5.1 CORPORATE-LEVEL STRATEGIES

Corporate-level strategies (or simply, corporate strategies) are basically about decisions related to:

- allocating resources among the different businesses of a firm
- transferring resources from one set of businesses to others and
- managing and nurturing a portfolio of businesses.

These decisions are taken so that the overall corporate objectives are achieved.

Corporate strategies help to exercise the choice of direction that an organisation adopts. There could be a small business firm involved in a single business or a large, complex and diversified conglomerate with several different businesses. The corporate strategy in both these cases would be about the basic direction of the firm as a whole. In the case of the small firm having a single business, it could mean the adoption of courses of action that yield better profitability for the firm. In the case of the large, multi-business firm, the corporate strategy would also be about managing the various businesses for maximising their contribution to the overall corporate objectives and transferring resources from one set of businesses to others.

Recall that in Section 2.4, we referred to the concept of business definition. Abell has suggested defining a business along the three dimensions of customer groups, customer functions and alternative technologies.[2] The business definition for a small firm would be simple while that for a large firm, it would be quite complex. A large firm would consist of several businesses, each of which could be defined in terms of these three dimensions.

The complexity of large firms arises from the fact that each of its businesses, defined along the three dimensions, result in a variety of customer groups, customer functions and alternative technologies that a firm is involved with. It is therefore common to find multi-business firms with interests in serving a diverse base of customer groups, performing for them a variety of customer functions, and making use of a range of several different technologies.

An analysis based on business definition provides a set of strategic alternatives that an organisation can consider. 'Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector'.[3] According to Glueck, there are four strategic alternatives: expansion, stability, retrenchment and any combination of these three.

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Let us get a bird's eye-view of the four strategic alternatives before we go into the details of each of these subsequently, in the rest of this chapter.

Expansion Strategies

The corporate strategy of expansion is followed when an organisation aims at high growth by substantially broadening the scope of one or more of its businesses in terms of their respective customer groups, customer functions and alternative technologies—singly or jointly—in order to improve its overall performance. Expansion strategies are also often known as growth or intensification strategies.

Exhibit 5.1 Major reasons for adopting different corporate strategies

Expansion strategy is adopted because:

1. It may become imperative when the 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.

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.

Retrenchment strategy is adopted because:

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

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.

Exhibit 5.1 presents the major reasons why each of the different corporate strategies is adopted. Because of the many reasons for which they are adopted, expansion strategies are quite popular. Given below are three examples to show how companies can aim at expansion either in terms of customer groups, customer functions or alternative technologies.

- A chocolate manufacturer expands its customer group to include middle-aged and old persons to its existing customers comprising children and adolescents.
- A stockbroker's firm offers personalised financial services to small investors apart from its normal functions of dealing in shares and debentures, in order to increase the scope of its business and spread its risks.
- A printing firm changes from the traditional letter press printing to desk-top publishing in order to increase its production and efficiency.

In each of the above cases, the company moves in one or the other direction so as to substantially alter its present business definition. Expansion strategies have a profound impact on the company's internal configuration, causing extensive changes in almost all aspects of internal functioning.

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Stability Strategies

The corporate strategy of stability is adopted by an organisation when it attempts at incremental improvement of its performance by marginally changing one or more of its businesses in terms of their respective customer groups, customer functions, and alternative technologies - either singly or collectively.

In order to understand how stability strategies work, here are three examples to illustrate how organisations could aim at stability in each of the three dimensions of customers groups, customer functions and alternative technologies respectively.

- A packaged tea company provides special service to its institutional buyers, apart from its consumer sales through market intermediaries, in order to encourage bulk buying and thus improve its marketing efficiency.
- A copier machine company provides better after-sales service to its existing customers to improve its company and product image and increase sales of accessories and consumables.
- A steel company modernises its plant to improve efficiency and productivity.

Note that all three companies here, do not go beyond what they are doing presently; they serve the same markets with the present products using the existing technology. The strategies aim at stability by causing the companies to marginally improve their performance or, at least, letting them remain where they are in case they face a volatile environment and a highly competitive market. The essence of stability strategies is, therefore, not doing anything but sustaining moderate growth in line with the existing trends.

Sometimes, strategists, like army commanders, think it better to retreat than to advance. It is in such situations that retrenchment is a feasible strategic alternative.

Retrenchment Strategies

The corporate strategy of retrenchment is followed when an organisation aims at contraction of its activities through a substantial reduction or elimination of the scope of one or more of its businesses in terms of their respective customer groups, customer functions or alternative technologies—either singly or jointly—in order to improve its overall performance.

Retrenchment involves total or partial withdrawal from a customer group, customer function, or use of an alternative technology in one or more of a firm's businesses, as can be seen from the situations given below:

- A pharmaceutical firm pulls out from retail selling to concentrate on institutional selling in order to reduce the size of its sales force and increase marketing efficiency.
- A corporate hospital decides to focus only on specialty treatment and realise higher revenues by reducing its commitment to general cases which are typically less profitable to deal with.
- A training institution attempts to serve a larger clientele through the distance learning system and discard its face-to-face interaction methodology of training in order to reduce its expenses and use the existing facilities and personnel more efficiently.

In this manner, retrenchment attempts to 'trim the fat' and results in a 'slimmer' organisation, bereft of unprofitable customer groups, customer functions or alternative technologies. All the situations described above are, in fact, an over-simplification of the complex reality that an organisation faces. In order to deal with the real-life situations, organisations have to evolve a combination of the three strategies.

Combination Strategies

The combination strategy is followed when an organisation adopts a mixture of stability, expansion and retrenchment strategies, either at the same time in its different businesses or at different times in one of its businesses, with the aim of improving its performance.

Any combination strategy is the result of a serious attempt on the part of strategists to take into account the variety of environmental and organisational factors that affect the process of strategy formulation.

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Complicated situations generally require complex solutions. Combination strategies are the complex solutions that strategists have to offer when faced with the challenges of real-life business.

Observe how the two companies below deal with the complex situations they face.

- A paints company augments its offering of decorative paints to provide a wider variety to its customers (stability) and expands its product range to include industrial and automotive paints (expansion). Simultaneously, it decides to close down the division which undertakes large-scale painting contract jobs (retrenchment).
- Over the years, strategic changes at a large business group indicate that it has been strengthening its manufacturing base and divesting its trading activities. Stability has been aimed at in some of its divisions, by retrenching the unprofitable products and services, while major expansion has taken place in the case of its industrial products and construction business. A variety of strategies have thus been followed, both sequentially and simultaneously, creating a complex web of strategies, in line with the nature of the conglomerate that the company actually is.

We proceed now to a description of the major types of strategies that organisations usually adopt. The following strategies will be discussed in detail.

