# Chapter 5

## 5.0 Strategic Alternatives

An analysis of the organisation's environment and its strengths and weaknesses lead to emergence of alternative courses of action open for shaping the destiny of organisation. These-are referred to as strategic alternatives. Depending upon the strengths and weaknesses and the environmental conditions of a firm, there are a number of strategic alternatives open to it. These can be classified in four broad categories, called the grand strategies. Within each category, there are a number of variations possible.

## 5.1 Generic or Grand Strategies

There are four generic strategies, also known as the grand strategies namely; stability, expansion, retrenchment and combination of the three[1]. Each one of them has its own advantages and disadvantages[2] as shown in table 5.1.

Table 5.1

| Major reasons for organisations adopting different Grand Strategies |
|---|

**A. Stability strategy is adopted because:**

1. It is less risky, involves less changes and people feel comfortable with things as they are.
2. The environment faced is relatively stable.
3. Expansion may be perceived as being threatening.
4. Consolidation is sought through stabilising after a period of rapid expansion.

**B. Expansion strategy is adopted because:**

1. It may become imperative when environment demands increase in pace of activity.
2. Psychologically, strategists may feel more satisfied with the prospects of growth from expansion; chief executives may take pride in presiding over organisations perceived to be growth-oriented.
3. Increasing size may lead to more control over the market vis-à-vis competitors.
4. Advantages from the experience curve and scale of operations may accrue.

**C. Retrenchment strategy is adopted because:**

1. The management no longer wishes to remain in business either partly or wholly due to continuous losses and non-viability.
2. The environment faced is threatening.
3. Stability can be ensured by reallocation of resources from unprofitable to profitable businesses.

**D. Combination strategy is adopted because:**

1. The organisation is large and faces complex environment.
2. The organisation is composed of different businesses, each of which lies in a different industry requiring a different response.

Source: Business Policy by Azhar Kazmi, New Delhi (1992), Tata McGraw Hill, p. 149

Within each of these grand strategies, there are possible variations along three dimensions: the product, the market and the functions[3]. The variation may also be in terms of the quantum of change from the existing business. There could be change in the pace of efforts (when the company continues with the existing product market scope defined by mission) or the very business definition or the mission may be redefined. These effects are shown in table 5.2.

## 5.2 Variants in Generic Strategies

Having decided the generic strategy which is to be followed, the next issue is how these are to be effected. The choice may fall in favour of one or more of the following four dimensions[4] ; namely related/ unrelated, horizontal/ vertical, internal/ external expansion, and active (offensive posture by the company)/ passive dimensions. Each one of them is briefly explained below.

### 5.2.1 Related/ Unrelated Dimensions

The new business under consideration may be highly related with the existing one or it may not be. The relatedness may be in terms of product, market (customer group) or technology[5] as shown in table 5.3. Related dimension is important because to the extent the new business is unrelated, it proportionately increases the demands for development/ acquisition of various skills and resources required for the new businesses. The new skills required may be in one or more functional management areas, like marketing, finance, production etc. The differences in the skills and resources required may be in the sub-functional areas of expertise also, for example, distribution management in marketing area, materials management in production area etc.

### 5.2.2 Vertical/ Horizontal Dimension

Vertical integration is of two types, forward and backward[6]. In forward integration the company becomes customer of its output, while in backward integration, it assumes the role of its supplier. In horizontal integration the firm moves to a similar type of market or takes up a similar type of product. Vertical integration helps in achieving economies of operation and surety of supplies and customer. Vertical integration, however, is a double edged sword. It demands undertaking unfamiliar businesses or activities which the organisation may find difficult to manage. It also makes the firm inflexible (and thus vulnerable) in case of fall in market demand, because itincreases the resources and infrastructure, which results in fixed costs and pushes up the break even point. The firm may find it difficult to adjust to the changed environment due to heavy commitment of organisational resources to the existing business, while there is increasing pressure for moving out of the existing and taking up new business. This vulnerability is associated with horizontal integration also.

### 5.2.3 Internal/ External Dimension

For taking up additional new product or entering new market, a firm may develop necessary physical infrastructure like plant machinery distribution network etc., and develop necessary skills and internal competencies. It is then termed as internal expansion. Alternatively, the firm may acquire the same from outside when it is termed as external vehicle for growth[7]. In both the cases of internal expansion, the problem is creation of physical infrastructure and development of skills, speedily. However, there is close similarity (and thus familiarity) between the existing and the new infrastructure required. Further, there is commonality in existing management structures, systems, processes and organisation culture, required for the new business. In the case of external vehicle for growth (through acquisitions and mergers), reverse is the case. There is a very important and different task of integration of two different organisational systems, structures, policies and cultures (see fig. 5.1). Moreover, there is also a lack of familiarity with the new organisation being acquired. The task of integration of two different; organisations, requires totally different skills than what is required for internal expansions, and the managers who are good at managing growth through internal expansion may simply fail in managing acquisitions/ mergers[8].

