill. The other one is what is called the efficiency turnaround? In the efficiency turnaround, you try to find out which of the operations require real re-engineering or real cost cutting or whatever is a this thing.

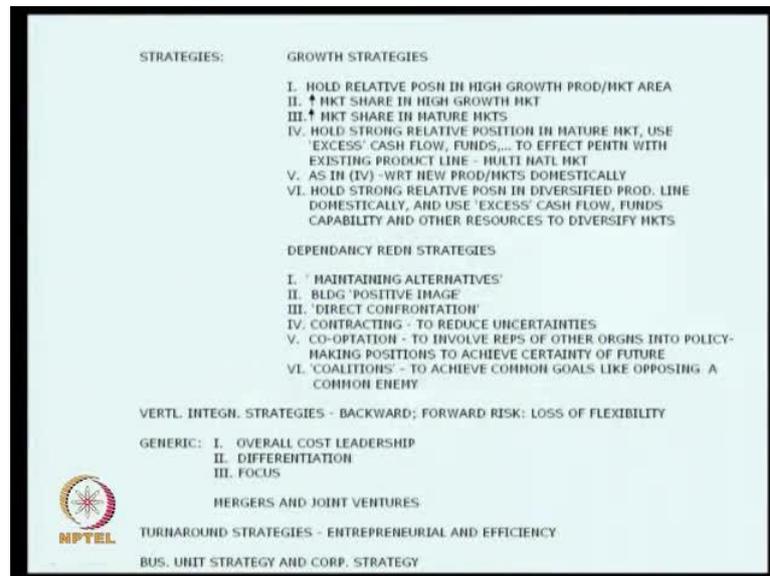
The result is, one of the organizations which benefited by this type of efficiency turnaround was none other than the Steel Authority of India. You had many turnaround strategies which were adopted to come out with cost cutting exercises for this company.

So what we have done? We have looked at the different strategies - the growth strategies - I have provided for you the six possible examples of growth strategies (Refer Slide Time: 26:44). We have looked at dependency reduction strategies again I have given you six possible examples.

Then we have looked at, what is this vertical integration strategy? It can be backward or forward the risk is the loss of flexibility - the generic strategies. At this point of time, let me also tell you the person who gave these generic strategies was Michael Porter; we go more into these generic strategies as we go along.

The fifth one is mergers and joint ventures (Refer Slide Time: 27:26). The sixth type of strategies is what we refer to as turnaround strategies. It can be entrepreneurial or it can be efficiency turnaround, sometimes it can also be both entrepreneurial and efficiency turnaround.

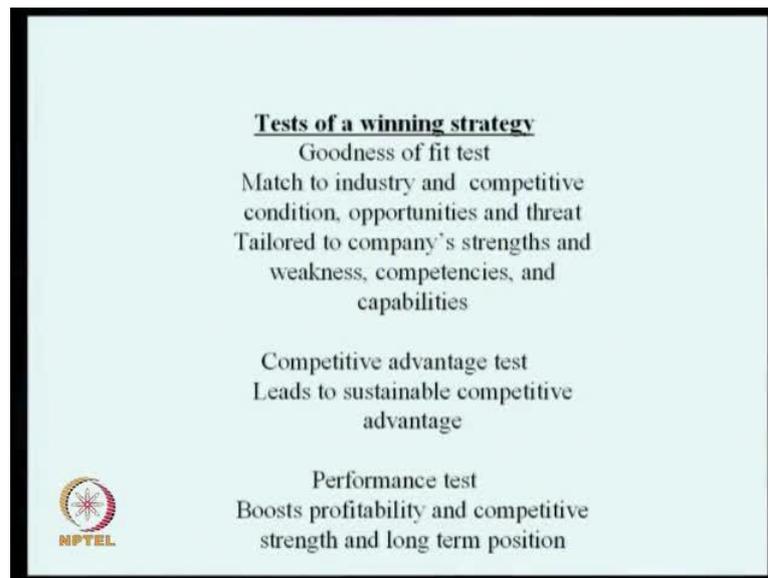
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Now we go to the next slide, all this leads you to one important aspect that is the different strategies. Why do we want to drop these strategies? We are looking at drawing up this strategy first for the business unit and then, we want to combine all this to come out with what is called a corporate strategy that does not mean that if you summit all the business strategies you are going to get the corporate strategy of the organization.

