



UNRISD

United Nations Research Institute for Social Development

Embeddedness and the Dynamics of Growth

The Case Of Amul Cooperative, India

*Abhijit Ghosh
McGill University*

Draft paper prepared for the UNRISD Conference

Potential and Limits of Social and Solidarity Economy

6–8 May 2013, Geneva, Switzerland

The United Nations Research Institute for Social Development (UNRISD) is an autonomous research institute within the UN system that undertakes multidisciplinary research and policy analysis on the social dimensions of contemporary development issues. Through our work we aim to ensure that social equity, inclusion and justice are central to development thinking, policy and practice.

UNRISD ▪ Palais des Nations ▪ 1211 Geneva 10 ▪ Switzerland
info@unrisd.org ▪ www.unrisd.org

Copyright © United Nations Research Institute for Social Development

This is not a formal UNRISD publication. The responsibility for opinions expressed in signed studies rests solely with their author(s), and availability on the UNRISD website (www.unrisd.org) does not constitute an endorsement by UNRISD of the opinions expressed in them. No publication or distribution of these papers is permitted without the prior authorization of the author(s), except for personal use.

EMBEDDEDNESS AND THE DYNAMICS OF GROWTH: THE CASE OF AMUL COOPERATIVE, INDIA

Abstract

Strategy scholars have called for more dynamic and embedded views of strategy which concurrently pay heed to the initiatives of actors who strategize at the micro level and which account for the embeddedness of these initiatives within the macro social context. Recent literature suggests that social enterprises such as cooperatives may be more “pluralistic”. They are characterized by multiple objectives, both social and economic, and diffuse power distribution that allows multiple stakeholders to influence the goals pursued. Moreover, members of coops share a multi-faceted relationship with their organization, at once being members, owners, suppliers and customers. Given this greater embeddedness in their context, cooperatives provide an ideal type for enunciating an embedded view of strategy. However, studies of cooperatives in management literature suggests, these have dealt with either macro population level studies or with micro studies that look at membership identity, commitment etc. There are few studies that connect the micro and macro levels of analysis to examine how strategic initiatives of coops are embedded in the broader socio-political context. Drawing on data obtained from fieldwork conducted in AMUL cooperative, we provide a contextually embedded narrative of the strategy process underlying AMUL’s growth during the period 1948-1962. This narrative provides an embedded view of AMUL’s strategy which was formed through an interaction between its strategic intent, its initiatives and through the embedding of these initiatives within India’s political economy.

Key words: Embeddedness, Strategizing, Cooperatives, Pluralistic Enterprises

Introduction

The recent global economic crisis as well as the concomitant social disenfranchisement and inequality the world is currently faced with have called into question premises of “free market” capitalism. This has also led to a renewed and growing interest around the world in social entrepreneurship and social enterprises, which hold the potential for pursuing more inclusive and equitable growth (Dees, 2001; Dorado, 2006; Mair and Marti, 2006; Prahalad, 2009; Westley, Patton and Zimmerman, 2006; Dacin, Dacin and Tracey, 2011). While the United Nations declared 2012 as the International Year of Co-operatives, the UNRISD, as part of its research agenda, is focusing on the “social and solidarity economy” to better understand alternative ways of organizing enterprise activities in pursuit of a “distinctive approach” to development (UNRISD, 2012). Likewise, the Academy of Management, a premier organization dedicated to management scholarship, has “Capitalism in Question” as its overarching theme for their 2013 annual meeting. In a capitalist world faced with unstable financial systems, increased food insecurity and growing inequality, which is partly the “consequence of market- and corporate-led development” (UNRISD, 2012), it is increasingly compelling to consider the model of socio-economic development that social enterprises like cooperatives offer, one which is arguably more equitable, inclusive, voluntary and sustainable (Johnson and Whyte, 1977; Brown, 1997; Mair and Marti, 2006). Social enterprises are the tangible outcomes of a process of social entrepreneurship (Mair and Marti, 2006). They include cooperatives, mutual benefit societies, associations, and foundations which combine social purpose with earned income strategies (Seelos and Mair, 2005).

Cooperatives represent a unique business model. They have successfully organized individuals from diverse communities, playing a salient role in alleviating poverty (Mair and Marti, 2009). Based on principles of self-help, democratic control, member participation, and concern for community, coops combine social goals like empowerment with means to facilitate collective participation in economic activity. What distinguishes them from the pure profit making enterprises (Johnson and Whyte, 1977) is their stated pursuit of hybrid goals, and democratic means for achieving them. By placing the means of development in the hands of those who most need it, cooperatives adopt a distinctive path to development.

However, coops’ survival and growth cannot be presumed as many fail or do not manage to make the transition from infancy to growth. To understand how they might grow successfully, it is important to understand how they strategize within their context. In other words, we need to understand how cooperatives’ growth strategies are embedded within the broader context. For this, it is important to appreciate the “patterns of reciprocal interaction” (Ghosh, 2011) between their strategic growth initiatives and the broader context which enables, constrains and constitutes these initiatives.

Purpose and organization

In this paper, I describe a phenomenal period during the history of India's AMUL dairy cooperative (1948-1962) in the hope of providing readers with a rich, embedded narrative of AMUL's growth by illustrating the reciprocal interaction between AMUL's strategic initiatives at the micro level and relevant events and processes unfolding at the macro level. Through this narrative, I delineate the broad contours of an "embedded view of strategy" that rests on three pillars – strategic intent (Hamel and Prahalad, 1989), strategic initiatives (Lovas and Ghoshal, 2000; Burgelman, 1991) and the broader social context – and acknowledges the dynamic interaction between them. Attending to the need for better understanding how organizational strategies are embedded in the larger context (Whittington, 2007, Regner, 2008, Tsoukas, 2009), the question I ask is "How are cooperatives' growth strategies formed and embedded within the broader socio-economic and political context?"

