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DEPARTMENT OF HUMANITIES AND MANAGEMENT SCIENCE

A Presentation on

Strategic Management (MBA- 121)

Strategic Management
Unit -1

Introduction, Strategic Management, Business Policy, Corporate Strategy, Basic Concept of Strategic Management

Strategy

The dictionary meaning of strategy is, “the art of so moving or disposing the instrument of warfare as to impose upon enemy, the place time and conditions for fighting by one self.” In management, the concept of strategy is taken in more broader terms.

Definition

- According Glueck, “Strategy is the unified, comprehensive and integrated plan that relates the strategic advantage of the firm to the challenges of the environment and is designed to ensure that basic objectives of the enterprise are achieved through proper implementation process.”

- It lays stress on the following:

1. Unified comprehensive and integrated plan.
2. Strategic advantage is related to challenges of environment.
3. Proper implementation ensures achievement of basic objectives.

- Another definition of strategy is given below which also relates strategy to its environment. " **Strategy is organization's pattern of response to its environment over a period of time to achieve its goals and mission."**
- This definition lays stress on the following:

1. It is organization's pattern of response to its environment.
2. The objective is to achieve its goals and mission.

Nature

- Strategy is a major course of action through which an organization relates itself to its environment particularly the external factors to facilitate all actions involved in meeting the objective of the organization.
- Strategy is the blend of internal and external factors. (SWOT)
- Strategy is the combination of actions aimed to meet a particular condition, to solve certain problems or to achieve a desirable end. The actions are different for different situations.

Conti….

- Due to its dependence on environmental variables, strategy may involve a contradictory action. An organization may take contradictory actions either simultaneously or with a gap of time. For example, a firm is engaged in closing down of some of its business and at the same time expanding some.
- Strategy is future oriented. Strategy actions are required for new situations which have not arisen before in the past.
- Strategy requires some systems and norms for its efficient adoption in any organization.
- Strategy provides overall framework for guiding enterprise thinking and action.

Level

- CORPORATE LEVEL STRATEGY

- At the corporate level, strategies are formulated according to organization wise polices. These are value oriented, conceptual and less concrete then decisions at the other two levels. These are characterized by greater risk, cost and profit potential as well as flexibility. Mostly, corporate level strategies are futuristic, innovative and pervasive in nature. They occupy the highest level of strategic decision making and cover the actions dealing with the objectives of the organization. Such decisions are made by top management of the firm. The example of such strategies include acquisition decisions, diversification, structural redesigning etc. The board of Directors and the Chief Executive Officer are the primary groups involved in this level of strategy making. In small and family owned businesses, the entrepreneur is both the general manager and chief strategic manager.

BUSINESS LEVEL STRATEGY

- The strategies formulated by each SBU to make best use of its resources given the environment it faces, come under the gamut of business level strategies. At such a level, strategy is a comprehensive plan providing objectives for SBUs, allocation of resources among functional areas and coordination between them for achievement of corporate level objectives. These strategies operate within the overall organizational strategies i.e. within the broad constraints and polices and long term objectives set by the corporate strategy. The SBU managers are involved in this level of strategy. The strategies are related with a unit within the organization. The SBU operates within the defined scope of operations by the corporate level strategy and is limited by the assignment of resources by the corporate level. However, corporate strategy is not the sum total of business strategies of the organization. Business strategy relates with the “how” and the corporate strategy relates with the “what”. Business strategy defines the choice of product or service and market of individual business within the firm. The corporate strategy has impact on business strategy.

Levels of Business Strategy

Generic Business-Level Strategies

	Offers products to only one group of customers	Offers products to many kinds of customers
Offers low-priced products to customers	Focused Cost-Leadership Strategy	Cost-Leadership Strategy
Offers unique or distinctive products to customers	Focused Differentiation Strategy	Differentiation Strategy

Continued..


Business Level Strategies
Cost Leadership
Differentiation
Integrated Cost Leadership / Differentiation
Focused Cost Leadership
Focused Differentiation
Broad
Narrow
Scope
Cost
Differentiation
Source of Competitive Advantage

FUNCTIONAL LEVEL STRATEGY

- This strategy relates to a single functional operation and the activities involved therein. This level is at the operating end of the organization. The decisions at this level within the organization are described as tactical. The strategies are concerned with how different functions of the enterprise like marketing, finance, manufacturing etc. contribute to the strategy of other levels. Functional strategy deals with a relatively restricted plan providing objectives for specific function, allocation of resources among different operations within the functional area and coordination between them for achievement of SBU and corporate level objectives.
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Strategy provides various benefits to its users:

- Strategy helps an organization to take decisions on long range forecasts.
- It allows the firm to deal with a new trend and meet competition in a effective manner.
- With the help of strategy, the management becomes flexible to meet unanticipated future changes.
- Efficient strategy formation and implementation result into financial benefits to the organization in the form of increased profits.
- Strategy provides focus in terms of organizational objectives and thus provides clarity of direction for achieving the objectives.