The external strategies could be acquisitions, mergers, joint ventures and strategic alliances. In mergers, the two independent organisations merge their entities into one. This involves highest level of integration between the two organisations. The task of merger demands additional, new managerial skills for superior post merger performance in the long term, which are different from those required for achieving the same performance through internal expansion (see fig. 5.1). In acquisitions, the control of the acquired firm passes on to the acquiring one. The acquiring firm may, however, formally integrate itself with the acquired firm, or may retain their separate identities, while protecting the interests of the acquirer. In the case of joint ventures, two firms give birth to a new firm, independent of the partner firms. The purpose is to exploit the strengths of both and dividing the benefit accruing, amicably, among themselves. Each one of them commits to the prosperity of the new organisation. In strategic alliances, on the other hand, the two firms may extend cooperation to each other, in limited areas, without jointly 'committing to form a legal entity manifesting the cooperation, or subjugating their independence. It is one of the most powerful strategic alternatives available to firms in developing countries like India, which are unable to reach critical size of operation to be able to compete globally, due to serious resource constraints. But rigidities of management practices and the ego clashes among executives who matter, do not allow it to be properly examined and exploited.

Table 5.2

| | Expand | | Retrench | | Stabilise | | Combination |
|---|---|---|---|---|---|---|---|
| | Business Definition | Pace | Business Definition | Pace | Business Definition | Pace | Definition and/or pace |
| Products | Add New Products | Find New Uses | Drop Old Products | Decrease Product Development | Maintain | Make Packing Changes/ Quality | Drop Old While Adding New |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | Improveme nt | Products |
| Markets | Find New | Penetrat e Markets | Drop Distributi on Channels | Reduce Market Shares | Maintain | Protect Market Share, Focus on markets niches | Drop old custom while finding new ones |
| Functio ns | Forward Vertical Integratio n | Increase d Capacit y | Become Captive Co mpany | Decrease Process R&D | Maintain | Improve Productivit y/ Efficiency | Improve Capacity and Productivit y |

Strategy Classification given by Jauch & Glueck
Source: Business Policy and Strategic Management, New York (1988) McGraw Hill, p. 204

Table 5.3

| Market | Product | | Technology | |
|---|---|---|---|---|
| Existing | New Penetration | Existing Product Development | New | Existing |
| New | Market Development | Diversification | | |
| Existing New | | | Tech/ Market Related | Market Related |
| | | | Technology Related | Unrelated/ Conglomerate Diversification |

A strategy classification given by Ansoff
Source: Corporate Strategy, New York (1965), McGraw Hill