Firstly, I draw upon recent commentaries of strategy-as-practice scholars (Jarzabkowski, 2005; Whittington, 2007) to highlight the extant dichotomies in strategy research. I argue for an embedded view of strategy making that would sufficiently account for the purposive initiatives of actors and their reciprocal interaction with the broader socio-political context. Such an approach is argued to help us overcome the extant dichotomy in strategy process studies characterized by a neglect of strategic intent on the one hand and by lack of attention to the extra-organizational context on the other (Tsoukas, 2009). I also draw attention to the distinctiveness and greater embeddedness of cooperatives given their "pluralistic" nature and how this characteristic might make them ideal types for explicating embedded views of strategy. Secondly, I provide an overview of the research site and describe the methodology. Thirdly, I offer a rich, embedded narrative of the strategy process underlying AMUL's phenomenal growth. Finally, I discuss research findings and draw broad conclusions from the case study narrative.

Theoretical background and research gap

Towards an embedded view of strategy

Recognizing dichotomies in strategy research, strategy scholars have called for more dynamic and embedded views of strategy (Porter, 1991) which pay heed to the purposive initiatives of actors who strategize (Jarzabkowski, 2005) at the micro level and which concurrently account for the social embeddedness of these initiatives (Whittington, 2007, Regner, 2008, Tsoukas, 2009). Tsoukas (2009) points out that strategy scholars have "focused on strategy practitioners within the organization, refraining from systematically connecting organizational changes with extra-organizational contexts" (pg. 4). Drawing further attention to this dichotomy, Tsoukas and Knudsen (2005) note that in their attempt to "conceptualize strategy processes, some researchers have tended to build models that reduce the element of human agency to a minimum, relying on selection forces rather than on human intentionality to design viable organizations and strategies. Within this stream of research, the process rather than the content of strategy is emphasized and "emergent" rather than "planned" strategies are highlighted" (pg. 341). The notion of "emergent strategy" emphasizes how organizational outcomes are detached from strategic intent (Whittington, 2007). Whittington (2007) criticizes strategy process research (especially

Mintzberg) for not paying sufficient attention to “strategic intent”:

“first by defining strategy as what the organization does, [Mintzberg] denies the sense of strategy as a kind of work that people do; second by stressing how organizational outcomes are *so frequently detached from strategic intent*, he reduces the strategy work to a vain, even *absurd endeavor to control the uncontrollable*.” (pg. 1581, italicized)

Mintzberg’s focus on the “emergent” (Mintzberg and Waters, 1985) at the expense of managerial intention and purposiveness risks trivializing managerial effort and purposiveness (agency) in the formation of strategy (Whittington, 2007). One is left with the notion of organization as a rudderless ship as the phrase “absurd endeavor to control the uncontrollable” suggests. While most strategy formation studies characterize strategies as being either “deliberate” or “emergent”, paying attention to “**strategic intent**” (Hamel and Prahalad, 1989) may help us transcend this dichotomy (Markides, 2001; Jarzabkowski, 2005; Whittington, 2007).

Whittington (2007) also underscores the import of the concept of “**social embeddedness**” to strategy making. Though strategy researchers have revealed the importance of organizational context, there is a need to recognize “societal embeddedness [of strategy] as well” (Whittington, 2007). Likewise, Regner (2008) asserts that an analysis of the micro-foundations (meaning detailed activities) of strategy dynamics and their social embeddedness would provide a potentially significant contribution to strategic management. These suggestions together point us toward embracing more embedded views of strategy. Such a view would pay attention to the purposive¹ and creative initiatives of actors who do strategy, but should also recognize that these actors do not operate in vacuum and must draw upon and interact with elements in the broader social context in which they are embedded. Thus, it would pay attention to the dynamics of “reciprocal interaction” (Ghosh and Westley 2005) between strategic intent, strategic initiatives of actors and the broader context in which these actors and their initiatives are embedded.

Social enterprises and cooperatives: Ideal types for an embedded view?

Recently, there has been a growing interest worldwide in social enterprises which hold the potential for pursuing more equitable growth (Dees, 2001; Dorado, 2006; Mair and Marti, 2006; Prahalad, 2009; Westley et al., 2006; Dacin, Dacin and Tracey, 2011). Recent literature in strategy suggests that social enterprises such as cooperatives may be more “pluralistic” (Denis, Langley, and Rouleau, 2007). They are explicitly characterized by multiple objectives, both social and economic, and diffuse power distribution that allows a wide array of stakeholders to influence the nature of goals pursued and the means adopted (ibid). Moreover, members of coops share a multi-faceted relationship with their organization, at once being members, owners, suppliers and customers in their day to day transaction with the firm (Schneiberg, et al., 2008). In these enterprises, the needs of members and its expression through voice and participation in decision making is paramount (Ghosh, 2011).

¹ The word “purposive” is taken to include the notion of “strategic intent” which seems to have been ignored by strategy process researchers.

Given this embeddedness in their community and context, I argue that cooperatives provide an “ideal type” (Rothschild-Whitt, 1979) for enunciating an “embedded view of strategy”. These dynamics in coops, as gleaned from the discussion above, differ from the very nature of strategy as usually understood (Denis, Langley, and Rouleau 2007) in terms of the primary pursuit of economic value (Mair and Marti, 2006) and hierarchical control of the means by which goals are pursued (Ring and Perry, 1985). Thus, the strategy making process in coops is likely to be qualitatively different - influenced by members’ social needs, and by pluralistic democratic and political processes given the likely overlap that members’ elected representatives may have on boards of coops and other political structures to which they concurrently belong. Yet strategy making in the context of cooperatives is yet to be understood and documented. This is especially the case in resource-constrained environments, especially in poor developing countries (Mair and Marti, 2009). More specifically, a review of studies of cooperatives in management literature suggests, these have dealt with either macro population level studies which seek to study change using the notion of population dynamics (Schneiberg et al., 2008; Simons and Ingram, 1997; Ingram and Simons, 2000; Staber, 1989) or with micro studies that look at membership identity, commitment and participation (Foreman and Whetten, 2002; Brown, 1985; Woodworth, 1986). Despite a vibrant tradition of work on coops in the broader sociological literature, there are few studies that investigate the interplay between the micro and macro levels of analysis to provide an embedded view of strategy making underlying the growth of coops. This gap in literature adumbrates the research question I ask.