Conti……

- Organizational effectiveness is ensured with effective implementation of the strategy.
- Strategy contributes towards organizational effectiveness by providing satisfaction to the personnel.
- It gets managers into the habit of thinking and thus makes them, proactive and more conscious of their environments.
- It provides motivation to employees as it pave the way for them to shape their work in the context of shared corporate goals and ultimately they work for the achievement of these goals.
- Strategy formulation & implementation gives an opportunity to the management to involve different levels of management in the process.
- It improves corporate communication, coordination and allocation of resources.

Mission, Vision, Objectives. Impact of globalization, Basic Model of Strategic management, Strategic Decision

Mission Statement

- A **mission statement** is a concise explanation of the organization's reason for existence. It describes the organization's purpose and its overall intention. The mission statement supports the vision and serves to communicate purpose and direction to employees, customers, vendors and other stakeholders. Questions to consider when drafting mission statements could include:
- What is our organization's purpose?
- Why does our organization exist?

Vision Statement

- A **vision statement** looks forward and creates a mental image of the ideal state that the organization wishes to achieve. It is inspirational and aspirational and should challenge employees. Questions to consider when drafting vision statements might include:
- What problem are we seeking to solve?
- Where are we headed?
- If we achieved all strategic goals, what would we look like 10 years from now?

Values Statement

- A **values statement** lists the core principles that guide and direct the organization and its culture. In a values-led organization, the values create a moral compass for the organization and its employees. It guides decision-making and establishes a standard against which actions can be assessed. These core values are an internalized framework that is shared and acted on by leadership. When drafting values statements, questions to consider might include:
- What values are unique to our organization?
- What values should guide the operations of our company?
- What conduct should our employees uphold?

What Come First ?

- Actually neither – purpose comes first, followed by vision and mission. Corporate purpose or "why we exist" should be at the core of an organization's guiding statements.
- Our research has confirmed that most corporate execs are unsure of the difference between vision or mission, purpose or cause. Most CEOs agree that these types of guiding statements are necessary, but a company-specific model or set of best practices to build upon has not been clearly defined.

Strategies

- A strategy is a statement of how you are going to achieve something. More specifically, a strategy is a unique approach of how you will use your mission to achieve your vision. Strategies are critical to the success of an organization because this is where you begin outlining a plan for doing something. The more unique the organization, the more creative and innovative you need to be in crafting your strategies.

Goals

- A goal is a general statement of what you want to achieve. More specifically, a goal is a milestone(s) in the process of implementing a strategy. Examples of business goals are:
- *Increase profit margin*
- *Increase efficiency*
- *Capture a bigger market share*
- *Provide better customer service*
- *Improve employee training*
- *Reduce carbon emissions*

Criteria of Goal

- Be sure the goals are focused on the important aspects of implementing the strategy. Be careful not to set too many goals or you may run the risk of losing focus. Also, design your goals so that they don't contradict and interfere with each other. A goal should meet the following criteria:
- *Understandable:* Is it stated simply and easy to understand?
- *Suitable:* Does it assist in implementing a strategy of how the mission will achieve the vision?
- *Acceptable:* Does it fit with the values of the organization and its members/employees?
- *Flexible:* Can it be adapted and changed as needed?

Objectives

- An objective turns a goal's general statement of what is to be accomplished into a specific, quantifiable, time-sensitive statement of what is going to be achieved and when it will be achieved. Examples of business objectives are:
- *Earn at least a 20 percent after-tax rate of return on our investment during the next fiscal year*
- *Increase market share by 10 percent over the next three years.*
- *Lower operating costs by 15 percent over the next two years through improvement in the efficiency of the manufacturing process.*
- *Reduce the call-back time of customer inquiries and questions to no more than four hours.*

Objectives criteria:

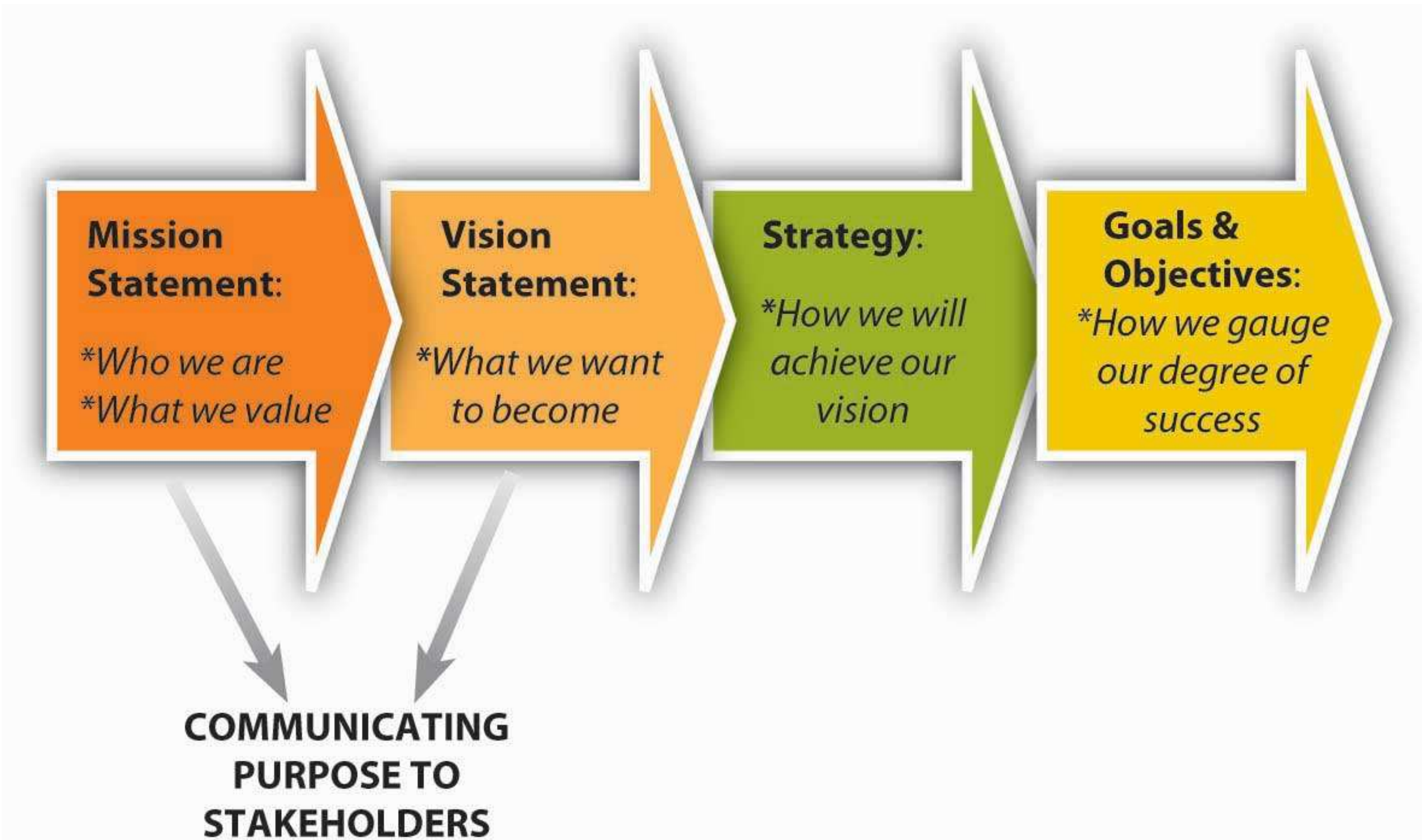
- *Measurable:* What specifically will be achieved and when will it be achieved?
- *Suitable:* Does it fit as a measurement for achieving the goal?
- *Feasible:* Is it possible to achieve?
- *Commitment:* Are people committed to achieving the objective?
- *Ownership:* Are the people responsible for achieving the objective included in the objective-setting process?