We may be taking the essentials of the business strategy - business unit strategy - of different units in the organization to come out with a corporate strategy. This I will explain when we go along further. So, these are the different types of strategies that you can have in a market place.

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Now the next aspect that we have to discuss is how do you know a strategy is going to win in the market place or what are the characteristics? What are the tests of a winning strategy? I give here three types of such test which can be used. One is what is called the goodness of fit test. What do we understand by this goodness of fit test? The goodness of fit test means, match to industry and competitive condition, opportunities and threats, tailored to company's strength and weaknesses, competencies and capabilities.

What are we trying to say here? What we are trying to say is the company should work on its strengths, competencies and capabilities and match the strategy that it is coming out to the industry and competitive condition. That is a goodness of its test - is it really matching.

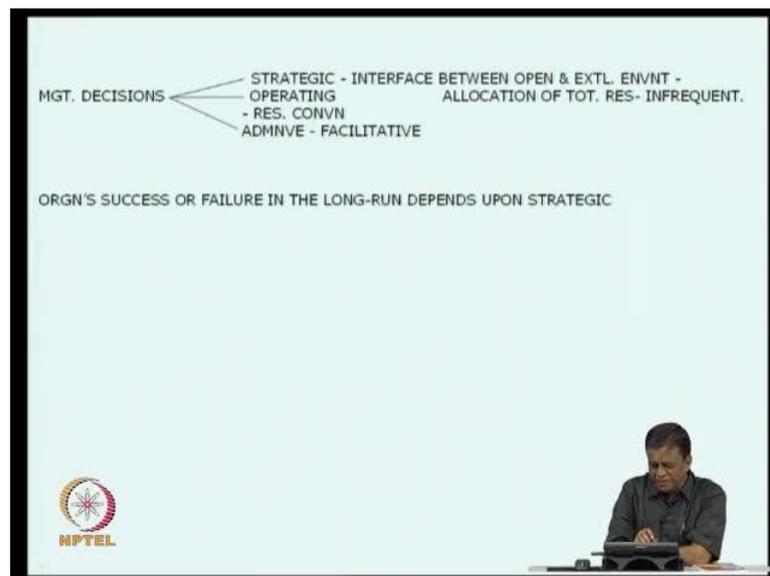
Then the competitive advantage test is the one which leads to sustainable competitive advantage. What do we mean by this? Competitive advantage test leads to sustainable competitive advantage.

It is not enough for a company to come out with a product. A company should be able to come out with a product which is not easily susceptible for duplication by the competitors. As long as you are able to come out with the product which the market cannot duplicate then, you hold a sway in the market place.

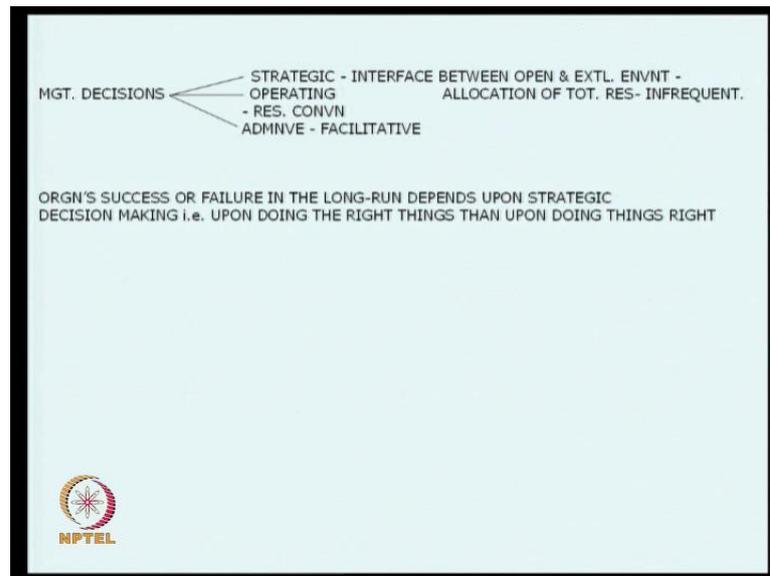
The best example that you can think of is this Gillette Company and the product that you can think of is the Gillette mach 3. The Gillette mach 3, the competitors are not able to duplicate the Gillette mach 3. The result is the mach 3 is holding in a market place in spite of other companies coming out with different types of razors or blades. None of them are able to match this mach 3.