Methodology

Research site

In order to understand the process of strategy formation in cooperatives, I chose to undertake my exploratory field study in India’s most successful cooperative, AMUL. It was formed by a handful of dairy producers just prior to India’s independence. AMUL was established in December 1946 as a district milk producers’ union of two village milk cooperative societies (hereafter VCS). AMUL is one of India’s most famous national brands and competes successfully with larger dairy multinationals. In 2008, AMUL served 650,000 member producers across 1100 VCSs, and procured 4730,00,000 liters of milk². Through its marketing federation, it had a country-wide distribution network comprising 46 sales offices, 3000 wholesale dealers and more than 500,000 retailers.

Sampling, data sources and analysis

Patton (2002) notes that studying information rich cases yields insights and in-depth understanding, rather than empirical generalizations. The selection of AMUL allowed for the possibility of learning from an “exemplar of good practice” (Patton, 2002). Data was obtained from both primary and secondary sources. Primary data was collected during my fieldwork in Kheda district of Gujarat through semi-structured, face-to-face interviews with several respondents which included member producers, senior executives, directors (current and retired)

² Records of Kaira Union. Details on AMUL’s turnover as well as assets and liabilities available from author.

and AMUL veterans who had spent their entire careers with AMUL. These interviews were then transcribed for the purpose of sorting and analysis.

Archival data on AMUL was collected from various books, published and non-published articles, company records, newspaper reports, annual reports etc. Data obtained from archival sources were arranged as chronologies and time plots following Mintzberg's (1979) "direct research" method. Patterns from these time plots were used to infer strategies and raise relevant questions of the type "how" and "why" during interviews. For example, time plots revealed that AMUL came up with a slew of products from the year 1955 onwards until 1962. This information was used to infer a strategy of "product innovation". Subsequently, respondents were asked about: the process by which these new products were developed; the *actors* (both internal and external) involved in their development and launch; *resources mobilized*; *external institutions* that might have been involved; the *role of leadership and intent*; and *broader events and processes* that were implicated during the process.

Responses were separated and bunched together into a group and were then codified into the italicized categories mentioned above. As the interviews proceeded, new dimensions which arose were incorporated into the analysis. After this analysis, I focused on writing a detailed process narrative documenting the various strategies that appeared and disappeared over time while remaining grounded in my interview data and verifying it with archival data for purposes of triangulation (Patton, 2002). Process research takes the form of producing a narrative with regard to what is being investigated, to provide an answer to the research question (Pettigrew, 1992; Langley 1999; Sminia, 2009). The process of writing the narrative used quotes from respondents and was non-linear and iterative as concepts from theory such as "strategic intent" (Hamel and Prahalad, 1989), "strategic initiatives" (Lovas and Ghoshal, 2000), and those from strategy process literature influenced the narrative. The initial versions used "facts" obtained from various data sources to structure the narrative in chronological order to the extent possible. Data interpretation necessary to make the "creative leap" (Mintzberg, 1979) occurred in later versions as the narrative became rich in concepts through the iterative process between data and theory.

The Case Study

Early years (1948-1955)

Amul was formed in December 1946, just before India's independence, to counter the monopoly power of a private company, Polson³. Polson, the main supplier of milk from Kheda district to the Bombay Milk Scheme (BMS), exploited the milk producers by paying them poorly. Given its colonial contacts, Polson managed to get an executive order for exclusive supply of milk from the most important milk producing villages in Kheda (Heredia, 1997). This meant that the milk producers could not sell their milk to any other private trader. Polson collected milk through middlemen who would negotiate arbitrary prices with a few powerful men in the villages (Interview # 48, 14/5/2009; Interview # 52, 30/7/2009). In the process of procurement and supply of milk to BMS, both Polson and the middlemen made huge profits, while the producers got a pittance (Ghosh and Westley, 2005).

³ Polson received support for the continuation of its monopoly from the British colonial government.

Faced with exploitation, the producers approached Kheda's leader TK Patel (hereafter TKP), who, at the behest of Sardar Patel⁴ and Morarji Desai⁵, called a meeting of milk producers which resulted in the decision to create a Milk Union. Moreover, they petitioned the BMS Commissioner that the producers of Kheda be allowed to supply milk directly to BMS bypassing Polson and that if this request was not met they would undertake to go on a strike and stop supplying milk to Bombay (Singh and Kelley, 1981; Somjee, 1982). The petition was ignored and, consequently, Bombay went without milk for 14 days (Heredia, 1997). The Commissioner finally acceded to the producer's request to form their own cooperative. Thereafter, TKP and his fellow political organizers set about campaigning milk producers from village to village. Very soon, the first 2 VCS were started in November 1946 and by December 1946, these were registered as a milk union called the Kaira Union, popularly called AMUL (Heredia, 1997).

By 1947, India had become independent. AMUL was fortunate to be operating in a political structure where the leaders of the Indian National Congress came to occupy significant political offices both at the level of Bombay state and at the national level. AMUL, through TKP, an important Congressman at the district level, had direct access to powers-that-be who held important ministerial positions in Bombay State, and to Sardar Patel, India's first Deputy Prime Minister. These political linkages were fundamental to assuring AMUL a relatively congenial environment for its growth. Likewise, another Congress leader, Dinkar Desai, became the State Civil Supplies Minister responsible for overseeing the Bombay Milk Scheme. In the initial years, TK Patel managed to leverage his contacts to get a part of the Government's research creamery in Anand and its vintage pasteurizer on lease.