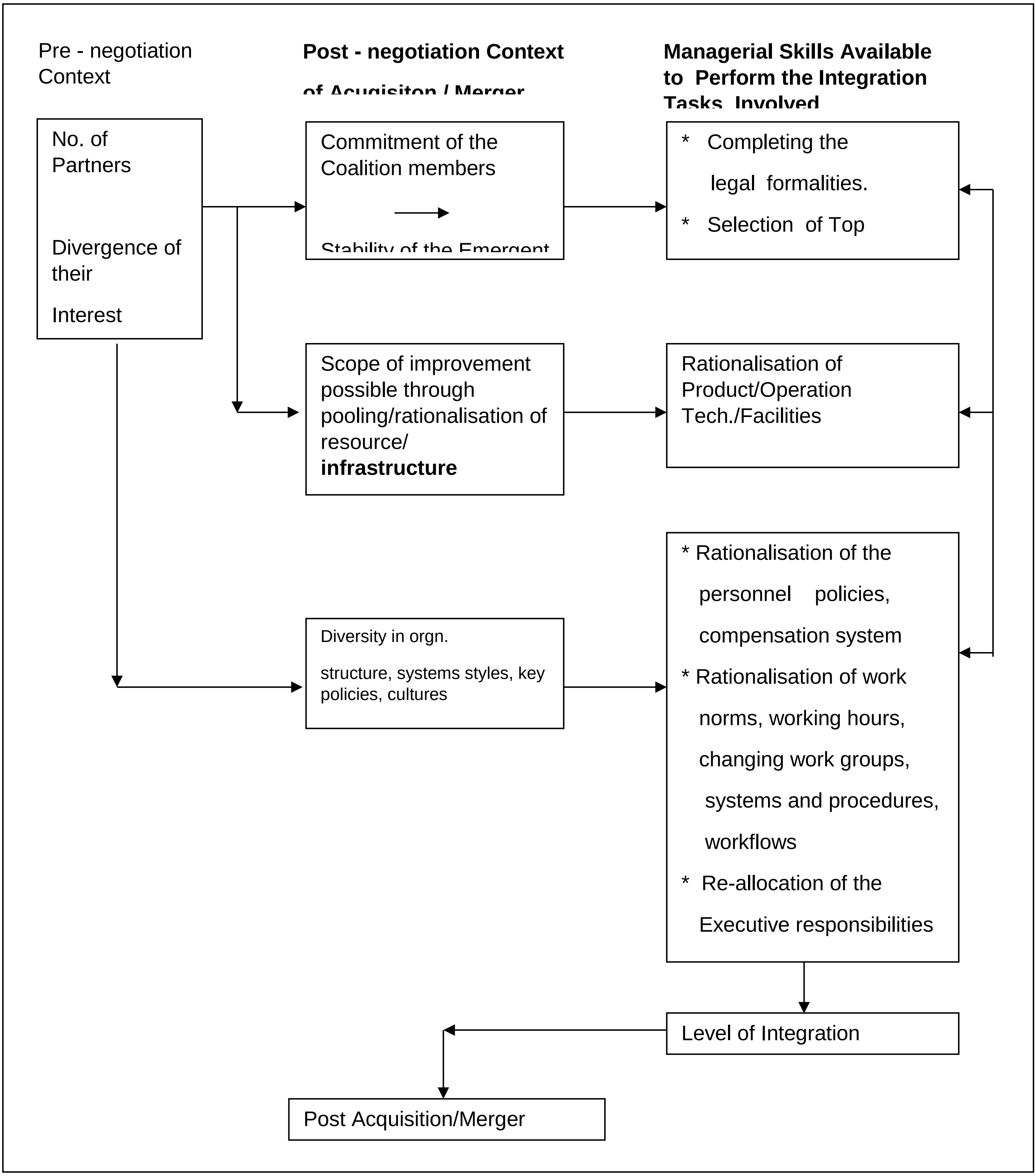


Fig 5.1 Model of Ex-post Performance of Mergers and Acquisitions

Active/passive dimension relates to the boldness with which the firm proposes to pursue its strategy[9]. In active approach the management adopts an offensive posture, meeting competition head on, while in passive approach, it avoids to do. Instead it tries to identify a niche for itself.

## 5.3 Major Strategic Options

Putting the four grand strategies and their four variants (each having 2 types) together gives a very large number of possible strategic alternatives[10]. If one considers the three variants based upon business definitions (product/market/ function) also, the number goes to 96. Not all of the combinations are considered major and the strategists narrow down their choice to few of them only. The more popular strategies in India[11] are:

1. Internal Expansion
2. Diversification (all varieties)
3. Mergers/ Acquisitions
4. International Strategies including Joint Ventures (both in India and Abroad) and Strategic Alliances
5. Modernisation
6. Turnaround

As would be realised from the discussion above, each one of these has different advantages and disadvantages and each demands quite a different set of managerial competencies and organisational resources. Further elaboration of the first three is avoided here as they can be understood from the discussion on various dimensions mentioned in the preceding paragraphs. The discussion on turnaround is not taken up here as it is given a separate treatment in chapter 12, Modernisation is sometimes referred as an independent strategic option in India. But, it ought to be treated only as a delayed response of the technological updation, that involves massive resources mobilisation and organisational updation task, which would not be required if the organisation was constantly updating itself, which is the essence of strategic management. A brief discussion on international strategies may, however, be in order.

## 5.4 International Strategies

International strategies, from a firm's point of view become important, if the firm wants to grow through market development, instead of or in combination with other alternatives like product development or diversification. Product development is a costly proposition and the cost of research and development may push the breakeven point of the product (when it sees the light of day) to a level, which may not be possible to reach without exploiting the international markets. In countries like India, where domestic market is big enough for any single company to grow without too much of R& D for new product development, the pressures are not so high on the firms as to push them to international sojourn. This is specially so when the companies are growing more through diversification (even unrelated ones) by import of production technology, rather than developing it on their own than new product development. Relatively few companies are, therefore, following international operations as an integral part of their corporate strategy. Most of the international business of the Indian corporate sector is in the form of exports. The route is attractive on account of fiscal and financial incentive attached (viz. import/ excise duty drawback on imported indigenous raw material and components, excise duty rebate on export items, income/sales tax and octroi rebate), steel and rubber subsidies, airfreight subsidies, export finance at concessional rates, cash compensatory support import replenishment license (for imported items used for exports etc.) and the risk coverage. As of now such attractive benefits .are not available for other types of international operations.

International strategies, in terms of international operations through joint ventures or by putting up subsidiary or creating transactional corporations, put additional, different and exclusive demands on the organisational resources and managerial competencies required to make them a success. To be able to appreciate it, one needs to focus attention on the following differences between the domestic and international operations.

