Organisations continually face the challenge of exercising choice among alternatives. Choice is an inalienable part of the decision-making process. Bajaj and Allianz, as illustrated in the opening case, both must have faced the choice of picking up a business partner from the several available. They ended up choosing each other, creating Bajaj Allianz. That level of choice is what is called a strategic choice. It is strategic as it is for keeps, involves a lot of commitment from either side and affects the future of both the organisations. Naturally, a lot of analysis goes into making a strategic choice. An organisation has to look inwards, outwards and sideways before taking a leap into the unknown. Once on the course, things often happen that were not foreseen. An organisation has to be prepared with contingency strategies for the anonymous possibilities. This chapter will focus on the issues related to the different facets of strategic analysis and choice.

9.1 PROCESS OF STRATEGIC CHOICE

The process of strategic choice is essentially a decision-making process. The decision-making process consists of setting objectives, generating alternatives, choosing one or more alternatives that will help the organisation achieve its objectives in the best possible manner and finally, implementing the chosen alternative. For making a choice from among the alternatives, a decision maker has to set certain criteria on which to accept or reject alternatives. These criteria are the selection factors. They act as guides to decision-making and considerably simplify the process of selection, which otherwise would be a very difficult task.

Strategic choice could be defined as 'the decision to select from among the grand strategies considered, the strategy which will best meet the enterprise's objectives. The decision involves focussing on a few alternatives, considering the selection factors, evaluating the alternatives against these criteria and making the actual choice'.[2]

There are four steps in the process of strategic choice as enumerated below:

1. Focusing on strategic alternatives
2. Analysing the strategic alternatives
3. Evaluating the strategic alternatives
4. Choosing from among the strategic alternatives

These four steps in the process of strategic choice are described further.

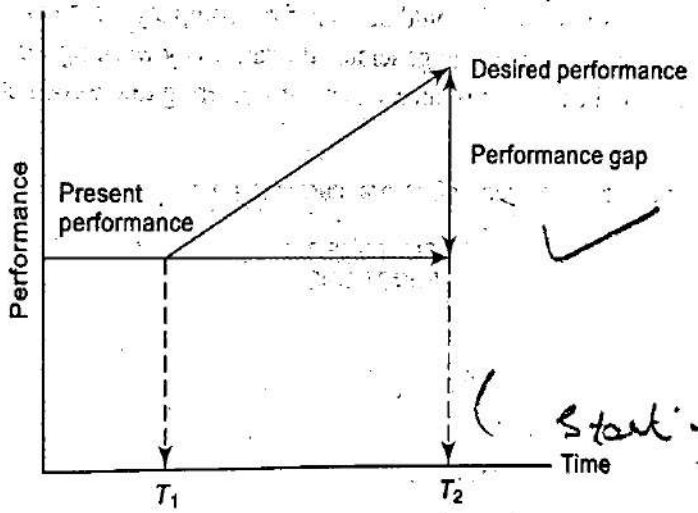
Focussing on Strategic Alternatives

The aim of focussing on a few strategic alternatives is to narrow down the choice to a manageable number of feasible strategies. Theoretically, it is possible to consider all the alternatives. On the other hand, a decision maker would, in practice, limit the choice to a few alternatives. Such a situation frequently poses a dilemma before the decision maker: considering too many alternatives would make the process unwieldy and unproductive; but if only a few alternatives are considered, the decision maker may ignore others which should have been considered. For resolving this dilemma, a decision maker has to focus on a reasonable number of alternatives. It is still difficult to tell what that 'reasonable' number would be.

Focussing on alternatives could be done by visualising the future state and working backwards. This is done through gap analysis.[3] A company sets objectives for a future period of time, say three through five years and then works backward to find out where it can reach through the present level of efforts. By analysing the difference between the projected and desired performance, a gap could be found.