1. Expansion strategies
   (a) Expansion through concentration
   (b) Expansion through integration
   (c) Expansion through diversification
   (d) Expansion through cooperation
   (e) Expansion through internationalisation
   (f) Expansion through digitalisation
2. Stability strategies
   (a) No change strategies
   (b) Pause/proceed with caution strategies
   (c) Profit strategies
3. Retrenchment strategies
   (a) Turnaround strategies
   (b) Divestment strategies
   (c) Liquidation strategies
4. Combination strategies
   (a) Simultaneous combination
   (b) Sequential combination
   (c) Combination of simultaneous and sequential strategies

Growth is a way of life. Almost all organisations plan to expand. This is why expansion strategies are the most popular corporate strategies. Companies aim for substantial growth. A growing economy, burgeoning markets, customers seeking new ways of need satisfaction and emerging technologies offer ample opportunities for companies to seek expansion.

This chapter will focus on expansion through concentration, integration and diversification. The next chapter will deal with the three other types of expansion strategies of cooperation, internationalisation and digitalisation.

5.2 CONCENTRATION STRATEGIES

Concentration is a simple, first-level type of expansion strategy. It involves converging resources in one or more of a firm's businesses in terms of their respective customer needs, customer functions, or alternative technologies—either singly or jointly—in such a manner that expansion results. In strategic management

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terminology, concentration strategies are known variously as intensification, focus or specialisation strategies.

Peters and Waterman (1982), in their *In Search for Excellence*, advocated a parameter for successful firms which they called as 'stick to the knitting'.[4] Concentration strategies are, in other words, the 'stick to the knitting' strategies. Excellent firms tend to rely on doing what they know they are best at doing.

In practical terms, concentration strategies involve an investment of resources in a product line for an identified market, with the help of proven technology. Most of you who have studied a basic marketing course would be familiar with the classic Ansoff's product-market matrix shown in Exhibit 5.2. This was proposed in a 1957 article in the *Harvard Business Review* and is still used by strategic planners and marketers interested in finding out the growth directions for their organisations. We will see here three types of growth strategies proposed by Ansoff and take up diversification in a later section.

Exhibit 5.2 Ansoff' Product-Market Matrix

PRODUCT / MARKET	PRESENT	NEW
PRESENT	MARKET PENETRATION	PRODUCT DEVELOPMENT
NEW	MARKET DEVELOPMENT	DIVERSIFICATION

Source: Adapted from H. I. Ansoff, "Strategies for Diversification", *Harvard Business Review*, 1957, 5, pp. 113-124.

The product-market matrix provides us three types of concentration strategies:

1. *Market penetration* involves selling more products to the same market: a firm may attempt at focussing intensely on existing markets with its present products, using a market penetration type of concentration. Besides the primary objective of increasing usage by existing customers, market penetration strategies are also used to maintain or increase market share of present products, restructure a mature market by driving out competitors, and secure dominance in growth markets. Budget airlines in India went into aggressive marketing with low pricing, adopting a market penetration type of concentration strategy, resulting in a very high growth rate for the aviation industry for several years.
2. *Market development* involves selling the same products to new markets: it may try attracting new users for existing products, resulting in a market development type of concentration. New markets may not necessarily be in the geographical sense; they can be demographic, for instance, offering the same product with a different pricing to a different set of customers. Yet, finding new regions where the same product could be sold remains the basic thrust in a market development strategy. Coir is a major agricultural commodity produced in southern, north-eastern and western India. The coir industry has faced

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severe crisis due to the synthetic foam and fibres products. Market development type of concentration strategies in the coir industry have attempted to present coir products as an environment-friendly product for discerning customers, especially in the exports markets.

3. *Product development* involves selling new products to the same markets: it may introduce newer products in the existing markets by concentration on product development. The tourism industry in India has not been able to attract new customers in significant numbers. New products such as selling India as a golfing or *ayurveda*-based medical treatment destination are some of the product development efforts in the tourism industry to attract more tourists.

It is immediately apparent that concentration strategies would apply to situations where the firm finds expansion worthwhile. For instance, the industries that a firm belongs to should possess a high potential for growth and be sufficiently attractive for concentration to take place. Internally, the firm should be strong enough to sustain expansion; it should, say, have adequate funds to invest in additional resources required for expansion to take place, or it should be able to develop new competencies required to develop new products and markets.

For expansion, concentration is often the first-preference strategy for a firm for the simple reason that it would like doing more of what it is already doing. A firm that is familiar with an industry would naturally like to invest more in known businesses rather than in unknown ones. Each industry is unique in the sense that there are established ways of doing things. Firms operating in an industry for long, are familiar with these ways. So they prefer concentration on these industries.

Bajaj Auto has consistently concentrated on two- and three-wheelers since the last several years as it finds it to be a high growth and attractive industry to invest in. It has tried various means to sustain its market share in a competitive market. At different times, it has adopted variations of the concentration strategy of market penetration (e.g. selling more in urban centres), market development (e.g. selling to upwardly mobile customers in rural areas), and product development (e.g. state-of-the-art motorcycles and ungeared scooters). For its rivals, it is a formidable competitor with proven products manufactured through tried and tested technology and sold in familiar markets.

Xerox India (formerly Modi Xerox) is the Indian subsidiary of Xerox Corporation, the well-known American printer, photocopier and office-supplies company. In a bid to expand its share in the small and medium businesses segment in India, Xerox adopted a concentration strategy through market penetration, market development and product development. For market penetration, it offered print job service through multifunctional devices to consolidate its market standing. It launched several new office products including laser printers and multi-functional devices, increasing its product range to over 20 products and services. Market development activities included educating the small business entrepreneurs to create new markets for its products.[5]

It is obvious that concentration strategies have several advantages.

- Concentration involves minimal organisational changes, so it is less threatening: the managers of a firm are more comfortable with the present businesses.
- It also enables the firm to master one or a few businesses and enable it to specialise by gaining an in-depth knowledge of these businesses.
- Intense focussing of resources on a few businesses may also create conditions for the firm to develop a competitive advantage.
- Managers face less problems dealing with known situations.
- Systems and processes within the firm are developed in such a way that people are familiar with them.
- The decision-making process is under less strain as there is high level of predictability. Past experience is valuable as it is replicable.

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But concentration strategies have their limitations too.[6] Putting all eggs in one basket has its own problems.