### 5.4.1 International and Domestic Environment Differences

The international environment differs[12] from the domestic environment in all its elements; namely, the economic (natural resources, labour, capital, infrastructure, demographic characteristics, national income etc.), technological (level of technology development and assimilation, technical skills etc.), social (social structure and dynamics, human nature perspective, religion, time and space perspective, language, customs etc.) and political environment (stability, ideology, geopolitical links etc.). Operating in domestic markets provides advantages of close familiarity which reduces when one goes for international operations. The problem is compounded by the fact that the familiarity required is country specific, and even if there is lack of familiarity, it is not easy to get a feel of it by moving short distances, in an unrestricted manner. The more close the familiarity with regulatory environment and various commercial and criminal laws, the more easy will be the management of international operations.

Besides the typical environmental issues mentioned above, two more considerations become extremely important, which may not be easily realised by companies engaged in domestic operations. The first one is the geopolitical environment. The international strategies depend to a large extent, not only upon the relationship between the countries which are trading partners, but also their friendly countries and power blocs. It may work both ways: pose a threat or constraint, or provide a comparative advantage. It must be mentioned here that .geopolitical situation has become highly dynamic in recent years; with increased threat of sanctions on the one hand and difficulties in enforcing the same on the other. Interestingly, the economic considerations, of late have started showing signs of assuming importance to the extent of even dominating political considerations. These developments put the pressure on the strategist to be more vigilant in environmental analysis and increase flexibility of corporate strategy. Special efforts are required for managing government relations, which requires an understanding of government's need, priorities and concerns and aligning strategies appropriately[13]. Another factor which becomes an important consideration in the international strategy is the foreign exchange risk. The volatility in the exchange rate of the currency, especially those of the developing countries, makes the international strategy risky so much so that the real profits may be badly eroded or even wiped out by currency depreciation.

These characteristics of international environment have considerable bearing on the overall corporate strategy, with counter pulls of maintaining uniformity of management policies and practices in different functional areas on the one hand, and matching them with the uniqueness of each country on the other, be it the area of human resources management, marketing and financial management, organisational structure, management control and information systems, skills, value systems or the organisational culture.

### .4.5.2 International Strategy Options

Should Indian companies pursue international strategies? The answer to the question is a positive 'yes'. There are increasing pressures on the country to earn foreign exchange, to meet the mounting external debt and balance of payment. The exports option at the present juncture is the most convenient and shall remain an important one. However, exports are not able to meet foreign exchange requirements of even the import, leave alone generating surplus foreign exchange to help external debt servicing and investment. The trend is so steady that one cannot expect reversal or a favourable change in it. The country has, therefore, to look for alternative routes for generating foreign exchange. The country recently faced a 'debt trap', as a result of which it had to take "structural adjustment" loans, accompanied by several strings like liberalising the Indian economy, opening it to the foreign investors and relaxing the conditions that were thought necessary earlier. This strategy cannot work for long, as it has not led to basic attitudinal changes that are necessary to reverse the trends.

The first and foremost requirement for reversing the trend is the realisation that international operations can be a successful strategy for Indian organisations. It requires that Indian industry and business consider international operations as an integral part of corporate strategy, rather than an appendage, having interest in joint ventures abroad only as investors[614]. The latter is as much a question of a firm's absolute domestic market orientation as that of preparations required to become a truly international player. The domestic market is large enough to allow firms to think of confining themselves to domestic market. International operations involve too much of risk for them, which can be realised from the ease with which one can undertake manufacture by import of tools to feed the burgeoning domestic market.

In terms of preparations required, the international operations strategy, the Indian organisation may have to adopt two pronged strategy; one designed for dealing with the developed countries and the other for dealing with the developing countries. For dealing with developed countries the desirable strategies could be:

a) Exploiting labour cost advantage, by becoming a subcontractor,
b) Engaging in innovation, to improve the process of manufacture (improving quality and reducing cost), or the product (adding more features using local endowments, new applications),
c) Strategic alliance with firms of developed countries, for engaging in operations in the other developing countries. The firms in developed countries may provide technology and capital and the Indian organisation adding skilled technical manpower for running the operations in the third world countries.

On the other hand for dealing with the developing countries, the strategy may be very different, with dominant orientation being to become a partner in their economic progress (rather than exploiting them the same way as a colonial rulers did in the past century, and some of the developed countries do with India even today). The strategy could be:

a) Setting up joint ventures with local partners in the developing countries with Indian expertise and supplies.
b) Undertaking exercises of cost reduction and incorporating "relevant quality" standards, rather than imposing quality, which customers may not be able to afford.
c) Undertaking joint programmes of new product development, using host country local endowments, which may be useful for both the countries and could be easily imported into India to meet Indian customer's needs.

All the above imply one important thing: conscious efforts need to be made towards new product development, an area which has not been emphasised in the past, and is increasingly being ignored ever since change in the economic policies started in 1991. It requires action on several fronts: on the part of Indian industry leaders (they must become enlightened enough to play the role of economic problem solvers of the country, rather than clamouring for government help for their own survival); on the part of government (initiating policy measures to provide adequate fiscal and financial incentives for developing radically different new products). Last but not the least, it would require a new thrust on educational system (especially higher education system to guide and inculcate creative thinking, so essential for new product development in the minds of students). Unless such actions are initiated, pursuing international strategies may not be an attractive and desirable strategic option.