Around 1949, Verghese Kurien, who studied dairy engineering in the US, befriended TKP and his member farmers and along with H. Dalaya, a dairy technologist, advised TKP to invest in proper equipment if AMUL were to stand any chance of competing with Polson (ibid). TKP, after much difficulty, was able to raise the money to buy the necessary equipment.

At this point, both Polson and Amul supplied milk to BMS and competed in purchasing milk from producers. However, Dinkar Desai, who was sympathetic to the cooperative's effort, paid Amul a slightly higher rate for processing and handling as compared to Polson (Singh and Kelley, 1981). This allowed the Union to pay a higher price, organize more societies, and attract more members into its VCSs. The result was immediate: in one year (1949-50) the number of VCS increased from 13 to 27, and the membership doubled from 924 to 1995. In 1950, Kurien and Dalaya officially joined AMUL.

Bombay state's largesse, competition with Polson and securing monopoly

As a result of its recognition for AMUL's contribution as a source of low cost milk to the city of Bombay, the state's government announced an annual grant of Rupees 300, 000 which allowed Amul to extend to its members a range of services and buy more equipment. AMUL got this

⁴ Sardar Patel was a doyen of the nationalist movement and chief comrade of Gandhi. He would go on to become India's first Home Minister and Deputy Prime Minister after India's independence. He was sympathetic to the grievances of Kheda's milk producers and to their movement for organizing dairy cooperatives.

⁵ Morarji Desai was Sardar's right hand and would go on to become India's Finance Minister and then Prime Minister.

yearly grant from 1950 to 1960. It allowed AMUL to hire society supervisors for organizing more VCSs. By 1950, more than 30 VCS had been organized with a total membership of about 4000 milk producers. Between 1948 and 1952, AMUL's strategy was directed at maximizing its sales to BMS in which it was largely successful. By 1952, AMUL had doubled the number of VCS to 62, and almost tripled its membership to 11,300 compared to that in 1950. With the help of loans received from Bombay State in 1951, it was able to organize more VCSs and was able to request monopoly rights from Bombay for supply of milk to BMS. From January 1952, the BMS, recognizing AMUL's growing strength, cancelled their contract with Polson, and awarded AMUL the exclusive monopoly for milk supply. This was a result of strong lobbying by AMUL's leadership and the "policy of the Civil Supplies Minister, who, when he took charge, let it be known that his government would increase the supply of milk from rural producers in Anand, assistance would be given to them and cooperative effort would be encouraged in handling milk" (Heredia, 1997). This decision of the government made the Union a leader, and Polson lost its dominant position in the industry (Singh and Kelley, 1981). Thus political lobbying by AMUL's leadership was significant in not only procuring the creamery, but also in getting better prices for milk sold to BMS, in obtaining dairy development grants for AMUL, and in securing a monopoly for supply of milk to BMS.

Barriers to continued growth: Formation of Aarey colony and AMUL's lack of conversion facility

By 1952-53, milk was flooding into AMUL and its existing facilities were being operated at capacity. As Dr. Kurien put it, "Our problem was how to handle all the milk that came in." (Interview # 46, 3/7/2008). Even though Kurien realized the importance of BMS to Amul's growth, he and Dalaya also understood that Amul's exclusive dependence on BMS could be its own undoing. Kurien realized the need to diversify.

In the meantime, the BMS conceived a project to relocate the hundreds of thousands of buffaloes herded into Bombay which were kept in unsanitary conditions thus posing a health and sanitation problem. This project, called the Aarey Milk Colony project, was inaugurated in 1949. According to it, 15000 buffaloes along with cattle keepers were resettled to the outskirts of Bombay. Since so many producers also had to be relocated, their milk had to be accepted by the BMS. Contracts for exclusive supply were drawn up with these producers (Brissenden, 1952) assuring them a place to settle, fodder for their buffaloes at a reasonable charge, and acceptance of all their milk. However, it was supposedly incumbent on the cattle keepers to sell all their milk to BMS. Aarey's pasteurizing facility came up in 1951-52 once the buffaloes had been moved to the Colony. Things began to look grim for AMUL as Aarey Milk Colony emerged as a captive milk source to BMS, and a competitor to AMUL.

AMUL was located in Kheda district – a land of buffaloes, which are seasonal breeders whose capacity for milk production during winter (flush) doubles in relation to summer production (lean). Khurody, Milk Commissioner of Bombay, wanted a steady and not irregular milk flow into the city. Kurien recollects his conversation with the Milk Commissioner:

“[I]t was clear to me and Dalaya that we cannot succeed without our own conversion facilities [...] So Dalaya first suggested that we need modern facilities for conversion to

butter and milk powder... So we had to set up a powder plant.” (Interview # 46, 3/7/2008)

The BMS was primarily concerned about cheap milk supply to consumers of Bombay. To achieve this goal, Khurody preferred to import milk powder from New Zealand and reconstitute it into liquid milk to meet the city's demand. This policy of BMS, of first accepting Aarey Colony's milk, and then making good shortfall using cheap milk powder from New Zealand, led them to refuse almost 50% of AMUL's flush season winter surplus, especially from 1953 onwards⁶. Consequently, AMUL's relations with BMS were marked by hostility, arising mostly due to the Milk Commissioner's policy, of “cheap supply”⁷. AMUL would soon find an unlikely solution to its problems.