The third characteristic of a winning strategy is what is called the performance test (Refer Slide Time: 31:43). What is performance test? The performance test is the one which helps boost profitability and competitive strength and long term position. None other the example which I gave you just now that is the mach 3; it only able to sustain in a market place for a reasonably long period of time able to provide a very good performance to the users of the product. The result is the company's profitability has improved by leaps and bounds, able to establish itself as a well form market player in this Indian market too.

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Now, let us look at the types of management decisions that one can have in an organization. The management decisions that one can have in an organization can be bracketed under three heads, one is called the administrative; I go from the bottom to the top.

The administrative decisions are basically facilitative decisions. They are taken to facilitate the smooth working of the organization, kindly note this, they are taken to facilitate the smooth working of the organization. In other words, you should not take administrative decisions to hinder the working of an organization.

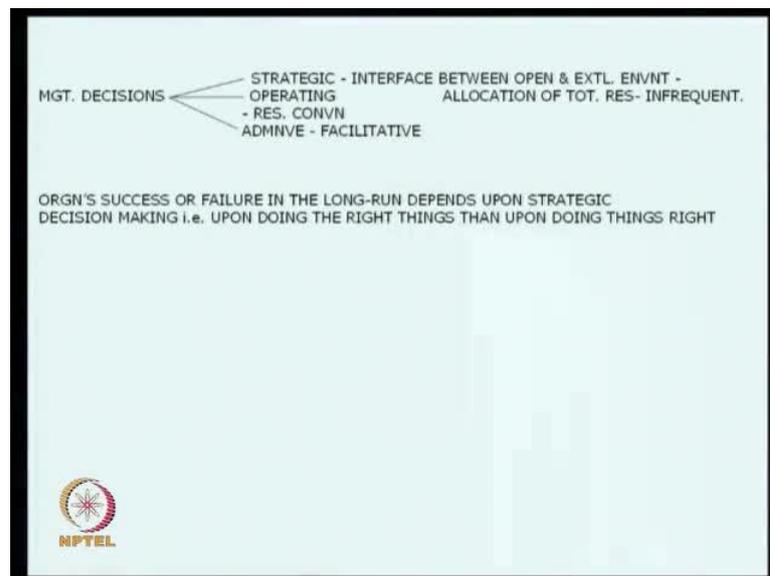
The second one is what is called the operating decisions. The operating decisions are basically resource conversion decisions. That is, you are converting your raw material to the finished product. In order to do this conversion from the raw material to the finished product; you may have to take decisions at different levels in the organization all this are called operating decisions. What are strategic decisions? These are the most crucial in an organization they interface between the organizational and the external environment.

In other words, what is going to happen? You are looking at the allocation of total resources in an organization. When you are looking at the allocation of total resources in an organization, you want to have this interaction between the organization and the

external environment. What is a type of implications it has? This will result in the allocation of resources in the most optimal manner.

The most important characteristic of a strategic decision is that you do not take a strategic decision every hour after hour in an organization or day after day, they are infrequent. You select a strategy; you stick to that strategy at least during that particular quarter as it is happening in the present day IT companies.

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Now, what really happens in an organization is, the organization success or failure in the long run depends upon strategic decision making. That is, upon doing the right things rather than upon doing things right, kindly note this particular sentence very carefully, upon doing the right things than upon doing things right.

So, you must be able to do the right things not saying that How I did this thing right? The question is, is it the right thing to be adopted? Is it the right strategy to be adopted by the organization? You might have implemented the strategy right but suppose, the strategy that was selected itself was wrong then, the organization is likely to pay for that wrong strategy. This is one of the things which you can see happening in our setup.

We have the most recent example, what is the latest example that you have? You have the rising food prices in the country. Why did the food prices rise? It can be attributed to some errors in decision making.

What do you mean by some errors in decision making? We thought that we can export a particular commodity because we are likely to be flushed with that commodity. We exported that commodity at a price x but to our great **chasing**, we found that we are not flush with that particular commodity. We had to import the commodity back at more than $2x$. The result is the inflationary food prices in the economy. These are types of, in other words you find not only a company pays for a wrong decision many times the countries also pay for wrong strategies. So, this is what we mean by this.

