**MBA: FOURTH SEMESTER**

**Common Paper**

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**Subject: Strategic Management**

**Chapter 4:**

Corporate level strategy addresses the entire strategic scope of the firm. It is a “big picture” view of the organisation and includes deciding in which, product or service markets to compete and in which, geographic regions to operate.

For a multi-business firm, the resource allocation process-how cash, staffing, equipment and other resources are distributed – is established at the corporate level.

Corporate strategy is about strategic decisions about determining overall scope and direction of a corporation and the way in which its various business units work together to attain particular goals.

Corporate-level strategy is an action taken to gain a competitive advantage through the selection and management of combination of businesses competing in several industries or product markets.

Corporate strategies are normally expected to help the firm earn above- average profits and create value for the shareholders. Corporate strategy addresses the issues of a multi-business firm as a whole.

Some of the types of corporate level strategies are as follows:-

1. Stability Strategy

2. Expansion Strategy

3. Retrenchment Strategy

4. Combination Strategy

5. Merger Strategy

6. Restructure Strategy

7. Diversification Strategy

8. Defensive Strategy

9. Stability Strategy.

**Types of Corporate Level Strategy: Stability Strategy, Expansion Strategy, Retrenchment Strategy and Few Other Strategies**

**Types of Corporate Level Strategy – 4 Major Types: Stability Strategy, Expansion Strategy, Retrenchment Strategy and Combination Strategy**

The corporate level generic strategies pertain to identify the businesses the company shall be engaged in. They determine the direction that firm takes in order to achieve its objectives. There could be a small single business firm or a large, complex and diversified firm with several different businesses.

In both the cases the corporate strategy concerns the basic direction of the firm as a whole. For a small firm it could identify the courses of action yielding better profit to the firm. In the case of the large firm the corporate strategy means managing the various businesses to maximize their contribution to the achievement of overall corporate objectives.

Abell has defined a business along the three dimensions of customer group, customer functions and alternative technologies. Strategic alternatives revolve around the question of whether to continue or change the business the enterprise is currently in or improve the efficiency and effectiveness with which the firm achieves its corporate objectives in its chosen business sector.

According to Glueck, there are four generic ways in which alternatives can be considered: stability, expansion, retrenchment, and combination. These generic strategies are sometimes referred to as grand strategies. Firms explore the generic strategy alternatives while formulating their corporate strategy because only through this exploration they can locate the particular route best suited for achieving the chosen growth objective.

The business definition for a small firm would be simple while for a large complex and diversified firm consisting of several businesses it would be quite complex. Each business could be defined in terms of customer group, customer functions or alternative technologies. The business definition of large firms is complex due to the fact that each of its businesses defined in terms of products, markets and functions along the four dimensions of generic strategies.

**Corporate level strategy is concerned with two main questions:**

(1) What business areas should a company participate in so as to maximize its long-term profitability?

(2) What strategies should it use to enter into and exit from business areas?

In other words, corporate-level strategies are basically about decisions related to allocating resources among the different businesses of a firm, transferring resources from one set of businesses to others, and managing a portfolio of businesses in such a way that the overall corporate objectives are achieved. An analysis based on business definition provides a set of strategic alternatives that an organization can consider.

#### Type # 1. Stability Strategy:

When a company finds that it should continue in the existing business and is doing reasonably well in that business but no scope for significant growth, the stability is the strategy to be adopted.

Jauch and Glueck observe, ‘a stability strategy is a strategy that a firm pursues when- 1. It continues to serve the customers in the same product or service, market, and function sectors as defined in its business definition, or in very similar sectors. 2. Its main strategic decisions focus on incremental improvement of functional performance.’

The stability strategy is not a “do nothing” strategy. It may involve incremental improvements.

Long-term stability strategy also requires reinvestment, R& D and innovation. However, the business definition remains the same.

**Reasons for Adopting Stability Strategy:**

1. The company is doing fairly well or perceives itself as successful and expects the same in the future.

2. The stability strategy is less risky. Frequent changes involving new products or new ways of doing things may lead to failure of the firm. The larger the firm and the more successful it has been, the greater is the resistance to the risk.

3. The stability strategy can evolve because the managers prefer action to thought and do not tend to consider any other alternatives. Many of the firms that follow stability strategy do this unconsciously. Such companies react to the changes in the forces in the environment.

4. To follow a stability strategy, it is easier and more comfortable for all concerned as activities take place in routines.

5. The management pursuing stability strategy does not have the mind-set of a strategist to appraise the environmental opportunities and threats and take advantage of the opportunities.