Unicef's intervention and AMUL grows further

Around this time, UNICEF's Milk Conservation division was looking for partners to help in the FAO campaign for eradication of hunger and malnutrition in children. On approaching the Government of Bombay, they learnt that Bombay received most of its milk supplies from Kheda district. They proposed to donate milk drying equipment worth Rupees 8,00,000, in return for which the government would bind itself to distribute, through the BMS and Amul, Rupees 12,00,000 worth of free milk to undernourished children of Kheda (Heredia, 1997).

Meanwhile, AMUL seeing its procurement from BMS reduced was looking for a solution to its problem. Since cooperatives were preferred to other organizational forms and were promoted through government funding and subsidy, these were propitious times for AMUL. However, there was more drama to this episode. Kurien recollects what happened:

“So he (Dalaya) said now we will have to set up a modern plant. Everyone consulted said powder cannot be made from buffalo milk. A Professor Ridette of NZ – a renowned authority- came here and told me that “this is a fantastic project which is bound to fail”. They did not want India to manufacture milk powder. I said nothing doing. It will not fail. I was confident we could do it.” (Interview # 46, 3/7/2008)

Khurody, BMS's milk commissioner, did not want AMUL to develop its own capacity for conversion of milk into product. Kurien states:

“Khurody wanted us to be dependent only on BMS so that we could not bargain for higher price. He did not want us to develop alternative means of disposal of milk since then we would not be under their control and could develop our own market. So the period before 1955 was one of dependence on BMS, while after 1955 we were independent.” (Interview # 46, 3/7/2008)

⁶ This situation continued from 1953 till 1956 when AMUL had to stop organizing new VCS, though membership in existing VCS doubled. Between these years, procurement stagnated.

⁷ Mr. Khurody used imported milk powder to enhance the capacity utilization of Aarey to artificially lower their unit fixed costs of operation.

Kurien and Dalaya, using L & T's laboratory powder plant, successfully demonstrated to the UNICEF officials that milk powder could indeed be made from buffalo milk, a necessary prerequisite for the Milk Commissioner in Bombay to approve the project.

A combination of technological confidence, commitment to the farmer's cause, and political clout ensured that AMUL would be able to receive the equipment for manufacturing milk powder. The new dairy finally came up in 1955 and was inaugurated by the first Prime Minister of India, Mr. Nehru. Apart from the generous donation of equipment from UNICEF, the new dairy was also partially financed by the New Zealand Government as well as by the Government of Bombay.

AMUL was now operating in an area of 600 square miles and embracing in its fold more than 20,000 farmer members. A strategy of forward vertical integration had evolved, partly through happenstance, and partly through deliberate managerial effort to partially solve the problem of flush season milk surpluses. AMUL's diversification would be achieved in future through its foray into products. This was a historic moment for AMUL as AMUL would be able to conserve flush season milk by integrating forward vertically to product manufacturing from mere processing. During the years immediately following the expansion, AMUL embarked on organizing more VCS to bring into its fold more producer members.

India's foreign exchange crisis, Amul diversifies: Capturing the dynamics of embedded reciprocity

In 1957, after AMUL was registered as a brand name and launched its own butter, it was facing serious competition from New Zealand's Anchor butter and Polson butter. India's policies of supporting cooperative enterprises, as well as "import substitution" and some luck helped AMUL to market its butter. This is explained by Dr. Kurien:

"A person came to our dairy and after having met me said that if I needed any help from him, I can ask for it. That was TT Krishnamachari (TTK). He was a businessman initially, before he went on to become a politician and a Minister. So once we got his blessings, I wrote him a letter saying 'Would you cut the import of butter by 25%?' He wrote back, 'As desired by you, I am ordering a cut back of 25%'. No discussion, no meetings, no files nothing."

"After 6 months, I wrote him another letter saying 'I am making more butter, can you cut the import by 62.5%?' He wrote back, 'As desired by you, I am ordering a cut of 62.5%.' Then, after some time, he wrote informing me of the foreign exchange crunch and said that he is ordering a 100% cut in imports. 'Please make sure that the nation faces no shortage of butter; I leave that job to you.' That was the end of the matter." (Interview # 47, 12/7/2008)

Nehru, soon after the first election of 1952, appointed TTK the Commerce Minister. The Second Five-Year Plan (1956-61) envisaged a development strategy based on promotion of "heavy industry" by the "public sector" (Panagariya, 2008). Nehru wanted India to be independent of

foreign markets in a short period. This implied the development of the machinery sector so that future investments would not have to depend on external sources of supply (ibid).

During the first two Five-Year Plans a relatively liberal trade regime was followed. This trend was accentuated when TTK, who wanted the economy to develop fast, decided to “import here and now, anything and everything that was not being produced in India” (Panagariya, 2008). This policy of benign neglect of trade policy by the Finance Ministry continued till 1957. In 1956, TTK was appointed the Finance Minister and by 1957, India’s rapid “hemorrhage in its foreign exchange resources” was alarming (Panagariya, 2008).

Moreover, AMUL represented pride in indigenous ownership which was in conformity with the government’s policy of “self-sufficiency” through import substitution. Kurien’s requests for cuts in imports, though anti-competitive, were favorably received due to the acute forex crisis and due to AMUL’s ability to step up production to meet national demands. All these factors combined to make AMUL be perceived as a national enterprise that was not only consuming less foreign exchange, but was also “conserving foreign exchange.” AMUL’s actions seemed to be in concert with what the government wanted. Figure 1 below captures the dynamics of micro-macro interaction based on a strategy of *reciprocal favors*.

Insert Figure 1 about here

India, partly to promote its policy of national development of dairy products, and also to improve its balance of payments, decided to severely restrict imports of non-essential items including dairy products (Heredia, 1997). This policy was further tightened post 1956 with the result that the manufacture of dairy products was now more profitable than milk processing, both due to import restrictions and “increases in demand through increases in population and a change in tastes and preferences of consumers” (Singh and Kelley, 1981). The relations between Amul and the government were reciprocal – while Amul helped India become self-sufficient in dairy products and conserve valuable foreign exchange, the government in turn helped reduce competition, enabling the fledgling cooperative to survive.