- Concentration strategies are heavily dependent on one industry. Adverse conditions in an industry affect the firms if they are intensely concentrated. The potential for industry growth, industry attractiveness and industry maturity are variable factors. If an industry goes into a recession, the concentrated firm in it finds it too difficult to withdraw from it. If an industry becomes too crowded with competitors, its attractiveness decreases for existing players. For an industry that has matured, it places constraints on a concentrated firm for further expansion.
- Factors such as product obsolescence, fickleness of markets and emergence of newer technologies are threats to concentrated firms. A firm too heavily invested in any one of these faces risks.
- Concentration strategies may result in doing too much of a known thing. Such a situation may create an organisational inertia; managers may not be able to sustain interest and find the working less challenging and stimulating.
- Concentration strategies may lead to cash flow problems that pose a dilemma before a firm. For expansion through concentration, large cash inflows are required for building up assets while the businesses are growing. But when these businesses mature, firms often face a cash surplus with little scope for investing in the present businesses. In fact, this may be the reason why firms look for investment opportunities outside the present industry, resulting in integration and diversification.
- When firms use their existing base to expand in the direction of their raw materials or the ultimate consumers or, alternatively, they acquire complementary or adjacent businesses, integration takes place. Expansion through integration is the subject matter of the next section.

5.3 INTEGRATION STRATEGIES

Integration means combining activities related to the present activity of a firm. Such a combination may be done on the basis of the value chain. In Section 4.4, we saw that a value chain is a set of interlinked activities performed by an organisation, right from procurement of basic raw materials down to the marketing of finished products to the ultimate consumers. So, a firm may move up or down the value chain to concentrate more comprehensively on the customers groups and needs that it is already serving. A firm adopting integration as an expansion strategy commits itself to adjacent businesses. The pivot around which integration strategies are designed is the present set of customer functions and customer groups. In other words, a company attempts to widen the scope of its business definition in such a manner that it results in serving the same set of customers. The alternative technology dimension of the business definition undergoes a change.

Integration is an expansion strategy as its adoption results in a widening of the scope of the business definition of a firm. Integration is also a subset of diversification strategies, as we will shortly see, for it involves doing something different from what the firm had been previously doing. Several process-based industries such as hydrocarbons, petrochemicals, steel or textiles have integrated firms. These firms deal with products having a value chain extending from the basic raw materials to the ultimate consumer. Firms operating at one end of the value chain attempt to move up or down through the process, integrating activities adjacent to their present activities.

There are certain conditions under which firms are motivated to adopt integration strategies. Transaction cost economics, a branch of study in economics of transactions and their costs, helps to explain the situation where integration strategies could work. According to transaction cost economics, a 'make or buy' decision is taken when firms wish to negotiate with suppliers or buyers. The costs of making the items used in the manufacture of one's own products are to be evaluated against the cost of procuring them from suppliers. If the costs of making are less than the cost of procurement, then the firm moves up the value chain to make the items itself. Likewise, if the costs of selling the finished products are lesser than the price paid to the sellers to do the same thing, then it is profitable for the firm to move down the value chain. In both these cases, the firm adopts an integration strategy.

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Igor Ansoff has presented another matrix, besides the product-market matrix shown in Exhibit 5.2, which explains the different types of integration (as well as diversification) strategies. This matrix is presented in Exhibit 5.3.

Exhibit 5.3 Ansoff's matrix for diversification strategies

	New products		
New functions	Related technology		Unrelated technology
Firm its own customer		Vertical integration	
Same type of product		Horizontal diversification	
Similar type of product	Marketing and technology-related diversification		Marketing related concentric diversification
New type of product	Technology-related concentric diversification		Conglomerate diversification

Source: Adapted from H.I. Ansoff, *Corporate Strategy*, New York, McGraw-Hill, 1965, p.132.

According to Ansoff, firms operate on the two dimensions of new products and new functions. New products could be made through related technology or unrelated technology. The new functions could range from the firm being its own customer to an entirely new type of product. Based on these dimensions, it is possible to have four types of integration and diversification strategies. Among the integration strategies we have two types: horizontal and vertical integration. We discuss horizontal and vertical integration now. The other two types of diversification strategies will be taken up in the next section.

Horizontal Integration

In the previous section, we saw that concentration strategies enable firms to focus more intensely on their existing businesses. They do so by market penetration, market development or product development. In concentration, whatever the organisation does, it does not move it beyond its own boundaries. But when an organisation moves beyond its boundaries into the domain of the industry it is operating in, it no longer is adopting a concentration strategy. It goes over to the adoption of horizontal integration.

When an organisation takes up the same type of products at the same level of production or marketing process, it is said to follow a strategy of horizontal integration. For example, a luggage company taking over its rival luggage company is horizontal integration (also known as acquisition or merger). A horizontal integration strategy results in a bigger size with concomitant benefits of a stronger competitive position in the industry. It may be frequently adopted with a view to expand geographically by buying a competitor's business, to increase the market share or to benefit from economies of scale. Yet, it does not take the organisation beyond its existing business definition. It still remains in the same industry, serving the same markets and customers through its existing products, by the means of the same technologies. Horizontal integration is quite similar to mergers and acquisitions since these are one of the means for integrating horizontally. We would be dealing with mergers and acquisitions in a subsequent chapter.

In terms of value chain terminology, a horizontal integration strategy keeps the organisation at the same level. This means that if the company was manufacturing shoes and it adopts the horizontal integration strategy, it becomes a bigger shoe manufacturer. A company making cat food adding dog food to its product range, still remains within the animal feed industry. A hypermarket that adds to its repertoire of items being sold, through horizontal integration, does not move it out of the retailing industry.

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Horizontal integration exists both in terms of the marketing and operations functions. When a company wishes to sell in various geographical market segments, it can have a number of subsidiaries selling the same products widely, making it horizontally integrated in terms of marketing. When a company has several factories producing the same products and selling them through an integrated marketing network, it is horizontally integrated in terms of production.

The banking industry in India offers a relevant context for a horizontal integration strategy being used for consolidation. There has been a spate of takeovers of smaller banks in order to consolidate and attain a bigger size. The takeover of Ganesh Bank by Federal Bank, Nedungadi Bank by Global Trust Bank, Sangli Bank by ICICI Bank, and United Western Bank by IDBI Bank are some of the examples of horizontal integration. A common factor in these consolidation exercises is the synergy foreseen in term of the larger banks expanding their reach and enhancing their regional presence in India.