So far as the mode for international operations is concerned, it would be difficult for many of the Indian companies for several reasons to go for setting up operations abroad on their own, as fully owned subsidiary companies right away. Firstly, the companies would have to tread into unfamiliar territory, which involves higher risk of failure. Secondly, the Indian companies may not be able to mobilise enough resources on their own for the purpose of meeting the cost of projects. They may not be even permitted by the Government of India in view of the paucity of capital in the country. They may, however, be able to provide their part of equity in terms of plant and machinery, consultancy services, patents etc. The desirable international strategy would, therefore, be to follow joint venture route with a local partner. The companies may have to have controlling interest to sustain their commitment. This will be possible if they are able to demonstratively protect the interest of the host country in terms of economic development. This will require ongoing efforts for developing and introducing new products. Alternatively, they may adopt a policy of not entering into contract for more than 3-5 years at a time. The agreements for undisturbed operations should be made for such periods.

Besides the joint ventures abroad with local partners, the Indian companies may also use strategic alliances among Indian firmsfor international operations, especially with a view to sharing overhead costs. This holds true for operating common offices for sales, information collection, expediting a job or contract. For example, a consortium office may be opened for providing banking services, tourism services, collecting tender information, promoting Indian industry through displays, catalogues etc.

## 5.5 Competitive Strategy

The competitive strategy is at the core of the success or the failure of firms. Rarely there is a situation of no competition. Even it does not exist at some point of time (e.g. when business is built on a breakthrough of technology) in the long term some competitor(s) will enter the scene.

Although a good part of competitive strategy is expected to be developed at functional level or divisional level, but it would be worthwhile to spell out the key features of corporate competitive[15] strategy. For instance, an organisation may like to reap emerging opportunities through new products rather than taking them up later and competing on price. A company may decide not to go for head-on competition, but following a "niche" strategy. Another company may not be averse to enter head-on-competition. Yet another company may decide to win battle by cost effectiveness. Some companies go for winning customers through quality as a hallmark, some may elevate extra efforts for reliability or for that matter close adherence to delivery schedule.

The need for such clarity about key competitive elements of corporate strategy arises on account of the fact that commensurate organisation arrangements are to be made at the time of strategy implementation. A short account of the salient aspects of competitive strategy is given below

### 5.5.1 Elements of Competitive Strategy

Developing a competitive strategy is developing a broad formula for how a business is going to compete, what its goals should be and what policies will be needed to carry out these goals?

A competitive strategy is a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there. An elaborate representation has been given by Michael E. Porter where the goals have been represented in the centre and all the other activities of the organisation surround the goals of the organization[16] (see fig 5.4).

The hub is considered as the firms goals which is a broad definition of how the firm wants to compete and its specific economic and non-economic objectives. The description has been done in the form of a wheel, the spokes of which represent the policies (target markets, marketing, sales, distribution, manufacturing, labour, purchasing, R&D, Finance and Control, Product Line and Target markets. The policies must radiate from and reflect the hub (goals), and the spokes must be connected with each other so that the wheel rolls.

Formulation of a competitive strategy involves the consideration of four key factors that determine the limits of what company can successfully accomplished. The companies strength and weaknesses are a profile of assets and skill relative to competitor including financial resources, technological posture, brand identification etc. the competitive strategy is related to the industry opportunities and threats (Economic and Technical, Broad Societal Expectations and Personal Values apart from Strength and Weaknesses of the organization)[16a].

Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

To get an answer to get to the choice of competitive strategy, two basic questions have to be answered.

a) What is the attractiveness of the industry for the long term profitability and the associated factors?
b) Secondly the competitive strategy in the determination of relative competitive position within and industry in terms of infrastructure and resources of the firm, as the profitability of different firms differ widely.

Both the questions are important to be answered and none of them is a substitute for the other. To create and sustain a competitive advantage in its industry how it can implement the broad generic strategies. The competitive advantage grows fundamentally out of the value a firm is able to create for its buyer.

Having discussed the first question to arrive at broad strategic options, one now has to do more rigorous strength and weakness analysis vis-à-vis the key competitors for every strategic option, to decide whether to go for a particular option and if yes, then how to go about meeting the challenge of competition.

### 5.5.2 The Value Chain

The value chain[17] which is a thoughtful analysis of the the specific activities through which firms can create a competitive advantage, it is useful to model the firm as a chain of value-creating activities. Michael Porter identified a set of five interrelated generic, primary activities common (inbound logistics, operations, outbound logistics, marketing and sales and service) to a wide range of firms and created a model known as the **value chain.** To this one can add new product development/ innovation to make it more rich framework.