Amul’s product diversification initiatives pay off

In 1956, Kurien “visited Switzerland on the invitation of Nestle but with a specific brief from the Ministry of Industries” (Kurien, 2005). Though Nestle had a license to produce condensed milk from the Government of India, they were importing not just milk powder, but also sugar and tin plates (ibid). Dr. Kurien requested them to try to manufacture condensed milk using buffalo milk. While Nestle could bring in their “experts” to set up the plant, it was expected that Nestle would indigenize the manpower in the Indian plant in about 5 years. This was unacceptable to Nestle as they thought that the “natives would not be able to operate high technology” (ibid).

Kurien narrated this to the then Commerce Minister and impressed upon him the need for AMUL to manufacture condensed milk using buffalo milk and prove Nestle wrong. AMUL’s officials got to work. Some of the machineries required to produce condensed milk had already been installed when the 1955 dairy was commissioned. Soon after, in 1958, condensed milk was launched. This was the first time in the world that buffalo milk had been used to make condensed milk (Krishna, Uphoff and Esman, 1997). The total capital expenditure for sweetened condensed

milk which was approximately \$142,000 was met through grants provided by the Government of Bombay amounting to \$80,000 (Singh and Kelley, 1981), as well as, by increasing the share capital and partly from the Union's retained earnings. Soon after its launch, Kurien wrote to the Minister saying: "Ban the import of condensed milk. The government issued the ban" (Kurien, 2005). A similar story was being scripted, now for another product, as a multinational company showed its hesitation in indigenizing its manufacturing of a product that was hitherto imported.

AMUL's new dairy was expanded in 1959-60. This time, the expansion of the dairy was for the purpose of producing cheese and baby food given that India had a burgeoning baby population. By 1959-60, the prices of baby food and cheese had increased to a level that returns on these products were higher than returns on the sale of liquid milk and other dairy products (Singh and Kelley, 1981). AMUL's decision to diversify into these products was also partly in response to Glaxo's refusal to the Government of India to manufacture baby food from locally available buffalo milk on the grounds of technical infeasibility. The government asked the Central Food Technological Research Institute (CFTRI), Mysore, to help in developing the process for manufacturing baby food from buffalo milk. In 1956, the CFTRI developed a formula for producing baby food from buffalo milk and was looking for a producer, preferably an Indian, to award the patent rights for the formula (Singh and Kelley, 1981). AMUL expressed its interest in the formula and improved upon it. This is recollected by a senior Production Manager of AMUL:

"In 1960s the plant expanded, this time we purchased own machinery, and we went for UHT processing of milk. Then we went into roller dried infant food and cheese from buffalo milk. There were two things – converting buffalo milk to suit mother's milk. The technology till such time Amul entered was all based on cow's milk. India being a third world country, all other countries like US, UK and NZ had only cows. Technologically speaking, buffalo milk is different than cow milk. One, the quantity of fat is higher, and the structure of fat globule is so different that you cannot penetrate heat ...same heat that is used to penetrate cow's milk for pasteurization. Protein chains are also different and calcium content is higher in buffalo's milk. So all these things had to be formulated in order to match cow's milk and ultimately to substitute for mother's milk. The normal temperature recommended for pasteurizing cow milk was found to be insufficient to give longer shelf life to buffalo milk and so based on our experiments we advocated 82 degrees as adequate for buffalo milk. There was no work available as a reference on buffalo milk. So to formulate buffalo milk and manufacture an infant food was a challenge. That challenge was met and we came out with infant food fortified with vitamins and carbohydrates which was marketed by Voltas.

Similar story is also with cheese [...] We started on trial and error. The process took us almost 3-4 years. While we started manufacturing cheese in 1963-64, we commercially came out with processed cheese in the market in 1965. These were two significant technical breakthroughs. When we approached the Cow and Gate people and told them that we have an idea like this for formulating cheese from buffalo milk, we were told that, "you cannot make cheese, you can make only shoe polish from buffalo milk, don't try it out!" They would tell us, "it tastes like soap and when you put it in the mouth, it gives you foam." They never wanted us to be successful. But in 1965 we did it..." (Interview # 54, 3/9/2008).

AMUL wanted to launch its baby food in competition with the giant Glaxo, which was planning to set up capacity for manufacturing baby food in India. Glaxo had a manufacturing license which stated that the state government would procure the milk required for baby food production. It also stated that should the government not be able to procure the quantum of milk required to produce 5,000,000 pounds of baby food, then Glaxo could import cheap skimmed milk powder (SMP) for its manufacture. Therefore, Glaxo would probably use imported milk powder for many years, according to Kurien. Besides, Glaxo also had an import license for baby food. With advantages like an established brand name, immense financial resources, and freedom to import cheap SMP and baby food, Glaxo would likely put AMUL at serious competitive disadvantage.

AMUL therefore needed to be the first to the market to beat Glaxo. At the behest of AMUL, the Government of India gradually reduced the imports of baby food. When Amul requested foreign exchange through the Government of Bombay to import machinery for baby food, Khurody tried to block it demanding that foreign exchange should go to Aarey instead to process the increasing quantities of milk (Heredia, 1997). Kurien, however, argued that AMUL, by undertaking manufacturing of cheese and baby food, would actually save the government Rupees 13.5 million in foreign exchange. Kurien's argument was not only cogent but showed Amul in a light which was favorable to the Government of India's long term policy of becoming self-sufficient.