Exhibit 9.1 shows how gap analysis works. How wide or narrow the gap is, its importance and the possibility of it being reduced, influence the focus on alternatives. At the corporate level, the strategic alternatives are four: expansion, stability, retrenchment and combination. Where the gap is narrow, stability strategies would seem to be a feasible alternative. If the gap is large, due to expected environmental opportunities, expansion strategies are more likely. If it is large due to past and expected bad performance, retrenchment strategies may be more suitable. In a complex scenario where multiple reasons are responsible for the gap, combination strategies are likely.

Exhibit 9.1 Gap analysis for focussing on strategic alternatives (to narrow down the choice)

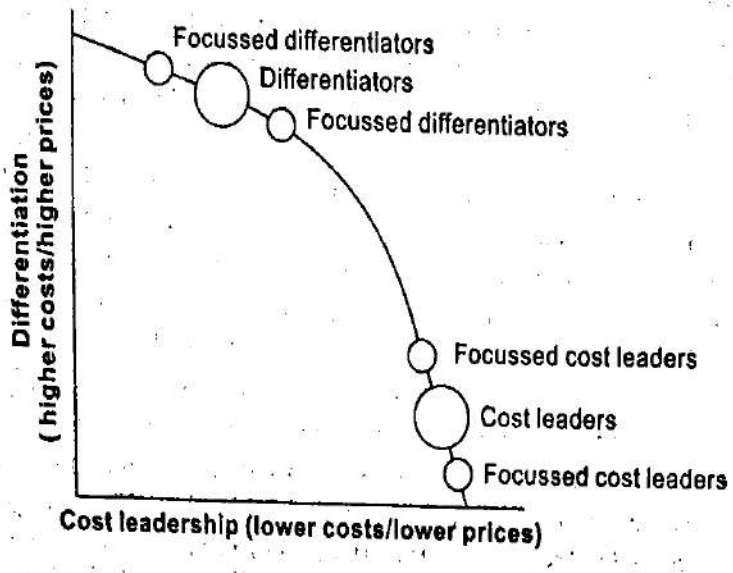


(Starting point)

At the business level, organisations need to think of alternative ways of competing. The choice is essentially between positioning the business as being low-cost, differentiated or focussed. Organisations need to understand the conditions in the industry and weigh carefully, the risks and benefits of each competitive positioning before making a choice. In practice, the choice leads to a situation of dynamic competitive positioning where low-cost and differentiation are not discrete positions, but lie on a continuum. This can be seen in Exhibit 9.2.

Focusing on alternatives at the business level could also be understood by reverting to the business definition (for an explanation of business definition, see Section 2.4). The three dimensions along which a business is defined (customer groups, customer functions and alternative technologies), enable a decision maker to