**A) Primary Value Chain Activities**

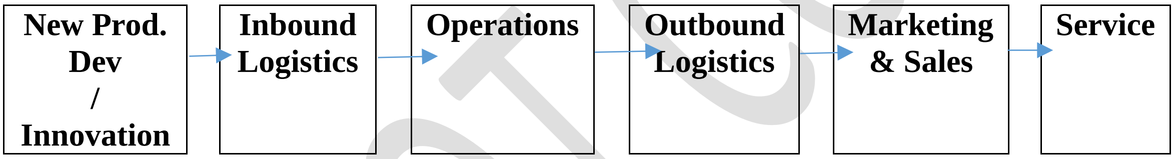


Fig. 5.3 The Value Chain

The goal of these activities is to create value that exceeds the cost of providing the product or service, thus generating a profit margin.

- **New product development/ innovation** includes creation and development of new product, modifications or improvement in existing ones.
- **Inbound logistics** include the receiving, warehousing, and inventory control of input materials.
- **Operations** are the value-creating activities that transform the inputs into the final product.
- **Outbound logistics** are the activities required to get the finished product to the customer, including warehousing, order fulfillment, etc.
- **Marketing & Sales** are those activities associated with getting buyers to purchase the product, including channel selection, advertising, pricing, etc.
- **Service** activities are those that maintain and enhance the product's value including customer support, repair services, etc.

Any or all of these primary activities may be vital in developing a competitive advantage. For example, logistics activities are critical for a provider of distribution services, and service activities may be the key focus for a firm offering on-site maintenance contracts for office equipment.

These six categories are generic and portrayed here in a general manner. Each generic activity includes specific activities that vary by industry.

### B) Supporting Infrastructure and Resources

The primary value chain activities described above are facilitated by six supporting infrastructure and resources as mentioned below, the details of which are industry-specific.

- **Financial Resources-** include money in the form equity, debt, borrowings, reserves, promoters' contribution etc.
- **Physical Infrastructure-** including land, building, plants and machinery etc.
- **Human Resources** – include number, skill and competencies of manpower for carrying out various primary activities, their willingness and enthusiasm tec.
- **Organisational Resources** - include systems, policies, procedures etc. for carrying out elements of various activities.
- **Technological Resources** - include research and development, patents, process automation, and other technology development used to support the value-chain activities.
- **Intangible Resources-** include brand value, goodwill, network resources like contacts etc.

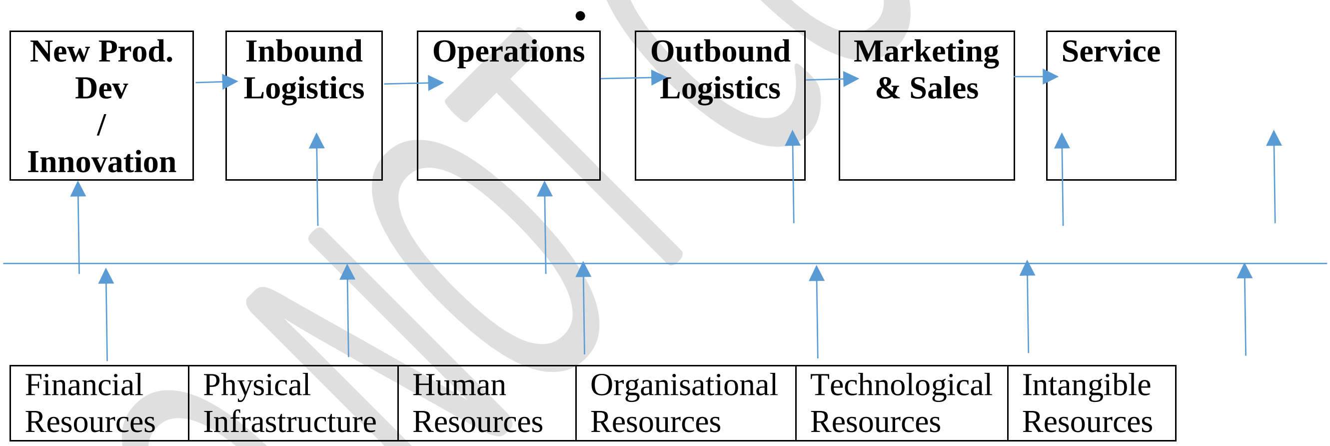


Fig. 5.4

Supporting infrastructure and resources can be successfully used to develop a competitive advantage. For example, one can develop a cost advantage through innovative management of information systems.

### 5.5.3 Value Chain Analysis

In order to better understand the activities leading to a competitive advantage, one can begin with the generic value chain and then identify the relevant firm-specific activities for each business. Process flows can be mapped, and these flows used to isolate the individual value-creating activities[18].

Once the discrete activities are defined, linkages between activities should be identified. A linkage exists if the performance or cost of one activity affects that of another. Competitive advantage may be obtained by optimizing and coordinating linked activities.

The value chain also is useful in outsourcing decisions. Understanding the linkages between activities can lead to more optimal make-or-buy decisions that can result in either a cost advantage or a differentiation advantage.