AMUL's expansion into cheese and baby food required a total investment of about \$4, 00,000 (Singh and Kelley, 1981). A large part of this expenditure was financed by a grant of \$3, 36,000 from the Government of India, with the Union meeting the rest from its own sources (ibid). This was the first time that baby food and cheese were being made from buffalo milk. AMUL entered into an all-India agreement for marketing of baby food with TATA's Voltas Company which had a pan-India distribution network and this allowed AMUL to gain tremendous visibility and access. "Between the late 1950s and the early 1960s, Amul had established a toehold in the market for not only milk powder and butter but also condensed milk, cheese, and baby food (Kurien, 2005). The product diversification strategy was rolled out rapidly and AMUL with its reasonable price-good quality assurance, committed distributors like Akbarely's, Voltas, and Spencers, and advertizing geniuses like da Cunha's, was beginning to become a household name.

Findings and conclusion

This study was motivated by the desire to understand how the embeddedness of cooperatives' strategies within their unique socio-political context affects the dynamics of their growth. It was meant to obtain an in-depth understanding of the dynamic reciprocal interplay between the strategic initiatives of actors at the micro level (individual and firm) and the context comprising other competitors, governmental actors, multilateral agencies etc.

I elaborate three important findings. The first relates to AMUL's unique nature of "political embeddedness", arising from the presence of public-minded politicians on its Board. The linkages of its elected leadership to the powers that be enabled access to critical resources needed for growth. AMUL's managers were able to leverage political linkages to government bodies and agencies to obtain "resources" and "favors" for the cooperative's growth. This finding is very significant because, during their nascent stages, social enterprises need access to a variety of resources for growth. This is especially true in resource-constrained contexts of poor, developing

countries (Mair and Marti, 2009). Since the focus of strategy process has predominantly been on what is happening inside the organization, historically its scholars have treated the environment as mostly exogenous to the process (Sminia, 2009). However, by studying strategy in its context, I emphasize reciprocal interaction and embeddedness. I show that the context of the government and its agencies must be seen not so much as exogenous, as being involved and endogenous to the strategy formation process. This effect is particularly exaggerated in the case of coops, given that a co-op's members may constitute a significant "voting bloc" and their representatives, who are often politicians, may provide direct or indirect access to levers that influence government policies. These linkages may allow coops' leaders to use policy-making bodies to benefit their members rather than simply being determined by exogenous policies.

Secondly, AMUL's growth through product innovation was embedded in the larger political economy of the nation. This context included national level challenges of ensuring availability of adequate food for India's growing population, and the government's desire to promote indigenous efforts to realize its socialistic goals of "self-sufficiency" through "import substitution". The context also involved a situation where the nation faced an acute "foreign exchange crisis" making import substitution even more important.

I find "embedding" to be a purposive process. AMUL's growth was anchored by its visionary leadership through 'purposively embedding' AMUL's product innovation strategy within India's 'self-sufficiency' regime. Such 'purposive embedding' involved innovative product development strategies to make the most of 'local' conditions and technologies on hand as well as vigorous lobbying of the state and federal government by AMUL's leaders in a language couched in the logic of "self sufficiency" but meant to nullify economic competition from multinationals through political means. This involved AMUL's leadership convincing the government to enact policies to substantially curb or ban cheaper imports by multinationals to enable India to be self-sufficient through AMUL's "import substituting" product development strategy, especially in light of the worsening foreign exchange crisis. I find such 'purposive embedding' of strategies involves an attuned leadership actively selecting a part of the nation's political economy as relevant context and aligning the organization's strategy to that context. Such purposive embedding implicates ideological rhetoric in securing a congenial institutional context for developing and launching innovative products into a market dominated by more resourceful competitors.

Finally, I find that the role of strategic intent was omnipresent. While strategies often appeared as a result of adaptation of AMUL's strategic actors to the circumstances faced by the organization in relation to its broader environment, the broad strategic intent of "serving Kheda's farmers" to help them achieve economic independence and to assure their well-being continued to guide the organization strategy throughout its history. AMUL's move into manufacturing and its product innovation initiatives did not occur in the "absence of intention" (Mintzberg and Waters, 1985). They emerged within the broad intent of making AMUL independent of BMS through diversifying into product manufacturing in order to "serve the farmers." In other words, a broad intent of diversifying into product manufacturing provided an umbrella for specific strategic initiatives to emerge in interaction with the context.

Bibliography

- Brown, L. H. (1997). Organizations for the 21st century? Co-operatives and new forms of organization. *Canadian Journal of Sociology*, 22(1), 65-93.
- Brown, L. H. (1985). Democracy in organizations - Membership participation and organizational characteristics in United States retail food co-operatives. *Organization Studies*, 6(4): 313-334.
- Brissenden, C. H. (1952). The Bombay milk scheme. *International Journal of Dairy Technology*, 5(2), 108-114.
- Burgelman, R. A. (1991). Intraorganizational Ecology of Strategy Making and Organizational Adaptation: Theory and Field Research. *Organization Science*, 2(3): 239-262.
- Dacin, M. T., Dacin, P. A., & Tracey, P. (2011). Social entrepreneurship: A critique and future directions. *Organization Science*, 22: 1203–1213.
- Dees, J. G. (2001). The meaning of “social entrepreneurship” (Stanford University Working paper). Stanford, CA: Stanford University. Retrieved August 24, 2009, from http://www.caseatduke.org/documents/dees_sedef.pdf
- Denis, J. L., Langley, A., and Rouleau, L. (2007). Strategizing in pluralistic contexts: Rethinking theoretical frames. *Human Relations*, 60(1), 179-215.
- Dorado, S. (2006). Social entrepreneurial ventures: Different values so different processes of creation, no? *Journal of Developmental Entrepreneurship*, 11(4), 319-343.
- Foreman, P., and Whetten, D. A. (2002). Members' identification with multiple-identity organizations. *Organization Science*, 13(6): 618-635.
- Ghosh, A. and Westley, F. (2005). Amul: India's cooperative success story, *Academy of Management*. Hawaii.
- Ghosh, A. (2011). Embeddedness and the dynamics of strategy processes: The case of Amul cooperative, India, Unpublished PhD Thesis, McGill University, Montreal.
- Hamel, G., and Prahalad, C. K. (1989). Strategic intent. *Harvard Business Review*, 67(3), 63-76.
- Heredia, R. (1997). *The Amul India story*. New Delhi: Tata McGraw Hill.
- Ingram, P., and Simons, T. (2000). State formation, ideological competition, and the ecology of Israeli workers' cooperatives, 1920-1992. *Administrative Science Quarterly*, 45(1): 25-53.
- Jarzabkowski, P. (2005). *Strategy as practice: An activity-based approach*. London: Sage.