Taking the specific case of the horizontal integration by the amalgamation of United Western Bank into Industrial Development Bank of India (IDBI), we find that IDBI was able to substantially increase its retail presence by adding the 230-bank branches network to its own smaller 181 branches network. Getting around the Reserve Bank of India's restriction on opening new bank branches is easier through such an amalgamation. In terms of marketing, IDBI gets to enhance its credit profile: IDBI is dominant in industrial financing while United Western is strong in agricultural credit financing through its semi-urban and rural branches. Owing to its past history of being a financial institution, IDBI mostly is in long-term borrowings. With United Western, it gets access to lower cost deposit base. Horizontal integration thus can prove to be a win-win game for both the banks.[7]

The nature of horizontal integration strategy offers a unique benefit to industries and sectors where the small size of organisations is a challenge to overcome in realising objectives of efficiency and effectiveness. These could be small-scale industries, cooperative societies and non-governmental organisations (NGOs). These are typically small in size with limited impact. For them, a horizontal integration strategy often becomes an innovative means of increasing the size of the impact rather than merely augmenting the physical size. A group of small-scale industrial units in similar product-market lines may get together to make bulk purchases in order to reap the benefits of a higher bargaining power with supplier, lower costs and increased accessibility. Several NGOs working in complementary fields such as micro-credit or rain water harvesting may get together to share resources, expertise, networking, and becoming knowledge repositories.

A project funded by Childreach, a US-based branch of the Indian NGO network PLAN—a large NGO working internationally for child sponsorship—brought together five NGOs within India, illustrating how scaling up of impact could take place without increasing the physical size. The five NGOs worked in different ecological areas, adopted varied strategies of scaling up of impact and existed in different stages of evolution. Through the means of horizontal integration, it became possible to expand the number and diversity of the social activities undertaken.[8]

There are many obvious benefits of adopting a horizontal integration strategy. Some of these are:

- *Economies of scale* Horizontal integration invariably leads to a lower cost structure by spreading over the fixed cost of operations over a larger base of products, thereby reducing the per-unit cost resulting in economies of scale.
- *Economies of scope* When horizontal integration results in two or more organisations using the same resource base to produce a variety of products in the product range offered, it results in economies of scope. This is due to a better utilisation of assets.
- *Increased product differentiation* Horizontal integration allows organisations to offer customers a wider range of products that can be bundled together. Through product bundling, the customer gets to buy a complete range of products at a single combined price, thus, providing the advantage of product differentiation.

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- *Increased market power* Bigger size of operations enables the organisation adopting horizontal integration to exercise increased market power over suppliers and customers.
- *Replicating a successful business model* An organisation successful at employing a business model gets to replicate it with another organisation through horizontal integration.
- *Reduction in industry rivalry* After horizontal integration there are fewer competitors left in the industry, thereby reducing the intensity of industry rivalry.

The several advantages of horizontal integration should not blind us to the risks. There are some risks involved in horizontal integration like those mentioned below:

- There is little practical evidence to show that horizontal integration in the form of mergers actually does increase the value of an organisation.
- Horizontal integration increases size. But increasing size may attract the provisions of the monopolies and restrictive trade practices act or whichever anti-trust laws are in force in a country.
- Just like computer hardware and software are two entirely different products, economies of scope do not necessarily arise out of horizontal integration.

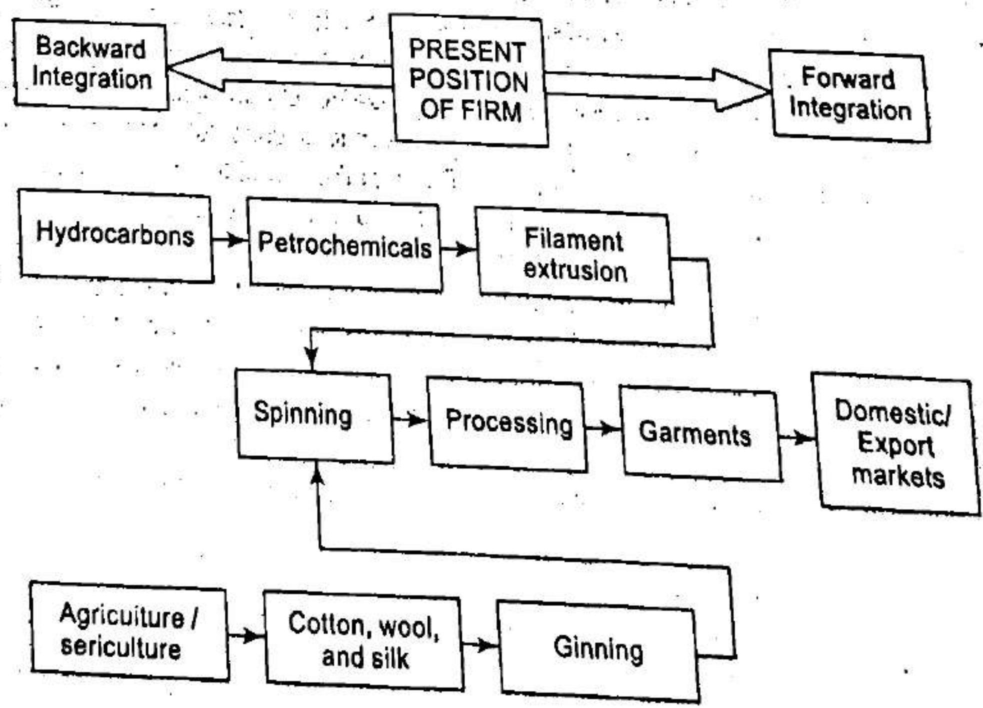
Vertical Integration

When an organisation starts making new products that serve its own needs, vertical integration takes place. In other words, any new activity undertaken with the purpose of either supplying inputs (such as raw materials) or serving as a customer for outputs (such as marketing of firm's product) is vertical integration.

Vertical integration could be of two types: backward and forward integration. *Backward integration* means retreating to the source of raw materials. *Forward integration* moves the organisation ahead, taking it nearer to the ultimate customer.

Exhibit 5.4 presents a simplified value chain system operating in the textile industry and how integration strategies might be applied. WTO mandated abolition of textile quotas, removal of restrictions of multi-fibre agreement and the resultant reduced profit margin have changed the business environment for textile companies. Several of the Indian textile companies have been adopting vertical integration strategies. Spinning companies getting into weaving and garments manufacturing adopt forward integration, while fabric and garment producers entering into spinning adopt backward integration to ensure supply of good quality yarn.

Exhibit 5.4 Integration strategies based on value chain system in textile industry



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Generally, when firms integrate vertically, they do so in a complete manner, i.e. they move backward or forward decisively, resulting in a full integration. When you read about a fully integrated textile or steel mill, it means a company that traverses the full range of value chain system activities, from raw materials to marketing. But when a firm does not commit itself fully, it is possible to have partial vertical integration strategies too. Two such partial vertical integration strategies are taper integration and quasi integration.

Taper integration strategies require firms to make a part of their own requirements and to buy the rest from outsiders. Through *quasi integration strategies* firms purchase most of their requirements from other firms in which they have an ownership stake. Ancillary industrial units and outsourcing through subcontracting are adapted forms of quasi integration. For outsourcing to take place, firms usually create captive supply sources by providing a part of the manufacturing requirements such as design and blueprints and raw materials to the subcontractors, who then make the parts and supply to the firm. Outsourcing has generated considerable interest in India owing to its importance in the growing IT industry. But outsourcing is a much wider concept as we see in Exhibit 5.5.