### 5.5.4 Developing Competitive Advantage Profile (CAP)

With the understanding of firm specific primary activities and the specific infrastructure and resources details for various activities, a matrix can be made for developing competitive advantage profile (CAP) of the firm vis-à-vis the key competitors, through critical, intense and precise analysis.

Table 5.4

| | New Prod. Dev/ Inno. | Inbound Logistics | Operations | Outbound Logistics | Marketing & Sales | Service |
|---|---|---|---|---|---|---|
| Fin. Resources | | | | | | |
| Physical Infrastructure | | | | | | |
| Human Resources | | | | | | |
| Organisational Resources | | | | | | |
| Technological Resources | | | | | | |
| Intangible Resources | | | | | | |

The comparison can be done in terms of how well the firm is placed vis-à-vis the key competitors (better, as good or worse). If the firm is not better off, it has to think of how to make up the deficiency to effectively compete. The CAP can help in developing action plan for competing through maximization of value chain.

It may be mentioned here that analysis of strength and weakness and environment is not a mechanistic exercise but involves lot of innovative thinking and creativity to develop strategic alternatives and competitive strategy.

### 5.5.5 The Value System

The firm's value chain links to the value chains of upstream suppliers and downstream buyers. The result is a larger stream of activities known as the value system[19]. The development of a competitive advantage depends not only on the firm-specific value chain, but also on the value system of which the firm is a part.

In *Competitive Advantage*, Michael Porter introduces the value chain as a tool for developing a competitive advantage. Topics include:

- Sharing of value chain activities among business units.
- Using value chain analysis to develop low-cost and differentiation strategies.

- Interrelationships between value chains of different industry segments.
- Applying the value chain to understand the role of technology in competitive advantage.

## 5.6 Developing Competitive Strategy

Having developed competitive advantage profile of the firm for every business, one can engage in creative, analytical exercise of developing competitive strategy, by probing how to overcome comparative deficiencies and how to benefit from competitive advantage that the firm has over its key competitors. An analysis of supporting resources and physical infrastructure for every primary activity can give ideas of how to reduce cost or increase revenue and thus increase value form that activity which will ultimately lead to increase in profit (collectively from different activities).

The value from each of the primary activity can be increased by working on various resources/ infrastructure. For example, new features may be added in the existing products or new products may be created through technological and manpower resources, for which the customer is willing to pay more/ willing to buy. Likewise working through improved systems (organizational resources), the delivery time can be reduced and matched with the date required by the customers. If the firm is cash rich, it can allow credit sales or increase credit period and thus create value through marketing and sales. The firm can work through better, new special purpose machines (technological resource) to dramatically reduce production time/ scale up production (operations) to reduce delivery time, tolerate delays in inbound logistics and dramatically reduce cost through economies of scale. It can also help through technological resources and systems (organizational resource), the quality of product to develop asound brand image, getting more customers through well trained and highly skilled labour (human resource). It can develop strong relations with suppliers and customers to increase level of business, after sales service and get committed suppliers to reduce inventory levels. Large company owned distribution outlets, land, empty office spaces (physical resources) can help a firm diversify like Adani Exports did for entering in port business. Large integrated IT infrastructure of some of the large public sector banks with foreign branchesin developed countries, can allow them to enter and take up a good part of international tourism business in India.

Through creative thinking a firm can develop competitive strategy which anals major competitive advantage of key competitors. For example, Maruti Udyog entered the fray of passenger cars with aim to sell hundred thousand cars in early eighties. Competitors had a vast after sales service network. Maruti challenged it with increased focus on quality so that the demands on after sales service was dramatically reduced.

While developing competitive strategy through actions on various resources and infrastructure for different primary activities, one does not need to get bogged down with present state, but can also think of its development, modification or acquisition. However, one has to keep in mind the strategy implementation issues related to the latter, as discussed in chapter 7 with further details in chapter 8

## 5.6 Cooperative Strategy

In the post liberalization era, the emphasis on competition, competitor analysis and competitive strategy has increased a lot due to sound conceptual frameworks available, especially Porter's work[61a]. This was so because of sudden opening of economy and free for all policy promoted by the government of India, which allowed many corporates to grow (without any technological competence to develop new products) by expansion and diversification in any direction even to totally unrelated businesses, through import of technology[20]. Entry of a large number multinational companies directly, further accentuated the competition as a large number of corporates started competition for market share. However, it lead to a situation that in a country of over 1000 mn population, marked with wide array of economic and demographic diversity, where there is no paucity of demand, pressure is on how to increase demand, while the requirement is how to increase supply. Literature and academics must focus on it as much as on generating demand.

To increase supply for meeting the growing demand, there is alternative strategy of cooperation.