- Johnson, A. G., and Whyte, W. F. (1977). The Mondragon system of worker production cooperatives. *Industrial and Labor Relations Review*, 31(1), 18-30.
- Krishna, A., Uphoff, N., and Esman, M. (1997). *Reasons for hope: Instructive experiences in rural development*. West Hartford, CT: Kumarian Press.
- Kurien, V. (2005). *I too had a dream*. New Delhi: Roli Books.
- Langley, A. (1999). Strategies for theorizing from process data. *Academy of Management Review*, 24(4), 694-710.
- Lovas, B., and Ghoshal, S. (2000). Strategy as guided evolution. *Strategic Management Journal*, 21(9), 875-896.
- Mair, J., and Marti, I. (2006). Social entrepreneurship research: A source of explanation, prediction, and delight. *Journal of World Business*, 41(1), 36-44.
- Mair, J., and Marti, I. (2009). Entrepreneurship in and around institutional voids: A case study from Bangladesh. *Journal of Business Venturing*, 24(5), 419-435.
- Markides, C. (2001). Strategy as balance: from "either-or" to "and". *Business Strategy Review*, 12(3), 1-10.
- Mintzberg, H. (1979). An emerging strategy of "direct" research. *Administrative Science Quarterly*, 24(4), 582-589.
- Mintzberg, H., & Waters, J. A. (1985). Of strategies, deliberate and emergent. *Strategic Management Journal*, 6(3), 257-272.
- Panagariya, A. (2008). *India: An emerging giant*. New York: Oxford University Press.
- Patton, M. Q. (2002). *Qualitative research & evaluation methods*. Thousand Oaks, California: Sage Publications.
- Pettigrew, A. M. (1992). The character and significance of strategy process research. *Strategic Management Journal*, 13(S2), 5-16.
- Porter, M. E., (1991). Towards a dynamic theory of strategy. *Strategic Management Journal*, 12(S2), 95-118
- Prahalad, C. K. (2009). *The fortune at the bottom of the pyramid: Eradicating poverty through profits*, New Jersey: Pearson Education.
- Regnér, P. (2008). Strategy as practice and dynamic capabilities: Steps towards a dynamic view of strategy. *Human Relations*, 61(4), 565-588.

- Ring, P. S., and Perry, J. L. (1985). Strategic management in public and private organizations: Implications of distinctive contexts and constraints. *Academy of Management Review*, 10(2), 276-286.
- Rothschild-Whitt, J. (1979). The collectivist organization: An alternative to rational-bureaucratic models, *American Sociological Review*, 44: 509-527
- Schneiberg, M., King, M., and Smith, T. (2008). Social movements and organizational form: Cooperative alternatives to corporations in the American insurance, dairy and grain industries. *American Sociological Review*, 73(4), 635-667.
- Seelos, C., and Mair, J. (2005). Social entrepreneurship: Creating new business models to serve the poor, *Business Horizons*, 48(3), 241-246.
- Simons, T., and Ingram, P. (1997). Organization and ideology: Kibbutzim and hired labor, 1951-1965. *Administrative Science Quarterly*, 42(4): 784-813
- Singh, S. P., and Kelley, P. L. (1981). *Amul: An experiment in rural economic development*. Delhi: MacMillan India Ltd.
- Sminia, H. (2009). Process research in strategy formation: Theory, methodology, and relevance. *International Journal of Management Reviews*, 11(1), 97-125.
- Somjee, A. H. (1982). The techno-managerial and politico-managerial classes in a milk cooperative. *Journal of Asian and African Studies*, 17(1/2), 122-135.
- Staber, U. (1989). Organizational Foundings in the Cooperative Sector of Atlantic Canada - an Ecological Perspective. *Organization Studies*, 10(3): 381-403.
- Tsoukas, H., and Knudsen, C. (2005). The conduct of strategy research: Meta-theoretical issues. In *Complex knowledge: studies in organizational epistemology*. NY: Oxford University Press.
- Tsoukas, H. (2009). Practice, strategy making and intentionality: A Heideggerian onto-epistemology for strategy-as-practice. In forthcoming D. Golsorkhi, L. Rouleau, D. Seidl, and E. Vaara (Eds.), *the Cambridge handbook of strategy as practice*. Cambridge: Cambridge University Press.
- UNRISD (2012), Potential and Limits of Social and Solidarity Economy, Call for papers, Accessed on 5th January, 2013 from <http://www.unrisd.org/sse>
- Westley, F., Patton, M. Q., and Zimmerman, B. (2006). *Getting to maybe: How the world is changed*. Toronto: Random House Canada.
- Whittington, R. (2007). Strategy practice and strategy process: Family differences under the sociological eye. *Organization Studies*, 28(10), 1575-1586.

Woodworth, W. P. (1986). Managing from below. *Journal of Management*, 12(3): 391-402.

FIGURE 1
CAPTURING THE DYNAMICS of EMBEDDED RECIPROCITY