Action Plans

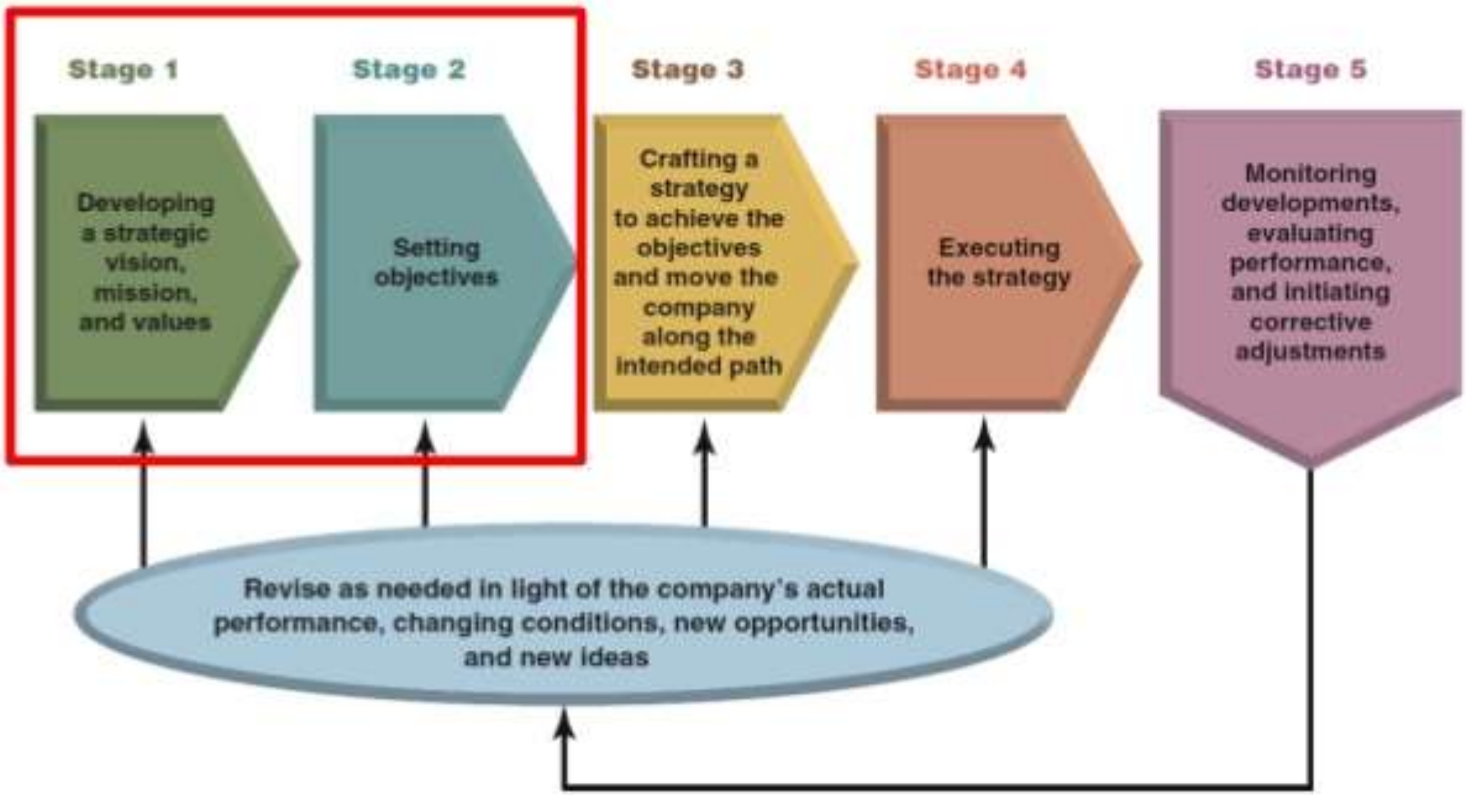
- Action plans are statements of specific actions or activities that will be used to achieve a goal within the constraints of the objective. Examples of action plans within the context of goals and objectives are:

Strategic Plan Hierarchy

Flow and Importance



The Strategic Vision, Mission, Values and Objectives provide the direction for strategic planning



Globalization impact

- ***Political***: contrast the major democracies of some western countries with other forms of political activity in some other countries. This website makes no comment about the merits of different systems. Simply that globalization has not yet extended to such matters.

- ***Economic***: the country data above illustrates the significant differences here.

- ***Culture***: the substantial differences in national cultures have been well-documented by many researchers, e.g. Hofstede. However, from a business strategy perspective, it is the *organizational* culture of an individual company, not the *national culture* of a country, that is particularly important in developing business strategy. Globalization plays a secondary, or even tertiary, role in such matters.

- ***Technology:***

  It is argued elsewhere in this website that changes in technology have been one of the driving forces for globalization – Google, Facebook, etc. But there are still major differences between countries around the world – hardly suggesting that what happens in one country will have a strong influence on what happens in other countries. Moreover, the wider spread of technology is arguably ab international rather than a global activity: for example, Facebook spread from the USA to other countries internationally but many of its networks remain within one nation.