Exhibit 5.5 The vertical disintegration strategy of outsourcing

Outsourcing simply means sourcing from outside. When organisations decide to stop or postpone making some part or component or cease providing some service internally and contract it to outside suppliers and manufacturers, outsourcing takes place. The basis of outsourcing is the economics of production. It is common sense to let others do something that they can do in a cheaper, better and faster way and focus oneself on doing what one does the best.

Gilley and Rasheed define outsourcing as 'procuring something that was either originally sourced internally (i.e. vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e. make or buy).'

As a strategic alternative, outsourcing is the strategy of vertical disintegration, i.e., the reverse of vertical integration. Vertical disintegration takes place when activities in the value chain are taken away from an organisation, to be performed by another organisation that can do them more economically. Vertical disintegration is sometimes called fragmentation strategy as value chain activities are distributed to different manufacturers and service providers.

Outsourcing or vertical disintegration is not a viable strategic alternative in cases where technological requirements do not permit segregation of value chain activities. This often is the case in process-based industries such as aluminium or petrochemicals. However, operations and services outside the scope of processes can still be outsourced. A large range of services that come under the general category of facilities like catering, cleaning, maintenance and security are increasingly being outsourced. Organisations frequently outsource to third-party logistics providers too. However, IT and related services constitute the maximum scope for outsourcing. The Indian IT industry has been a major beneficiary of the global trend of outsourcing and now is moving to a situation where outsourcing may take place to other developing countries, from India. Here one needs to distinguish clearly between organisations that are in the business of outsourcing as many of the IT service providers are and the organisations that outsource some of its activities as a strategic decision. Thus, local companies such as Infosys Technologies, Patni Computer Systems or Tata Consultancy Services and multinational companies operating in India such as IBM or Accenture are in the business of outsourcing and have been the beneficiaries of the strategic decisions taken by the user organisations within and outside India when they decide to outsource.

The vertical disintegration strategy of outsourcing offers several advantages, many of which are obvious.

- Reduced capital and operational costs
- Freeing up assets for more productive use
- Enabling focus on activities in core competences areas
- Complementing resource base with outsourcing partners

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- Utilising advanced technologies available with outsourcing partners
- Dealing with business upturns and downturns through the flexibility outsourcing offers

Outsourcing is a viable strategy alternative provided the risks associated with it can be minimised. These risks could be:

- Focusing on short-term benefits
- Dependence on outside suppliers
- Loss of information to outsiders
- Increased complexity in managing the total supply chain management system

Sources: C. Harland, L. Knight, R. Lamming & H. Walker, "Outsourcing: Assessing the risks and benefits for organisations, sectors and nations", *International Journal of Operations & Production Management*, 25:9, 2005, pp. 831-85; Gilley, K.M. and Rasheed, A. (2000), "Making more by doing less: an analysis of outsourcing and its effects on firm performance", *Journal of Management*, 26:4, pp. 763-90; T. Rothaermel, M.A. Hitt & L.A. Jobe, Balancing vertical integration and strategic outsourcing: Effects of product portfolio, product success, and firm performance, *Strategic Management Journal*, 2006, Vol. 27, pp. 1033-1056.

Despite the hype about outsourcing and vertical integration, they are strategies having limitations. Some of the major pitfalls in using vertical integration strategies extensively are:[9]

- Increased costs of coordinating integration over multiple stages of value chain
- Potential for either excess capacity or under-utilisation of resources because of uneven productivity across different value chain activities
- Technological obsolescence due to relying on outside manufacturers
- Loss of strategic flexibility owing to dependence on outsiders
- Increased mobility and exit barriers
- Tight coupling to poor performing business units owing to dependence
- Lack of information and feedback from suppliers and distributors

Vertical integration has to be used judiciously to avoid the loss of strategic flexibility and higher managerial cost of integration.

All integration strategies require trade-offs to take place. There are relative merits and demerits of integration. Similar to concentration strategies, integration strategies carry a risk as the firm commits itself to adjacent businesses, all geared to serve the same set of customers groups and customer needs. If the firm is integrated and the principal product fails or becomes obsolete then it faces a grave risk. Further, while integration strategies provide a firm better control over its value chain by creating access to and control of supply and demand, the flip side is that it commits the firm to a set of customer needs and customer groups more intensely. Because of these reasons, several firms diversify to reduce their risk. Diversification strategies are discussed next.

5.4 DIVERSIFICATION STRATEGIES

Diversification involves a substantial change in business definition - singly or jointly - in terms of customer functions, customer groups or alternative technologies of one or more of a firm's businesses. We can refer to Ansoff's product-market matrix in Exhibit 5.2 and the diversification matrix in Exhibit 5.3 to understand the concept of diversification. When new products are made for new markets then diversification takes place. The notion of diversifying is therefore related to the newness of products or markets or both. By adopting diversification, an organisation does something novel in terms of making new products or serving new markets or doing both simultaneously.

Exhibit 5.3, referred to in the previous section, provides a popular classification by Ansoff, of diversification strategies. We go back to that exhibit to see what types of diversification strategies are possible. When a

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firm moves beyond vertical integration, it can offer similar types of products (e.g. a book publisher going into publishing magazines) or new types of products (e.g. a book publisher going into carpet manufacturing). In the case where the book publisher goes into publishing magazines, she is still, in some ways, in the same type of business, making it a related diversification. When the book publisher takes up carpet manufacturing, she is now in an entirely new business, which is in no way related to her original business of book publishing. This provides us two basic strategic alternatives in diversification: related and unrelated diversification. In Ansoff's terminology, they are called concentric and conglomerate diversification respectively. Note here, that horizontal integration discussed earlier is also actually horizontal diversification as it involves moving laterally into new types of products. Our example of the book publisher going into publishing magazines is also an example of horizontal integration. Sometimes, it is also called horizontal diversification. However, we will focus here on just two types of diversifications, that of concentric and conglomerate diversification as horizontal integration has already been discussed under the topic of horizontal integration.

Concentric or Related Diversification

When an organisation takes up an activity in such a manner that it is related to the existing business definition of one or more of a firm's businesses, either in terms of customer groups, customers functions or alternative technologies, it is concentric diversification. The relatedness is to be seen in terms of the three dimensions of the business definition. If the new business is in any way related to the original business in terms of the customer groups served, customer functions performed or alternative technologies employed, then it is related or concentric diversification.