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Table 1.1: Comparison Of Operating and Strategic Decisions

How	What	STRATEGIC DECISIONS	
		Clear	Unclear
O P E R A T I O N S	E f f e c t i v e	I	II
		Clear strategy and effective operations have contributed to success in the past and will contribute to success in the future.	Unclear strategy but effective operations have contributed to success in the past but success in the future is doubtful.
D E C I S I O N S	I n e f f e c t i v e	III	IV
		Clear strategy but ineffective operations have sometimes worked in the past in the short-run, but increasing competition makes success doubtful in the future.	Unclear strategy and ineffective operations have meant failure in the past and will be so in the future.

Source: Tragoie B. and J Zimmerman , 1980, Top Management Strategy, John Martin: London, pp 20

Now come back, if we are able to draw a comparison of the operating and the strategic decisions. We can construct a table; we can look at the operating decisions on one side of this matrix, the strategic decisions on the other side of the matrix and we can see what really happens in the different quadrants. We see four quadrants here and what is the type of decisions? How they are going to affect? Let us look at quadrant number one. What does quadrant number one tell you? You have a clear strategy, you have an effective operation.

What is going to happen when you have a clear strategy and an effective operation? Clear strategy and effective operations have contributed to success in the past and will contribute to success in the future, in other words this is likely to be a winning strategy.

So, if your strategy is clear and if you have effective operations they have contributed to success in the past and it is likely to contribute to success in the future as well. Come to the second quadrant; the second quadrant says unclear strategy but effective operations have contributed to success in the past but success in the future is doubtful. What does that mean?

Though you had effective operations, the strategy that the company adapted was not clear. Maybe, the company succeeded in a market place because the competition was not very strong but whether this success will be replicated for the future, it is doubtful, because the market conditions are dynamic. When the market conditions are dynamic and when more and more players are likely to enter into the market, you are not really sure what is going to happen in the market place when you have an unclear strategy (Refer Slide Time: 40:16).

Now come to the third quadrant; the third quadrant is clear strategy but ineffective operations have sometimes worked in the past in the short run but increasing competition make success doubtful in the future. What does that mean?

It means that suppose you had a clear strategy - that is a strategy of the organization is very clear - but the operation line that is, the implementing line of the strategy is not so effective but you succeeded in the past. How did you succeed in the past? Maybe you did not again have effective competition in the market place. Since, you did not have effective competition in the market place; you are able to pull along even with an ineffective operation. So, you could prove that you are successful even with an ineffective operation but there is no guarantee that you are going to succeed in the future as well.

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Table 1.1: Comparison Of Operating and Strategic Decisions

How	What	STRATEGIC DECISIONS	
		Clear	Unclear
O P E R A T I O N S	E f f e c t i v e	I Clear strategy and effective operations have contributed to success in the past and will contribute to success in the future.	II Unclear strategy but effective operations have contributed to success in the past but success in the future is doubtful.
	I n e f f e c t i v e	III Clear strategy but ineffective operations have sometimes worked in the past in the short-run, but increasing competition makes success doubtful in the future.	IV Unclear strategy and ineffective operations have meant failure in the past and will be so in the future.



Now, come to the last quadrant that is the unclear strategy and ineffective operations. What is going to happen? Suppose you have an unclear strategy and ineffective operations, they have meant failure in the past and will be so in the future. So, if your strategy is not clear and if your operations are not effective - that is the company's operations are not effective. Such types of companies have failed in the past and they are likely to fail in the future as well.

Sometimes it may so happen that a company's product may be good. A good product is not a guarantor for the market share of the company. A good product introduced into the market with a good marketing strategy is perhaps likely to result better.

So, it is not enough that you have a good product; you should also make this product to be accessible to the market. All these things mean that not only the product should be good. The operations of the product should be such that the market can access your product that is the delivery to the market also as to be effective (Refer Slide Time: 42:58).

This is the fourth quadrant, you have an unclear strategy and ineffective operations and they have meant failure in the past and will be so in the future. We are looking at four quadrants for decision making that is with respect to operating and strategic decisions.

The first quadrant always means that you are the company likely to succeed; you have a clear strategy and effective operations. The second quadrant, not really certain in the future similarly, the third quadrant not really certain about the future; the fourth quadrant, it is a failure.