6. The company that has core competence in the existing business does not want to take the risk of diverting attention from the current business by opting for diversification.

7. It is a frequently employed strategy.

An organization adopts the stability strategy when it aims at an incremental improvement of its functional performance but marginal changes to one or more of its businesses in terms of their respective customer groups, customer functions or alternative technologies are required. Its focus is confined to improving functional efficiencies in an increment way, through better deployment and utilization of resources.

The stability strategy does not mean an absence of concern about business growth and improvement in profit. Firms adopting the stability route do seek and plan for business growth and profit improvement with modest targets.

Stability strategy is effective when the firm is doing well and the environment is relatively stable. Stability strategy does not involve a redefinition of the business of the corporation. Since products, markets and functions remain the same, the business definition also does not change.

**Hunger and Wheelen visualize three types of stability strategies:**

1. Pause/Proceed with caution strategy

2. No change strategy

3. Profit strategy

A pause/proceed with caution strategy is, in effect, a timeout—an opportunity rest before continuing a growth or retrenchment strategy. Firms that wish to test the ground before launching a complete generic strategy, follow this approach.

This approach is necessary where an intervening period of consolidation is thought essential before embarking on major expansion spree. The objective is to ensure that the strategic changes flow down the organizational levels, necessary structural changes take place and the organizational systems adapt to new strategies.

Thus pause/proceed with caution strategy is also a short-run deliberate and conscious effort to postpone major strategic changes to a more appropriate time. Bata India and Liberty Shoes in the Indian shoe market follow this strategy.

A no change strategy is a decision to do nothing new-a choice to continue current operations and policies for the foreseeable future. Rarely articulated as a definite strategy, a no change strategy’s success depends on a lack of significant change in a corporation’s situation.

The relative stability created by the firm’s modest competitive position in an industry facing little or no growth encourages the company to continue on its current course, making only small adjustments for inflation in its sales and profit objectives.

There are no obvious opportunities or threats nor much in the way of significant strengths or weaknesses. Few aggressive new competitors are likely to enter such an industry. The corporation has probably found a reasonable profitable and stable niche for its products.

Unless the industry is undergoing consolidation, the relative comfort a company in this situation experiences is likely to encourage the company to follow a no change strategy in which the future is expected to continue as an extension of the present. Most small-town businesses probably follow this strategy before Wal-Mart moves into their areas.

The business environment is not as stable as may be presumed by a firm. A firm may not continue with no-change strategy but has to do something. When a firm finds its profitability drifting, the stability strategy can be designed to increase profits through such approach as improving efficiency in current operations with such measures as to reduce investment, cut costs, increase productivity and raise price to overcome temporary difficulties. This may be a short run approach to lie low and sustain profitability by currently available means.

**Forms of Stability Strategy:**

**Some more sub-strategies are formed for stability strategies are:**

**i. Incremental Growth Strategy:**

In this strategy, the firms usually concentrates on one product or service line and grow slowly and incrementally by entering new territories, taking up new product line etc.

**ii. Profit Strategy:**

This strategy is followed when the objective of the firm is to generate cash immediately for itself or for the stock holder, profit strategies are followed. The profit strategy is usually called as the end game strategy.

**iii. Pause Strategy:**

If any enterprise feels that higher growth becomes both inefficient and unmanageable, or when a firm requires breathing spell to stabilize itself before taking up a new mission, it may restrict its growth at a certain balanced level. In doing so, it may concentrate on sources utility, better operations etc. to attain a higher level of efficiency.

**A. Growth Strategies:**

Growth strategies are widely pursued strategies globally. Corporation can grow through diverse ways. Two basic growth strategies are concentration or intensification on the current products and business operations and diversification into other product lines and industries.

**i) Concentration or Intensification:**

Managers use corporate-level strategy to recognize which industries their firm should compete in to maximize its long-run profitability. For many firms, profitable growth and expansion often pursued or sought within a single market or industry over time. Concentration or intensification strategy is the one in which organization seeks growth by focusing on single line of business.

Simply put, a company limits its business activities to just one business or industry. Firm tries to use its specialized knowledge to build competitive advantage in that industry.

For Example – McDonald’s restricted itself to global fast-food restaurant business, Infosys remained focused on IT & ITES since its inception and Wal-Mart, with its focus on global discount retailing.

Staying in one industry allows a firm to concentrate its total managerial, financial, technological, and functional resources and capabilities on competing successfully in one business domain. A second advantage of staying in a single industry is that a company stays focused on what it knows and does best. It does not make the mistake of entering new industries where its existing resources and capabilities generate little value.