Concentric diversification may be of three types:

1. *Marketing-related concentric diversification* A similar type of product is offered with the help of unrelated technology, e.g. a company in the sewing machine business diversifies into kitchenware and household appliances, which are sold through a chain of retail stores to family consumers. The market relatedness here is in terms of the common distribution channel for sewing machines, kitchenware and household appliances.
2. *Technology-related concentric diversification* A new type of product or service is provided with the help of related technology, e.g. a leasing firm offering hire-purchase services to institutional customers also starts consumer financing for purchase of durables to individual customers. The technology relatedness is in terms of the procedure of the financing service to institutional and individual customers.
3. *Marketing- and technology-related concentric diversification* A similar type of product or service is provided with the help of a related technology, e.g. a synthetic water tank manufacturer makes other synthetic items such as pre-fabricated doors and windows for residential and commercial establishments, sold through its hardware suppliers network. The market relatedness here is in terms of the common distribution channels for water tanks and pre-fabricated doors and windows, while the technology relatedness is in the common technology of plastic processing and engineering required for manufacturing these products.

Related diversification is an attractive corporate strategy as it offers the best of both worlds: it enables diversification of the organisation from its original business as well as keeps it close to it in terms of relatedness. Larsen & Toubro, the largest private sector company in the engineering and construction industry in India, is an example of an organisation that has grown consistently owing to its judicious strategy of related diversification. A major part of its revenue, nearly 85 per cent in 2007, comes from the engineering and construction business. It has minor businesses in other sectors such as electrical and electronics, information technology and machinery and industrial products, yet even these sectors in different ways, focus on applications for its major business of construction and infrastructure development. For instance, machinery and industrial

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products make cement and mining machinery that have use in the construction industry. Thus, L&T has aimed at developing focused, integrated businesses through its related diversification strategies.

Another example of focused related diversification is from the cooperative sector. Indian Farmers and Fertilisers Cooperative Limited (IFFCO) operates in different businesses on the basis of their relatedness to its sole beneficiary—the Indian farmer. The primary business of IFFCO is the production and distribution of fertilisers. However, its related diversification strategies has taken it into other businesses such as general insurance, to offer insurance risk cover to farmers and agricultural commodity trading to enable farmers to gain access to quality testing and warehousing facilities.

Conglomerate or Unrelated Diversification

When an organisation adopts a strategy which requires taking up those activities which are unrelated to the existing business definition of any of its businesses, either in terms of their respective customer groups, customer functions or alternative technologies, it is conglomerate diversification.

Offering a new product manufactured through an unfamiliar technology for a new set of customers involves considerable risk. There has to be a sound rationale for taking the risk of unrelated diversification. In order to understand the rationale for unrelated diversification, we need to understand the condition under which such diversification can be undertaken. Often, strategists would embark upon diversification when their organisation has excess capital. Excess capital means surplus cash over and above what is needed to run the existing businesses profitably and to meet debt commitments. Proper managerial action demands that any surplus cash generated by the organisation must be returned in the form of dividend to shareholders. It can only be reinvested in the present businesses if there are bright chances of increasing the worth of the organisation and enhancing the shareholders' value. Thus, unrelated diversification can only be justified when the surplus cash reinvested into new ventures can generate more value for the shareholders, otherwise it is prudent to return it to them.[10] Carrying the argument further, if shareholders are looking for diversification, they could take an individual decision to diversify their own portfolio of investment rather than keep investing in a company that does diversification on their behalf.

In formulating unrelated diversification strategies, strategists act as portfolio managers, constantly on the look out for undervalued companies that might be acquired at low price, quickly turned around for profitability, and sold out at a higher price. The managerial competence required is of financial acumen to identify acquisition candidates, managing the process of acquisition, skill at turning around loss making businesses, and then selling them in the corporate market for a higher price.

There are several examples of Indian companies in different sectors which have adopted a path of growth and expansion through conglomerate diversification. Almost all private sector business groups, whether family-owned or professional, are diversified entities. The Aditya Birla Group is in a variety of unrelated businesses such as aluminium, business process outsourcing, carbon black, cement, chemicals, copper, fertilisers, gas, insulators, mining, retail, software, sponge iron, telecom and textiles. The Godrej Group operates in agriculture products, animal feed, branded tea, chemicals, pest management services, poultry, processed food, property development and rural retailing. The ITC Group is in agribusiness, FMCG, hotels, IT and paperboards and packaging. RPG Enterprises is in entertainment, power, retail, specialties, technology, transmission, and tyres. The TTK Group has presence in such diverse areas such as baby care products, condoms, food products, kitchenware, maps, medical devices, personal care products and pharmaceuticals. Small companies usually can focus on one or few lines of business and if diversified, tend to be in related lines. But sometimes, even small business groups could venture into unrelated lines of business. For example, the New Delhi-based Shiva Group operates in cotton socks, latex gloves and printing, wood-free, and writing papers.

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Public sector organisations, even of a very large size, normally would not go beyond their core businesses. When they diversify, they do so through vertical integration as it happens in the case of oil and gas industry. But even here, sometimes one may come across a company like Indian Oil that has ventured into retailing, which is unrelated to its mainline business of oil. State-level public sector companies likewise, do not go beyond their core areas, with some exceptions like Sikkim Time Corporation that operates in diverse businesses of watch manufacturing, semiconductors and TV speakers manufacturing.

NGOs and voluntary organisations, owing to the nature of their activities, are usually small and focused on a limited area of activity. Large NGOs like Child Rights and You (CRY) too concentrate action on a restricted area. Within the area they operate in, the voluntary organisations can however diversify into unrelated areas. CAPART, for instance, is a well-known voluntary organisation working in the area of rural development. While doing so, its activities encompass a wide range including disability action, disaster management, marketing development, public cooperation, international funding, rural technology and watershed development.

Why are Diversification Strategies Adopted?

There are many reasons why organisations adopt diversification strategies. In general, the three basic and important reasons are:

1. Diversification strategies are adopted to minimise risk by spreading it over several businesses. For example, a company offering seasonal products (e.g. air coolers) may diversify into another range of seasonal products (e.g. water heaters) to complement its product range in a way so as to offset the disadvantages of one set of products with that of the other.
2. Diversification may be used to capitalise on its capabilities and business model so as to maximise organisational strengths or minimise weaknesses. For example, a company having a core competence in the area of after-sales service may establish a specialised agency for offering after-sales services for other manufacturers.
3. Diversification may be the only way out if growth in existing businesses is blocked due to environmental and regulatory factors. For example, a cigarette making company perceiving threats to its business owing to the impact of anti-smoking legislation, growing opposition to smoking and increasing health awareness, may diversify into paper manufacturing.

The two types of diversification strategies we are discussing here have their own specific reasons for adoption.