Exhibit 9.2 Dynamic competitive positioning

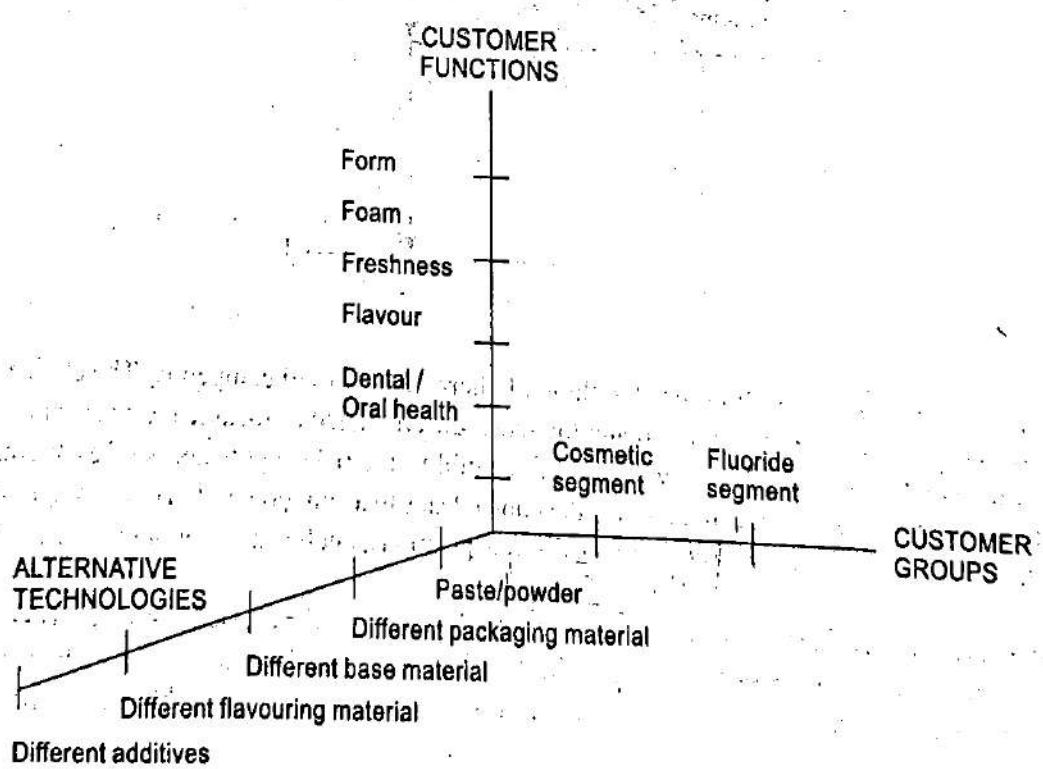


Source: Adapted from C.W.L. Hill & G.R. Jones, *Strategic Management: An Integrated Approach*, Boston, Houghton Mifflin, 2007, p. 164

think in a structured fashion and systematically move in one or more dimensions, generating a number of feasible alternatives.

Exhibit 9.3 illustrates one way how this could be done for a company which is in the oral care business. Using a business definition, a company could generate alternatives by working forward from the present to the future position it wishes to be in. For instance, a company catering to the cosmetic segment could cover

Exhibit 9.3 Possible business definition of an oral care company



the fluoride segment as well. Other alternatives could be to use alternative packaging (e.g. collapsible tube) or different additives (e.g. clove oil or *neem*). In this way, even within the context of an industry or business, several alternatives can be considered.

Analysing the Strategic Alternatives

Narrowing down the strategic choice should lead to a few feasible alternatives. These alternatives have to be subjected to a thorough analysis. Such an analysis has to rely on certain factors. These factors are termed as selection factors. They determine the criteria on the basis of which the evaluation of strategic alternatives can take place.

The selection factors can be broadly divided into two groups: the objective and the subjective factors. Objectives factors are based on analytical techniques and are hard facts or data used to facilitate a strategic choice. They could also be termed as rational, normative or prescriptive factors. An example of an objective factor for selection is the market share, expressed as a per cent of the total market share of a company's business in its industry. Subjective factors, on the other hand, are based on one's personal judgement, collective or descriptive factors. An example of a subjective factor is the perception of the company's top management regarding the prospects of the business in the next 2-3 years. The alternatives that are generated in the first step have to be subjected to analysis on the basis of these selection factors.

Evaluating the Strategic Alternatives

Selection factors are the criteria on the basis of which a final choice of strategy has to be made. Narrowing the choice leads to a few alternatives, each one of which has to be evaluated for its capability to help the organisation achieve its objectives. Evaluation of strategic alternatives basically involves bringing together the analysis done on the basis of the objective and subjective factors. Successive iterative steps of analysing the different alternatives on the basis of selection factors, lie at the heart of such an evaluation. There is no set procedure and strategists may use any approach which suits the circumstances. What is important to observe is that if we consider only the objective or subjective factors, it does not help in evaluation. Both the factors have to be considered together. How this is done is of considerable interest to management researchers and academicians. We had referred to strategic decision making in Section 1.4. These issues are important in any exercise where an evaluation of strategic alternatives is to be done.