- ***Sociological***:

  The World Bank Annual Reports provide data that shows vast differences in family size, education, health and other matters between countries. There is little evidence that globalization has become a driving force here.

- *Finance:*

  There can be no doubt that international financial issues can have a major impact on the outcome of an organization's international and global activities. This is not just about currency fluctuations causing sales and profits to rise and fall. Some companies centralize international cash flow activities on a daily basis to maximize their profits.

- *Production*:

  Some car companies have been working for many years to interlink their production activities. For example, Ford produces diesel engines in the United Kingdom for installation in its cars across many of its Europe and and world car assembly plants. Such activities are a clear demonstration of the power of interlinked globalization. In this case, they demonstrate the contribution that globalization can make to global strategy. But they still remain only one aspect of such strategy.

- Large markets may deliver economies of scale and scope but they do not need to be interdependent – just possess low barriers to trade, low labor costs, etc.

- Common customer tastes are an important aspect of a truly global strategy. Globalization may be a useful factor in relation to this but globalization is not necessarily the main driving force. For example, McDonalds' Big Mac relies on common customer tastes but its success has not been the result of increased globalization – though it has perhaps supported globalization.

- Research and development in large companies like Sony and Volkswagen is often still located primarily in the home country of such companies. There is only limited interdependence across the many subsidiaries of such companies located around the world. Network and interdependent strategies certainly happen in some multinationals. But globalization is not the driving force for such activity.

- Some major international companies – like pharmaceutical companies and aircraft manufacturing companies – need to sell their products worldwide in order to support the high levels of capital investment in the development of such products. But this does not mean that globalization is the main factor in driving such sales – low barriers to trade and other similar matters are far more important.

Strategic Management
Unit –2

THE IMPORTANCE OF INDUSTRY ANALYSIS

Understanding the company's operating environment in this way can help the business owner to formulate an effective strategy, position the company for success, and make the most efficient use of the limited resources of the business.

"Once the forces affecting competition in an industry and their underlying causes have been diagnosed, the firm is in a position to identify its strengths and weaknesses relative to the industry," Porter wrote. "An effective competitive strategy takes offensive or defensive action in order to create a *defendable* position against the five competitive forces."

Some of the possible strategies include positioning the firm to use its unique capabilities as defense, influencing the balance of outside forces in the firm's favor, or anticipating shifts in the underlying industry factors and adapting before competitors do in order to gain a competitive advantage.

"How Competitive Forces Shape Strategy" by Michael E. Porter, March 1979.

- **Competitive Rivalry.**
- This looks at the number and strength of your competitors. How many rivals do you have? Who are they, and how does the quality of their products and services compare with yours?

- Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. Also, in markets with lots of rivals, your suppliers and buyers can go elsewhere if they feel that they're not getting a good deal from you.

- On the other hand, where competitive rivalry is minimal, and no one else is doing what you do, then you'll likely have tremendous strength and healthy profits.

- **Supplier Power.** This is determined by how easy it is for your suppliers to increase their prices. How many potential suppliers do you have? How unique is the product or service that they provide, and how expensive would it be to switch from one supplier to another?

- The more you have to choose from, the easier it will be to switch to a cheaper alternative. But the fewer suppliers there are, and the more you need their help, the stronger their position and their ability to charge you more. That can impact your profit.

- **Buyer Power.** Here, you ask yourself how easy it is for buyers to drive your prices down. How many buyers are there, and how big are their orders? How much would it cost them to switch from your products and services to those of a rival? Are your buyers strong enough to dictate terms to you?

- When you deal with only a few savvy customers, they have more power, but your power increases if you have many customers.

- **Threat of Substitution.** This refers to the likelihood of your customers finding a different way of doing what you do. For example, if you supply a unique software product that automates an important process, people may substitute it by doing the process manually or by outsourcing it. A substitution that is easy and cheap to make can weaken your position and threaten your profitability.

- **Threat of New Entry.** Your position can be affected by people's ability to enter your market. So, think about how easily this could be done. How easy is it to get a foothold in your industry or market? How much would it cost, and how tightly is your sector regulated?

- If it takes little money and effort to enter your market and compete effectively, or if you have little protection for your key technologies, then rivals can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favorable position and take fair advantage of it.