Reasons for Concentric or Related Diversification The reasons for concentric diversification can be deduced from the concept of synergy we discussed in Section 4.1. Synergy is an idea that the whole is greater or lesser than the sum of its parts. The organisation enters into a related business so that it can reap the benefits of synergy. The major reasons why organisations adopt concentric diversification strategies are:

- Realising financial synergies in terms of transaction cost savings and tax savings
- Realising marketing synergies by increased market power (e.g. offering a complete range of products) and multipoint market contact with the distribution channel partners (e.g. using the same retailing outlets) and customers (e.g. users of a range of complementary products)
- Realising operational synergies through economies of scale, i.e., increasing the size of operations and economies of scope, i.e., using a common base of resources and capabilities for operating varied, but related businesses
- Realising personnel synergies through utilising human resources with common skill sets and competencies for another business

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- Realising informational synergies by using common sources of information, databases and information networks
- Realising managerial synergies by managing a set of related businesses requiring a common set of administrative skills and experience

Reasons for Conglomerate or Unrelated Diversification While related diversification uses the rationale of synergy creation as the basic reason, in the case of unrelated diversification, it is spreading risk over different, unrelated businesses. The stark difference between related and unrelated diversification is therefore in terms of the emphasis placed. The emphasis in related diversification is on operational matters, for reaping the benefits of synergies. The emphasis in unrelated diversification is on financial matters by spreading risks over several different businesses. The major reasons why organisations adopt unrelated diversification strategies are:

- Spreading business risks by investing in different industries
- Maximising returns by investing in profitable businesses and selling out unprofitable ones
- Leveraging competencies in corporate restructuring by turning around loss making companies
- Stabilising returns by avoiding economic upswings and downswings through having stakes in different industries
- Taking advantage of emerging opportunities afforded by an expanding economy and encouraging government policies
- Migrating from businesses under threat from the business environment
- Exercising of personal choice by industrialists and managers to create industrial empires by owning businesses in diverse sectors

Risks of Diversification

It is a moot point that any diversification—related or unrelated—is risky. These risks arise because of the conditions mentioned below:

- Diversification, especially unrelated, is a complex strategy to formulate and implement. It demands a very high level of managerial, operational and financial competence to be successful.
- Diversification strategies demand a wide variety of skills. Different businesses operating in diverse industries would require dissimilar sets of skills to manage them successfully.
- Diversification results in decreasing commitment to a single or few businesses and diverting it to several of them at the same time. This phenomenon often results in a situation where businesses that need more attention get less and the ones needing little get more. Imbalance of commitment does not help to realise the many benefits of diversification such as maximising returns.
- Diversification often does not result in the promised rewards. Experience around the world shows that it is easy to be lured by the glamour of diversification and not be able to reap the benefits of synergies and strategic advantage ultimately. In fact, cases are legion where the shareholders value instead of being enhanced, has been lost due to diversification.
- Diversification increases the administrative costs of managing, integrating and controlling a wide portfolio of businesses. This can often offset the savings expected through synergies in the case of related diversification or decreasing risks anticipated in unrelated diversification.

Diversification takes an organisation away from the comfortable confines of concentration and integration strategies, to that of an environment fraught with many risks. Unfamiliarity is frightening. Getting through unfamiliar situations safely demands astute survival skills. Emerging successful from risky situations is more challenging. Yet, the lure of the rewards of success often outweigh the dread of difficulties experienced in the

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process of gaining them. That's why diversification strategies—enigmatic though they may be—have always attracted business people and industrialists around the world.

Let us now turn our attention to information related to diversification strategies in the Indian context.

Diversification Strategies in the Indian Context

Diversification strategies evoke keen interest—and heated debates—in strategic management research. The results pouring out from research studies around the world are often controversial and may not offer definite directions regarding the different aspects of diversification. For instance, it is not evident whether diversification strategies really do improve financial performance. The issue of whether related diversification is better than unrelated diversification is unclear. It is also debatable whether focusing on core competence is better than diversifying into related or unrelated areas. Lately, the researchers have also been focusing on the country specific environment to debate whether diversification strategies would work in a specific way in a particular context. These ambiguities serve to point out that diversification strategies are not only challenging to formulate and implement but also difficult to understand academically.

The diversification scenario in India has been interesting and challenging in recent times. For long it was believed that the private sector companies were forced to diversify into related and unrelated areas owing to regulatory restrictions such as monopolistic concentration and expansion. A research study of 72 large public and private sector companies in India conducted by IIM, Ahmedabad researchers, which highlighted the pattern of diversification in the Indian industry during the period 1960-75, had this to say:[11]

- The larger enterprises in the Indian industry in both the private and public sectors, are much diversified Private sector companies have typically diversified into unrelated areas while public enterprises have diversified into related ones.
- Governmental regulation plays a greater role in diversification strategies than the interplay of market forces.
- Private sector companies have followed diversification strategies in response to the needs of regulatory mechanisms such as the industrial policy resolutions, the IDR Act, the MRTP Act, FERA, etc. Public enterprises have adopted diversification in response to the public policy of national self-sufficiency and import substitution.

A working paper of the Indian Institute of Ahmedabad on managing diversification in public sector enterprises observed that these organisations diversified into high technology areas in related businesses. Unrelated diversification in public sector was not common.[12]

The tendency of the Indian corporate sector to favour related and unrelated diversification continued right up to the mid-1990s. The post-liberalisation period, after 1991, accelerated the trend of business groups to restructure through a combination of acquisition, divestment and related diversification, the overall emphasis being on focusing on the core competencies. This trend was challenged and it was proposed that the Indian context, as a subset of the context prevalent in developing countries, supported diversified conglomerates.

Research studies continue to come up with confounding results. Given below are some interesting findings:

- Two research studies reported that there was no evidence of a statistically significant relationship between diversification and performance in India (Chibber & Majumdar, 1999 and Sarkar & Sarkar, 2000).[13]
- Another research study observed a curvilinear relationship between group diversification and performance, suggesting that there is a threshold limit or point of inflection until which diversification has a negative performance effect. That threshold has to be exceeded for diversification to be beneficial (Khanna & Palepu 2000).[14]