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Important Definitions

Strategic Management Process
The full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns

Strategic Competitiveness
Achieved when a firm successfully formulates and implements a value-creating strategy

Above-Average Returns
Occurs when a firm develops a strategy that competitors are not simultaneously implementing

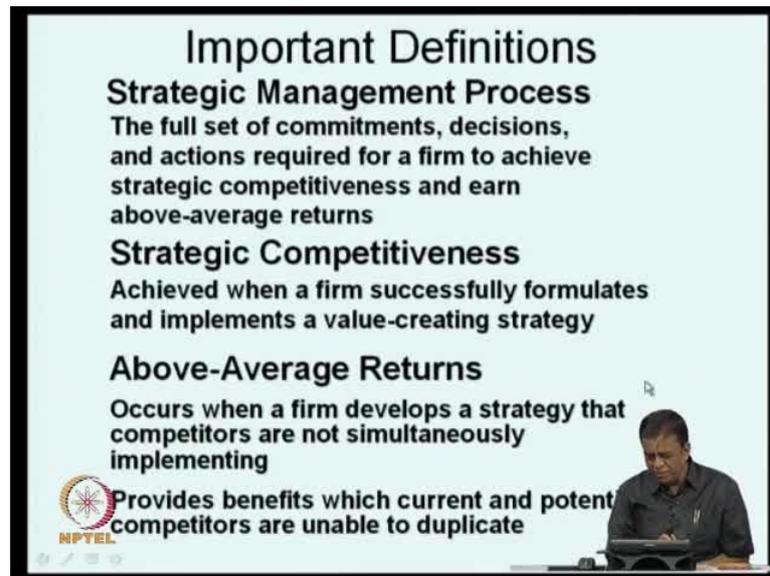
Provides benefits which current and potential competitors are unable to duplicate

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Now come to the next thing, I give here some important definitions with respect to strategic management. The first important definition is this - what is meant by this strategic management process? What do we understand by this strategic management process?

The strategic management process refers to the full set of commitments, decisions and actions required for a firm to achieve strategic competitiveness and earn above average returns. Come a little down the second definition, it tries to tell you what is strategic competitiveness? The strategic competitiveness when is it achieved? It is achieved when a firm successfully formulates and implements a value creating strategy.

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Important Definitions

Strategic Management Process
The full set of commitments, decisions, and actions required for a firm to achieve strategic competitiveness and earn above-average returns

Strategic Competitiveness
Achieved when a firm successfully formulates and implements a value-creating strategy

Above-Average Returns
Occurs when a firm develops a strategy that competitors are not simultaneously implementing

Provides benefits which current and potential competitors are unable to duplicate

MPTEL

Come to the third definition, it tells you what is meant by an above average return? An above average return occurs, when a firm develops a strategy that competitors are not simultaneously implementing; provides benefits which current and potential competitors are unable to duplicate, so this is what I was trying to mention to you earlier as well.

Suppose, your strategy can be very easily duplicated in a market place then, it is going to impinge on the strategic competitiveness of the firm. When it impinges on the strategic competitiveness of the firm; what is going to happen? The returns are going to come down.

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The next definition, what is meant by a risk? A risk refers to an investor's uncertainty about the economic gains or losses that will result from a particular investment. What is a good example for this? Suppose you invest in an equity share, let us say in a market place.

Why are you investing in the equity share of a company? You thought that the company is doing very well and when the company is doing very well, it is reasonable enough to pay for a 10 rupee share something like 400 rupees may be it is an IP and you are more or less confident that this 400 rupees will be recovered very fast when the trading starts, but kindly note with all that there is an uncertainty that is attached.