PEST Analysis/ Broad Factors Analysis

- This type of analysis stands for **Political, Economic, Social, and Technological** or PEST analysis. It is a highly useful framework with which we can gain an understanding of the environment within which we operate. In order to perform the complete PEST analysis, each of the four factors that make it up must be analyzed in detail:

- **Political factors**: These are the factors that affect an industry, which are determined by the authorities. They include regulations and policies that affect the industry either directly or indirectly, such as trade policies, tariffs, environmental regulation, taxes, the ease of doing business, labor laws, and the political stability of the country or region within which the business and industry operate.

- **Economic factors**: These are the economic forces that govern the industry and the country within which the business operates. They include such factors as the ability to access capital, the GDP growth rate, the interest rates, the exchange rates, and so on.

- **Social factors**: These are prevalent trends in the society within which the business and industry operate. They include such aspects of society as social movements, fashion, health, demographics and population.

- **Technological factors:** This includes all factors that have to deal with any developments or advancements in technology that could change the mode of operation of the industry or business, or even disrupt the industry entirely.

- The acronym **SWOT** stands for Strengths, Weaknesses, Opportunities, and Threats. It is a framework that pretty much supersedes others already mentioned, in the sense that it can be used to evaluate those others. With SWOT analysis, you can figure out what your strengths are, according to your PEST analysis, what your weaknesses are, what opportunities your environment presents, and what threats you have to deal with.

SWOT Analysis

- **Strengths** are the characteristics your business has that give it some kind of advantage over competitors.
- **Weaknesses** are the characteristics your business has that give it some kind of disadvantage, relative to its competitors.
- **Opportunities** are the elements in your business' external environment that allow you to form and implement strategies to make the business more profitable.
- **Threats** are the elements in your business' external environment that could potentially harm the integrity or profitability of your business.

- Whenever you conduct any kind of analysis on the industry, you will come across two types of factors: internal and external.
- Internal factors are those that already exist within the business and that have contributed to your business' current position. These factors may or may not cease to exist in the near future.
- External factors are those that exist outside of the control of the business; these are considered contingencies. They are assessed on the probability of their occurrence and on the kind of impact they would have on the business, if they happened. You should also consider whether or not the leadership of the business has the ability, as well as the intention of taking advantage of the opportunity, – or of avoiding the threat.

https://tradebrains.in/tows-matrix/

TOWS MATRIX

	INTERNAL FACTORS		
EXTERNAL FACTORS		Strengths (S)	Weaknesses (W)
	Opportunities (O)	Strengths/ Opportunities (SO)	Weaknesses/ Opportunities (WO)
	Threats (T)	Strengths/ Threats (ST)	Weaknesses/ Threats (WT)

TOWS Matrix begins with an audit of external threats and opportunities. Such scrutiny gives a clear insight and helps to adopt long term strategies. Thereafter, the internal strengths and weaknesses of a company are taken into consideration. In the next stage, the internal analysis gets intertwined with external analysis to devise a strategy.

TOWS Analysis goes way beyond the conventional SWOT Analysis and aids organizations to remain one step ahead in the ever-changing competitive landscape. The TOWS Matrix can also help in the generation of amazing ideas in relation to fruitful marketing strategies, decision-making, protection against threats, opportunities, diminishing threats, overcoming weaknesses and awareness regarding potential shortcomings.

https://tradebrains.in/tows-matrix/

SO (MAXI-MAXI)

- For example, if a company has reasonably established a brand name in the market and has won the hearts of the consumers, there lies a golden opportunity to explore the new market locations or introducing a new line of products and services for the same target market. Such a step can turn out to be the best for the upliftment of the firm.

ST (MAXI-MINI)

- Example: In the market, there is always a cut-throat competition amongst peers or, between new and old entrants. In such a scenario, to beat the competition, the lagging company needs to take advantage of the internal strengths such as quality, manufacturing techniques, legacy and customer service.

WO (MINI-MAXI)

- Example: If the company doesn't possess any expertise in any of the business domains which is necessary for the growth and is gifted an opportunity to ally with another company that has the needed expertise, it works as a fairly convenient situation for both the companies.

WT (MINI–MINI)

- EXAMPLE: A company has lost its shine and glory and has lost the faith of the stakeholders. Thus, there exists a threat of losing out on funding and investment by investors. In this case. it might close down poor-selling products, cut down underperforming employees and build a hostile technique of selling. If optimistic, the company might look for merging with another suitable company to leverage its expertise and resources for hanging on to funding.

- ETOP Study, OCP, SAP Scanning, Corporate

Environmental Threat & Opportunities Profile (ETOP)

- ETOP analysis is a management tool that analyses environmental information and determines the relative impact of threats and opportunities for the systematic evaluation of the environment.