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- A doctoral research of 37 large Indian Companies of the Textile Industry studied for the decade 1989-99, found that diversified business group companies have performed better than those having a dominant business. Highly diversified group companies had a better financial performance than that of low diversified group companies. Related diversified companies have outperformed unrelated diversified companies. Overall, it means that diversification, especially the related one, pays in the Indian context. (Jain & Upadhaya, 2003).[15]
- A research study on the theme of who drives unrelated diversification, done in 150 Indian manufacturing companies during 1993-94, reports that institutional investors and banks have more influence on the adoption of unrelated diversification than the CEO and company directors. Institutional investors discourage while banks encourage unrelated diversification (Ramaswamy, Li & Petitt, 2004).[16]
- An interesting insight is offered by a research study that found that diversification was not the source of generating higher market valuations for business groups during the reform period in India. Propping through profit transfers among firms within a group and better monitoring through group level directorial interlocks explains the higher market valuation of the business group affiliated firms (Kali & Sarkar, 2005).[17]
- A research study focusing on the economic policy induced changes and the resultant strategic behaviour of Indian firms also commented on the issue of diversification. Unrelated diversification is considered as acceptable at least in the short run, but managers need to be selective in making diversification moves (Ray & Chakrabarti, 2006).[18]
- Paying heed to the preponderance of diversification among business groups, a research study on the evolution and transformation of Indian business groups, probed the question as a secondary objective: Why did many business groups in India pursue unrelated diversification in one era, and what made many groups adopt related diversification and focus on core competencies in the later era? It came up with an explanation based on the concepts of product- and institution-relatedness. In the pre-reform period, those business groups that exploited institutional relatedness (amicable relationship with government, for instance) flourished. In the post-reform period, business groups, several of them new ones, are doing well by product-relatedness (focused competence on limited businesses, for instance) (Kedia, Mukherjee & Lahiri, 2006).[19]
- Confirming the resource-based view of strategy, a study by Mishra and Akbar, 2007, suggests that business group affiliation is beneficial in emerging markets, though such benefits of group affiliation may not be equally available to business groups that have adopted related diversification and unrelated diversification.[20]

It is widely accepted that the post-1984, and particularly the post-1991, period has seen a gradual liberalisation of the Indian economy. The relaxation of controls has generally made a positive impact on the corporate strategies of firms. Many companies have taken the various advantages arising out of the implementation of liberalisation measures and diversified into related and unrelated areas.

The question whether diversification is an effective strategy has assumed significance in view of the fact that ideas of core competence and focus (what we call here concentration) gained greater acceptability among companies, investors, consultants and academicians in the developed countries. Diversification, specially unrelated ones, seems to be out of favour. But there is a divergent and interesting view of what strategy could be better for companies in the developing countries such as India. Exhibit 5.6 presents the gist of the 1997-article by Khanna and Palepu that raised quite a storm in academic and professional circles.

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Exhibit 5.6 A positive view on diversification strategies for Indian companies

In the lively debate on focus (or concentration) versus diversification, Tarun Khanna and Krishna Palepu of the Harvard Business School offer an insightful analysis of the reasons why companies in developing countries such as India could benefit from diversification. They are opposed to the idea of core competence and focus that are now quite popular with companies and consultants in developed economies. They feel that a conglomerate organisation in a developing economy, with diversified interests, has better scope for being profitable and competitive.

The central idea of the proposal is based on the hypothesis that the institutional context drives the strategy to be adopted. The institutional context has several dimensions: capital, labour and product markets; government regulations and contract enforcement. Typically, in developing economies, the institutional mechanisms are weak. The capital markets are underdeveloped; skilled labour and managerial talent is scarce; there is little scope of dissemination of reliable information about the product to consumers; the level of government regulation is high; and contract enforcement is unpredictable in the absence of effective legal systems.

Conglomerates in developing economies can effectively fill the institutional voids in several ways. They can leverage their reputation to raise external finance and use internally-generated funds for investment in new businesses. Business houses can build up a reservoir of skilled labour and trained managerial personnel for new ventures. The group identity could be used to build brand equity and awareness about businesses and products. The past experience of conglomerates and their rapport with the government can help them in establishing and running several businesses. The credibility of the conglomerates could also be used for effectively building business relationships and assuring honest dealings and honouring contractual commitments. For all these reasons, a diversified business group can be more attractive for foreign investors.

Khanna and Palepu refer to the several conglomerates in developing economies such as India, Indonesia, Malaysia and South Korea to support their conclusions. Among these, the example of the Tata group of India is prominently quoted to demonstrate how a large business group could be successful and competitive while remaining widely diversified.

Source: Based on T. Khanna & K. Palepu, "Why Focussed Strategies may be Wrong for Emerging Markets", *Harvard Business Review*, July–August, 1997.

Exhibit 5.6 on a positive view on diversification strategies for Indian companies offers a strong set of reasons. Yet, the fact is that several Indian business groups have been attempting concentration in line with the thinking on core competence. But this is being done in a unique Indian way of adopting a middle path, as we see next.

Two follow-up articles, related to the diversification versus focus debate, in *The Economic Times*, concluded that Indian companies have been responding in a variety of ways to the environmental changes taking place around them.[21] The responses have been in the form of moderate focus, thus following a middle path between concentration and diversification, apparently trying to reap the benefits of both. The RPG Group and the Lalbhai group have restructured their business portfolios, the Mahindra Group and the Muthaihs have reorganised their businesses, while the Tata and the Aditya Birla Groups have preferred to remain diversified. Business portfolio restructuring involves choosing a manageable number, say, four to six, of business areas and concentrating on these. Business reorganisation involves dividing the group into clearly identifiable SBUs, with independent leadership and transparent authority, so that the core businesses do not have a diffused identity within the group. The responses of the Tata and Aditya Birla Groups have been to reinforce group identity, strengthening the role of the head office or corporate headquarters, and increasing cross-company interface.

Ghoshal, echoing a preference for the middle path between excessive diversification and concentration, observed that most Indian business groups are over-diversified, being 'decentralised federations—with

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autonomous businesses, no cross-business integration, and an ineffective corporate engine'. He suggested three tasks: matching autonomy at the business level by the quality of business-level managers; institutionalising horizontal sharing and integration by building up trust and mutual respect among business-level managers; and the top-level corporate managers confronting the inadequacies of their own roles and value added within the group.[22]

Diversification strategies, of all the strategic alternatives that we discuss in this text book, are of greater relevance for business groups in the private sector. As we have seen earlier in this chapter, integration strategies are formulated by all types of organisations, whether they are in the public, private, cooperative, small-scale or non-governmental sectors. So too are related diversification strategies that are adopted by all types of organisations. Unrelated diversification lies more in the domain of private sector business groups, whether they are family-owned or professionally- managed groups.

The present scenario has large business groups embarking on rapid expansion through taking advantage of the progressive opening up of the Indian economy. The trend to expand—less by the means of concentration and more through integration or related or unrelated diversification—may continue for quite some time, till the quenching of the thirst for growth unleashed by reforms is satiated and the uncorking of the entrepreneurial spirit is moderated by the harsh realities of the business and social environment in India.

Diversification strategies offer high rewards if steps are taken for their proper implementation. We will refer to this issue later in this book when we deal with strategy implementation.

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