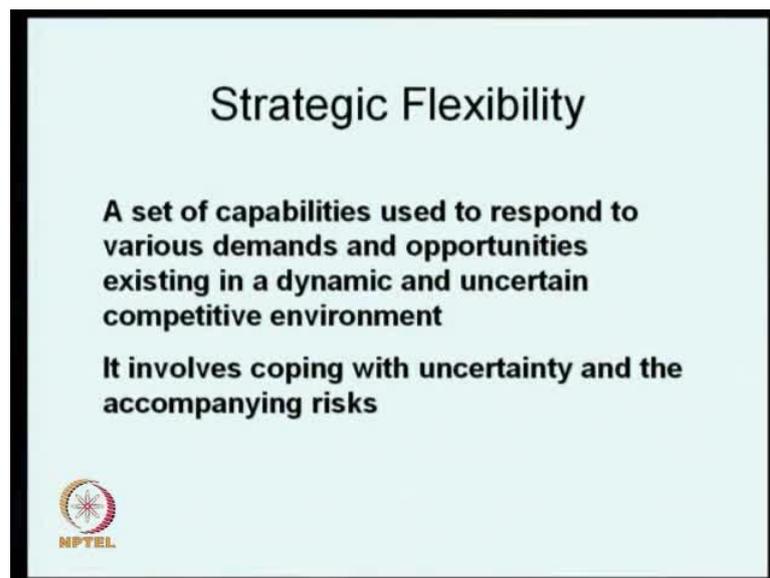
What do we mean by this uncertainty? The market conditions you expected it to be in a particular manner and the market conditions may not be in the same manner when the stocks open, so this has happened to many companies. One of the companies which suffered due to this change in market conditions was none other than the Reliance Energy. So, there is a certain amount of risk which investors have to bare.

Then the next important definition is what is called the average returns? What is average returns mean? Returns that are equal to those an investor expects to earn from other investment with the similar amount of risk.

What do we mean by this; take a very simple example, why would you put your money in a particular stock? Let us say, you would put your money in a particular stock because, it is likely to give you a return much higher than the available rates of returns.

What do we mean by the available rates of returns? Suppose you had put that money in a fixed deposit in a bank, you would have got a certain amount of interest, let us say 7 percent per annum. Now by putting that money in this particular stock, what is the type of return that you are expecting? You expect a return of much more than 7 percent. You say when I can get much more than 7 percent and the dividends are not taxed as of the present policy of the government of India. Why not I put my money into these stocks of this companies which are performing well, so that I can get a better return than what is available to me in the bank.

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Then the next important definition that we look at is what is known as the strategic flexibility? What do we mean by strategic flexibility? A strategic flexibility stands for a set of capabilities use to respond to various demands and opportunities existing in a dynamic and uncertain competitive environment.

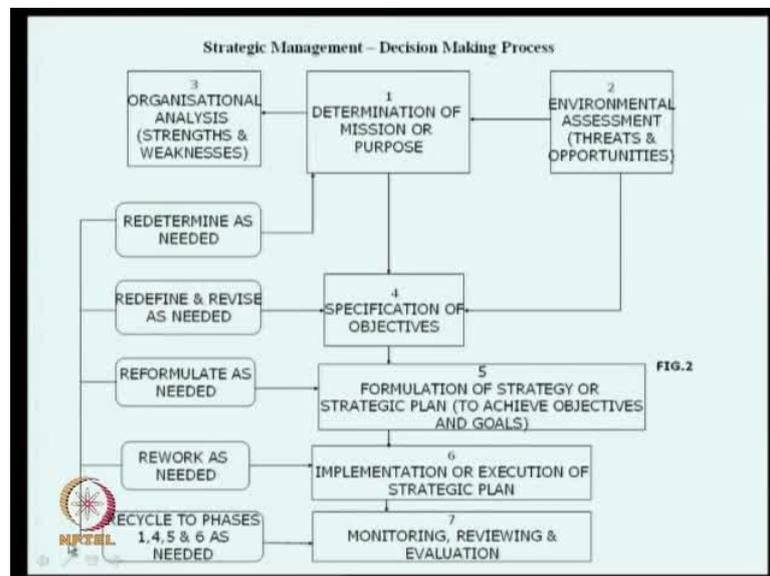
What does it involve? It involves coping with uncertainty and the accompanying risks. A set of capabilities use to respond to various demands and opportunities existing in a

dynamic and uncertain competitive environment. It involves coping with uncertainty and the accompanying risks.

In other words, what does that mean? It means a company should be flexible enough to really absorb the market shocks. Suppose the markets were to give some shocks to the company for the strategies that the company is taking in the market place.

This company should be robust enough to absorb those shocks. When the company is in a position to absorb the shocks then, it is likely to bounce back. When it is likely to bounce back, it is likely to perform much better in a market place.

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With all these definitions, what we are going to do in the next class? **Armed** with all these definition we are going to look at the strategic management process.