Environment scanning

- Environment scanning is the process of gathering, analyzing and dispensing information for tactical or strategic purposes.

  ETOP process involves dividing the environment into different environmental sectors and then analyzing the impact of each sector on the organization.

ETOP

- gives a clear picture to the strategies about each aspect of the business environment, the various individual factors within each sector which affect the business favorably or otherwise.

Environmental Threat & Opportunities Profile (ETOP)

ENVIRONMENTAL SECTOR	NATURE OF IMPACT	IMPACT OF THE SECTOR
ECONOMIC	↑	Burgeoning middle class, rising disposable incomes, lifestyle changes.
MARKET	→	Several major players, lots of small players and a large unorganised sector, margin pressures.
GLOBAL	↓	Global slowdown, cheaper imports, US$, crude prices.

Environmental Threat & Opportunities Profile (ETOP)

ENVIRONMENTAL SECTOR	NATURE OF IMPACT	IMPACT OF THE SECTOR
POLITICAL	↓	Coalition compulsions, lack of direction, instability.
REGULATORY	→	Too many controls, inspector raj, documentation and licensing, reservations for SSI etc.
SOCIAL	↑	Changing attitudes, acceptance of new social values and norms, new ideas and liberal outlook.

Environmental Threat & Opportunities Profile (ETOP)

ENVIRONMENTAL SECTOR	NATURE OF IMPACT	IMPACT OF THE SECTOR
TECHNOLOGY	↑	Cheaper technology development, skilled and trained indigenous talent.
SUPPLIERS	→	Too few vendors, new suppliers reluctant to enter the market. Pricing and scheduling issues.

Organizational Capability Profile (OCP)

Financial Capability Profile

(a) Sources of funds

(b) Usage of funds

(c) Management of funds

Marketing Capability Profile

(a) Product related

(b) Price related

(c) Promotion related

(d) Integrative & Systematic

Operations Capability Factor

(a) Production system
(b) Operation & Control system
(c) R&D system

Personnel Capability Factor

(a) Personnel system
(b) Organization & employee characteristics
(c) Industrial Relations

General Management Capability

(a) General Management Systems
(b) External Relations
(c) Organization climate

EXAMPLES OF ORGANIZATIONAL CAPABILITY PROFILE

Financial Capability

Bajaj - Cash Management

LIC - Centralized payment, decentralized collection

Reliance - high investor confidence

Escorts - Amicable relation with FIS (world's top-ranked technology provider to the banking industry)

Marketing Capability

Hindustan Lever - Distribution Channel

IDBI/ICICI Bank - Wide variety of products

Tata - Company / Product Image

Operations Capability

Lakshmi machine works - absorb imported technology

Balmer & Lawrie - R&D - New specialty chemicals

Personnel Capability

Apollo tyres - Industrial relations problem

General management capability

Malayalam Manaroma - largest selling newspaper

Unchallenged leadership - Unified, stable Best edited & most professionally produced

S.A.P.

There are generally **five functional areas** in most of the organizations.

These areas are:

- Ø Production or Operation
- Ø Finance or Accounting
- Ø Marketing or Distribution
- Ø Human Resource & Corporate Planning
- Ø Research & Development

- Every firm has strategic advantages and disadvantages.
- For example, large firms have financial strength but they tend to move slowly, compared to smaller firms, and often cannot react to changes quickly.
- No firm is equally strong in all its functions. In other words, every firm has strengths as well as weaknesses.
- The Strategist should look to see if the firm is stronger in these factors than its competitors.
- When a firm is strong in the market, it has a strategic advantage in launching new products or services and increasing market share of present products and services.

Strategic Advantage Profile (SAP)

Functional Area	Core Factors	(+) or (-)
Production & Operations	Good Prod. Facilities	(+)
	Old plant &machinery	(-)
Personnel Factors	Young & Motivated Force	(+)
	Poor union relations	(-)
Finance and Accounting	Tax holiday.	(+)
	Costly finance	(-)
Marketing Operations	Effective comm. Mix	(+)
	Costly employees	(-)
	Rich experience in mkt.	(+)

SAP

R & D and Engineering	No design protection	(-)
	Well-developed laboratory	(+)
	Highly qualified research staff	(+)
Organization System	High-tech MIS	(+)
	Effective delegation and decentralization	(+)
	No Mgt. by exception	(-)

STRATEGIC ADVANTAGE PROFILE (SAP)

A picture of the more critical areas which can have a relationship of the strategic posture of the firm in the future.