Choosing from among the Strategic Alternatives

The evaluation of strategic choice should lead to a clear assessment of which alternative is the most suitable under the existing conditions. The final step is, therefore, of making the strategic choice. One or more strategies have to be chosen for implementation. A blueprint has to be made that will describe the strategies and the conditions under which they would operate. This blueprint is the strategic plan which is discussed in the last section of this chapter. Besides the chosen strategies, some contingency strategies would also have to be devised. Contingency strategies are described in Section 9.5.

The set of different analytical techniques used for considering the objective factors is the subject matter of the following section on strategic analysis.

9.2 STRATEGIC ANALYSIS

Strategic analysis is the investigation of the objective factors being considered in the process of strategic choice. Questions such as which industries to enter and which industries to leave, which businesses to create/acquire/divest, which products and markets to retain/grow/divest face the strategists of organisations during strategic analysis. Strategic analysis is meant to help answer these questions.

the results of the competitor analysis ...

9.3 SUBJECTIVE FACTORS IN STRATEGIC CHOICE

If the world were utterly logical, strategic choice would simply be a rational, systematic process of finding alternatives, analysing and evaluating them and choosing the best one. Strategic analysis and the techniques that we discussed in the previous section may make the process of strategic choice mechanistic to some of you. But, in reality, it is not so.

It is widely accepted that strategic decision-making is a complex activity. No one set of factors can be sufficient for exercising a strategic choice. How strategists actually make a choice among several alternative strategies has been a subject of considerable interest to researchers in management in general and strategic management, in particular.

We dealt with strategic decision-making in section 1.4 and the different schools of strategy thought in section 1.5. There we noted how the process of strategic decision-making and how the different schools of thought on strategy formation interpret the process of strategic decision-making. Of particular interest here are some of the schools of thought which recognise that strategy formulation is not entirely an analytical process, but takes into account the non-analytic or subjective factors too. Here, we are especially concerned about the subjective factors in strategic choice. Subjective factors are essentially intuitive and descriptive in nature. Not many 'cut and dried' analytical models can be used. But this does not mean that subjective factors are irrational or non-analytical. Rather, they attempt to consider many of the issues that cannot—and probably should not—be dealt within the application of analytical models. (Though diehard rationalists have used model-building approaches here too; see, for example, reference 25)[26].

We identify six types of subjective factors that are discussed further in this section:

1. Considerations for governmental policies.
2. Perception of critical success factors (CSFs) and distinctive competencies
3. Commitment to past strategic actions
4. Strategist's decision styles and attitude to risk
5. Internal political considerations
6. Timing and competitor considerations.

Considerations for Governmental Policies

A significant feature of the Indian economy is that—despite a series of liberalisation measures initiated since 1991—it still remains centrally planned and regulated. State intervention in business is very evident. Strategists within organisations are aware of the crucial role that the government plays in setting down policies and priorities. In fact, in several cases, government policies are the deciding factor: a shift in policies can have a significant impact on the future prospects of companies. This is especially true in the case of industries such as airlines, banking, pharmaceuticals, power, railways or telecommunications that depend heavily on government regulations. Strategic alternatives considered by companies have to be seen in the context of governmental policies. Expansion, retrenchment, or liquidation types of corporate strategies can only be feasible if the governmental policies act as a major subjective factor in screening alternatives. (We consider government policies as a subjective factor since the perception that strategists have about them is more important from the long-term viewpoint).

Multinational companies in India such as Hindustan Unilever and ITC acknowledge that the strategic choice made by them have been dictated by 'national industrial and economic policies formulated by Government'.[27] Changes in the government, either at the central or state levels, are of much significance to industrialists as they are concerned about the shift in policies and priorities and the likely impact they would have on their business. Annual reports by the chairmen of companies invariably devote a lot of attention to the government's policies and their impact on different industries and businesses. In fact, the current phase of rapid economic and industrial development in India is a direct result of the liberalisation policies of the government. In this manner, it is seen that considerations to governmental policies and priorities is one of the most important subjective factors that strategists take into account while exercising a strategic choice.