### 5.6.1 Benefits of Cooperation Strategy

There are several benefits that can accrue if the organizations start cooperating among themselves. Firstly, collectively two or more organisations can undertake those tasks which alone may be difficult to do, to serve the society better. For instance, eight leading management institutions of India took up the task of conducting low cost faculty development programmes for faculty members in strategic management discipline. Together they conducted 65 programmes in 12 years (that too at a ¼ of the cost at which they were doing other programmes), while alone many of them could not conduct more than one programme in a year. That helped more than 1700 faculty members going through one or more weeklong programmes and over 150 having undergone 3 or more programmes. Besides, collectively there were able to organize one annual conference in the discipline, every year, which was rare thing in India.

Secondly, the cooperating organization can reduce cost by sharing underutilized assests for every activity/ business. They could share critical, costly equipment, offices, laboratories etc. For example, Air India could allow to have a representative from construction companies in each of its foreign offices in different countries, who could go through the global tenders in respective countries and forward the information to the leading construction companies of India. The latter could peruse and respond to global tenders without opening offices in different countries. Likewise, banks and airlines may allow a counter of tourism corporations for information sharing and booking of hotels, air and rail tickets etc. (an earn foreign exchange), without tourism corporation spending money to open its standalone office in different countries, which may be a costly affair.

Thirdly, it could help in enhancing risk bearing capacity of the organisations for the business as joint sharing of costs/ assets reduces investment.

Fourthly, the organisations can take up those activities which are difficult to carryout alone or beyond one’s reach. Common or joint admission tests by IITs/ IIMs etc. is an example of the same.

Fifthly, they can leverage small underutilized strengths/ assets/ resources to weave a new business including diversification. For example one institution which has physical infrastructure, but not faculty resources, may allow training programmes and conferences to be conducted by another institution, which has adequate faculty resources but not physical infrastructure. It is like sharing one's shelf space for complementary products of another organization.

Finally, the cooperation can lead to jointly taking up significant activities at a much larger scale. For example, if six senior IIMs with over 120 mutually exclusive partner foreign institutions in over 32 countries, organize a joint international conference, with one delegate only from each partner institution and one each from their industry, it can be major, truly international conference of great significance for all. Indeed they can have topic wise six different modules, one in each of the six IIM and link them through video conferencing. By further linking each of the six institution to 10 regional institutions, a single conference can benefit thousands of students and faculty all over the country.

### 5.6.2 Conditions for Successful Cooperation

There are, however, certain conditions which are required to be met for success of cooperation strategy. First and foremost of it is willingness to cooperate. The dominant group in the key decision making bodies of the cooperating organisations must be willing to cooperate. It means that concerned persons in these bodies should be willing to endorse the proposals to cooperate through usual give and take process, not shooting down the proposals, initiatives and offers of other organisations.

Pressure for performance is a conducive force for choosing cooperative strategy. If pressure is high, the cooperation is likely to be high, although there may be reluctant cooperation also.

The concern for broader goals to meet the needs of larger society is an extremely powerful element that facilitates cooperation as concerned organisations/ individuals shall be willing to sacrifice and forego certain claims on outcomes and expenses for a larger cause.

Personal ego of the key decision making individual and organizational egos are a big stumbling block in forging cooperation. The less it is, the higher the chance of cooperation.

Size of the expected cake from joint efforts is a powerful factor to forge cooperation, as claims on the parts of the cake increases for all. If the expected size is high, even competitors may go for cooperation

Possibilities of complementarity of product/ services can provide an opportunity for cooperation.

A high visibility and size of returns on investment by partner institutions is a key factor to initiate and sustain cooperation.

External incentives may facilitate cooperation in the sense that cooperation will not fall on grounds of resources. But it alone can't motivate the organisations to cooperate to give required quantity and quality of outputs/ outcomes.

Finally, the realization of benefits of cooperation mentioned above can help in initiation of cooperation. The sustenance of it however, will depend upon how much of expected benefits fructify.

1. Undertaking businesses/ tasks beyond reach of one organization (like conducting Common Admission Test)
2. Leveraging limited / unutilized resources lying idle.
3. Diversification through underutilized resources (banks diversifying into tourism business)
4. Scaling up activities through joint efforts (banks, airlines sharing office abroad for getting orders)
5. Sharing sunk costs.
6. Enhancing risk bearing capacity.

**Review Questions**

1. Discuss generic strategic options. How they are different from related and unrelated strategic options
2. “One should not go for unrelated strategies”. Comment.
3. What are the risk associated with vertical integration strategies. How can they be mitigated?
4. Discuss external strategy options. In what way their implementation challenges are different from internal expansion strategies?
5. Explain the difference between the managerial challenges associated with international strategies vis-à-vis domestic options?
6. What is a value chain? How does value chain analysis can help in developing competitive strategy?
7. Differentiate between competitive and cooperative strategies. Can cooperative strategies be used with competitors?
8. Discuss benefits from cooperative strategy. What makes the strategy difficult to use? How it can be effectively utilized?

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