Capability Factor	Competitive strengths / Weakness
•Finance	High cost of capital, reserves & surplus
•Marketing	Violent competition, company position secure
•Operational	P&M - excellent - parts & components available
•Personnel	Quality of management & personnel par with competition
•General	High Quality experienced top management - take proactive stance

Strategies: Stability, Expansion, Retrenchment and Combination strategies

- Growth is essential for an organization. Organizations go through an inevitable progression from growth through maturity, revival, and eventually decline.

- The broad corporate strategy alternatives, sometimes referred to as grand strategies, are: **stability/consolidation, expansion/growth, divestment/ retrenchment and combination strategies**.

- During the organizational life cycle, managements choose between growth, stability, or retrenchment strategies to overcome deteriorating trends in performance.

- At the core of strategy must be a clear logic of how the corporate objectives, will be achieved. Most of the strategic choices of successful corporations have a central economic logic that serves as the fulcrum for profit creation.

Some of the major economic reasons for choosing a particular type strategy are:

- **(a)** Exploiting operational economies and financial economies of scope.
- **(b)** Uncertainty avoidance and efficiency.
- **(c)** Possession of management skills that help create corporate advantage.
- **(d)** Overcoming the inefficiency in factor markets and
- **(e)** Long term profit potential of a business.

The non-economic reasons for the choice of strategy elements include :

- **(a)** Dominant view of the top management,
- **(b)** Employee incentives to diversify (maximizing management compensation),
- **(c)** Desire for more power and management control,
- **(d)** Ethical considerations and
- **(e)** Corporate social responsibility.

STABILITY STRATEGY

- Stability strategy is a strategy in which the organization retains its present strategy at the corporate level and continues focusing on its present products and markets.

- The firm stays with its current business and product markets; maintains the existing level of effort; and is satisfied with incremental growth.

- It does not seek to invest in new factories and capital assets, gain market share, or invade new geographical territories. Organizations choose this strategy when the industry in which it operates or the state of the economy is in turmoil or when the industry faces slow or no growth prospects.

- They also choose this strategy when they go through a period of rapid expansion and need to consolidate their operations before going for another bout of expansion.

EXPANSION STRATEGY

- Firms choose expansion strategy when their perceptions of resource availability and past financial performance are both high.

- The most common growth strategies are diversification at the corporate level and concentration at the business level.

- Reliance Industry, a vertically integrated company covering the complete textile value chain has been repositioning itself to be a diversified conglomerate by entering into a range of business such as power generation and distribution, insurance, telecommunication, and information and communication technology services.

Diversification

- Diversification is defined as the entry of a firm into new lines of activity, through internal or external modes. The primary reason a firm pursues increased diversification are value creation through economies of scale and scope, or market dominance.

- In some cases firms choose diversification because of government policy, performance problems and uncertainty about future cash flow. In one sense, diversification is a risk management tool, in that its successful use reduces a firm's vulnerability to the consequences of competing in a single market or industry. Risk plays a very vital role in selecting a strategy and hence, continuous evaluation of risk is linked with a firm's ability to achieve strategic advantage (Simons, 1999). Internal development can take the form of investments in new products, services, customer segments, or geographic markets including international expansion.

- Diversification is accomplished through external modes through acquisitions and joint ventures. Concentration can be achieved through vertical or horizontal growth. Vertical growth occurs when a firm takes over a function previously provided by a supplier or a distributor. Horizontal growth occurs when the firm expands products into new geographic areas or increases the range of products and services in current markets.

RETRENCHMENT STRATEGY

- Many firms experience deteriorating financial performance resulting from market erosion and wrong decisions by management.

- Managers respond by selecting corporate strategies that redirect their attempt to turnaround the company by improving their firm's competitive position or divest or wind up the business if a turnaround is not possible.

- Turnaround strategy is a form of retrenchment strategy, which focuses on operational improvement when the state of decline is not severe. Other possible corporate level strategic responses to decline include growth and stability.

COMBINATION STRATEGY

- The three generic strategies can be used in combination; they can be sequenced, for instance growth followed by stability, or pursued simultaneously in different parts of the business unit.

- Combination Strategy is designed to mix growth, retrenchment, and stability strategies and apply them across a corporation’s business units.

- A firm adopting the combination strategy may apply the combination either simultaneously (across the different businesses) or sequentially. For instance, Tata Iron & Steel Company (TISCO) had first consolidated its position in the core steel business, then divested some of its non-core businesses.

- Reliance Industries, while consolidating its position in the existing businesses such as textile and petrochemicals, aggressively entered new areas such as Information Technology.