Perception of CSFs and Distinctive Competencies

Critical success factors (CSFs—discussed in detail in Section 2.5) and distinctive competencies (see Section 4.1 for explanation) are important issues in environmental and organisational appraisal. How they are perceived by strategists make them important subjective factors in strategic choice. While considering several strategic alternatives, strategists could be guided by the distinctive competencies that the organisation possesses and the CSFs that ensure success in an industry. The important thing is to focus on the extent of the match that exists between the competencies and the CSFs. The industries, which the strategic alternatives would lead to, have their own CSFs. If the distinctive competence it has, can lead the organisation to build its strategy around the CSFs, then success is more likely. For instance, if the CSFs in a particular industry are: low-cost production, ensured raw materials supply and the quality of the after-sales service, then an organisation can evaluate itself on these bases and conclude whether it possesses significant strengths in these areas or not. If it does, the alternative of entering into that industry is open, otherwise, it should consider other alternatives. In this way, strategic choice can be guided by the perception that strategists have with regard to the match that exists between the CSFs and distinctive competencies.

Commitment to Past Strategic Actions

It is rare that an organisation completely breaks away from its past strategies and embarks upon a totally new course of action. Experience shows that they move in an incremental fashion. Called upon to exercise a strategic choice, strategists are more likely to start from where the organisation is, and work up in the way that had been adopted by it to reach where it was. In this way, the strategic choice is more likely to be for those alternatives which arise out of past strategic actions.

There is another practical reason why past strategic actions affect strategic choice. Strategic actions involve not only the formulation of particular strategies, but also, commitment in terms of resources and per-

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There is another practical reason why past strategic actions affect strategic choice. Strategic actions involve not only the formulation of particular strategies, but also, commitment in terms of resources and per-

sonnel. Having made a serious commitment, it is difficult to move to areas where existing resources and personnel become redundant. Therefore, strategists tend to eliminate the strategic alternatives that lead the organisation too far away from their existing positions. Only under pressing circumstances and imminent threat from the environment does an organisation move, or is forced to move, away from its existing position. This gives rise to another subjective factor in strategic choice, i.e., decision styles and attitude to risk.

Strategist's Decision Style and Attitude to Risk

The decision (or management) style adopted by strategists, particularly by the chief executive officer (CEO) and their attitude to risk is a determining subjective factor in strategic choice. It is of much interest to note that, given the same set of environmental factors and identical organisational factors, two organisations may follow different strategic paths. One may act in an aggressive manner and adopt a proactive stance with regard to strategy formulation, while the other may act defensively and react to changes. The crucial variable responsible for the difference between the two approaches is the decision style and attitude to risk of the respective strategists.

There are several examples to show how individuals have had a far-reaching impact on strategic choice. Over the years, there have been industrialists like the late Dhirubhai Ambani and his sons of the Reliance Group, Vijay Mallya of the UB Group, Ruia brothers of the Essar Group, Sunil Mittal of the Bharti Group and many others (who may not be in the limelight) who have adopted an aggressive posture and formulated expansion strategies. There are others who have acted conservatively and have not done well. A typical example of such a case is of the erstwhile successful, but now a stagnant, business group of the Sarabhais. But risk aversion may not necessarily be detrimental to strategic interests. The Bajaj group is generally considered to be a cautious and conservative business group. In Bajaj Auto, the CEO, Rahul Bajaj, has consistently followed a stability strategy and tried to expand within the existing business. There are several strategic alternatives that the company could have considered, but it has chosen to 'stick-to-the-knitting'. It is only in the late-1990s that the Bajaj group awakened to the competition and attempted to formulate corporate and business strategies to deal with it. It could be concluded that the decision style and attitude to risk are contingent upon the requirements of a particular business and the environment in which it operates. In this way, they act as significant subjective factors in strategic choice.

Internal Political Considerations

By 'internal political considerations' is meant the strategists' interrelationship and power structure and balance. When strategy formulation is viewed as a political process, strategists are viewed as a coalition of interests. A dominant CEO is able to affect strategic choice decisively. Where the CEO is perceived as weak, or invites participation, interest groups or cliques emerge which affect the strategic choice process and try to make the process work in their favour. It should be noted, however, that politics and the use of power are not necessarily bad. 'Political behaviour in organisation is perfectly natural and legitimate ... Politics and power are neither good nor bad. They are neutral.'[28] The main issue for the CEO is to see that they do not adversely affect the process of negotiations and support conditions that are necessary for the coalition of interests to work. Internal political considerations are crucial for strategic choice as such a choice determines where the resources of organisations will be allocated.

It is difficult to illustrate how internal political considerations play a role in strategic choice as power struggles are rarely publicised. But instances of a dominant strategist guiding the strategic choice or of tussles within a family group affecting strategies are available. Prominent former CEOs like Ashok Ganguly of Hindustan Lever, C.H.Choksey of Asian Paints, V. Krishnamurthy of BHEL and several others, played a decisive role in exercising strategic choice in their respective organisations. The differences among members of family groups such as the Ambanis, Birlas, Modis, Shriram, etc. (apart from those relating to company and

asset-sharing) have arisen because of conflicting personalities and power play. Ratan Tata had to grapple with the complexities of internal political considerations for several years before he could institute a system of control over the Tata group of companies managed by powerful managers handpicked by J.R.D. Tata. Only then was he in a position to exercise strategic choice for the Tata companies. Another point to note is that, in the context of the public sector, politicians and bureaucrats in the administrative ministries also play a political role in strategy formulation. Likewise, in multinational subsidiaries, the parent company may exercise a political influence on strategic choice, keeping in view its own objectives and strategies.

All in all, internal political considerations are an important subjective factor in strategic choice. We will again refer to corporate politics and in greater detail, in the context of strategy implementation, in a later chapter.

Timing and Competitor Considerations

The time element and competitor consideration is another set of important subjective factors that influence strategic choice. We considered, in the previous chapter in section 8.4, timing as an important tactic for implementing business strategies.

Timing answers the following questions: when to exercise a strategic choice? when a particular strategic choice is to be made? and for what time period (short-run or long -run) is a strategic choice to be made? A strategic choice has to be exercised when the strategists are sufficiently satisfied that all possible alternatives have been considered and the environmental analysis and diagnosis indicates that no other major feasible alternatives are likely to emerge in the near future. A particular strategic choice, say of related diversification, could be made when no other alternative is as attractive and the required strategic choice for instance, stability strategy, is for the short or long-run. Short-run strategic choice should be seen as a stop-gap arrangement before the organisation moves on to a more permanent, long-run strategy.

Competitor actions (and reactions) are also to be considered in strategic choice. We referred to this point in dealing with competitor analysis earlier in this chapter. If it is expected that a particular strategy would elicit an aggressive response, then it should only be chosen if the company is in a position to counteract. The timing of competitor action is also significant.

Besides the six factors discussed above, there might be several others that could qualify as subjective factors (e.g. management philosophy, corporate ethics, social responsibility, etc.) and should be taken into consideration. We have reserved comments on these for a later chapter when we discuss behavioural implementation.

The subjective and objective factors, described in the previous section, both have a collective impact on strategic choice. How a strategist goes about assimilating information from a subjective and objective analysis is a matter of personal choice. The main thrust of strategic choice is to evolve a suitable mechanism for screening all possible strategic alternatives, narrowing the choice down to a few feasible alternatives and then to choose an optimal strategy. But still, an optimal strategy might not be the best. Changing circumstances may render the strategic choice partly irrelevant. It is necessary, therefore, to formulate contingency strategies. These are discussed in the brief section that follows.