**ii) Diversification:**

According to strategist Richard Rumelt, companies begin thinking about diversification when their growth has stagnant and opportunities for growth in the original business have been exhausted. This usually occurs when an industry consolidates, becomes mature, and most of the surviving firms have reached the limits of growth though vertical and horizontal growth strategies.

Unless the firm is able to expand internationally into less mature markets, it may have no choice but to diversify into different industries if they want to continue growing.

Diversification is the process of venturing into new industries, distinct from a company’s core or original industry, to make new categories of products that can be sold profitably to customers in these new markets.

Diversification means moving into new lines of business. When an industry consolidates and becomes mature, most of the firms in that industry would have scaled the limits of growth using vertical and horizontal growth strategies.

If they want to grow further the only option available to them is diversification by expanding their business activities into different industry. Diversification strategies are also pursued in normal case to spread risks so that company’s performance is cushioned out as various industries goes through different cycles.

Of the various growth strategies, diversification is definitely the most complex and risky course. Diversification approach to growth is complex since it seeks to enter in new product lines, processes, services or markets which need different skills, competencies and knowledge from those needed for the current business. It is risky as it involves deviating from current products and markets.

**iii) Issues & Controversies in Directional Growth Strategies:**

When it comes to selecting growth option, strategic managers do have so many dilemmas-

i. Is vertical growth better than horizontal growth?

ii. Is concentration better than diversification?

The purpose of corporate-level strategy is to increase long-term profitability. A company should pursue any and all strategies as long as strategic managers have weighed the advantages and disadvantages of those strategies and arrived at an option that justifies them. As of now lot of growth strategies and firm have two options to pursue these strategies. A firm may pursue these growth avenues through internal developments (organic growth) or through external manner (inorganic growth) that is mergers, acquisitions, strategic alliances, joint venture, etc.

#### Type # 2. Expansion Strategy:

Jauch and Glueck defines expansion strategy ‘as a strategy that a firm pursues when- 1. It serves the public in additional product or service sectors or adds markets or functions to its definition. 2. It focuses its strategic decisions on major increases in the pace of activity within its present business definition.’

This strategy involves redefining the business either adding to the scope of activity or substantially increasing the efforts of the present business.

When expansion strategy is pursued, it could lead to addition of new products or new markets or functions. Even without a change in business definition many firms undertake major increases in the pace of activities.

Expansion strategy is often considered as “entrepreneurial” strategy where firms develop and introduce new products and markets or penetrate markets to build share. Expansion is usually thought as the way to improve performance.

Strategists need to distinguish between desirable and undesirable expansion.

1. If business environments are volatile, expansion may be a necessary strategy for survival.

2. Many executives may feel more satisfied with the prospects of growth expansion.

3. Chief Executive Officer may feel pride in presiding over organizations perceived to be growth-oriented.

4. Some executives believe that expansion is in the benefit of the society.

5. Expansion provides more financial and other rewards.

6. Expansion enables to reap advantages from the experience curve and scale of operations.

**A company can adopt expansion strategy in the following five ways:**

1. Concentration

2. Integration

3. Diversification

4. Cooperation

5. Internationalization

**1. Concentration:**

Concentration involves converging resources in one or more of a firm’s businesses in terms of products, markets or functions in such a manner that it results in expansion. Concentration strategies are variously known as intensification, focus or specialization.

Peters and Waterman advocated a parameter to successful firm that they called as “stick to the knitting”. Concentration strategies, in other words, are the ‘stick to the knitting’ strategies. Excellent firms tend to rely on doing what they know they are best at doing.

Concentration strategies involve investment of resources in a product line for an identified market with the help of proven technology.

**This may be done following through the below strategies:**

(i) Market penetration

(ii) Market development

(iii) Product development

**(i) Market Penetration:**

Market penetration as a deliberate strategy involves gaining market share through improving quality or productivity, and increasing marketing activity. This is true for the long-term desirability of obtaining a dominant market share. However, the nature of the market and the position of competitors determine the ease with which a business can pursue a strategy of market penetration.

In a growing market, it may be comparatively easy for companies with a small share, or new competitors, to gain market share because the absolute level of sales of the established companies may still be increasing; and in some cases, those companies may be unable or unwilling to meet the new demand.

In static markets, market penetration can be much more difficult to achieve. In mature markets the market penetration is still more difficult due to the advantageous cost structure of market leader that prevent the sudden entry of competitors with lower market share. However, the complacency of market leaders may allow smaller- share competitors to gain share or may build a reputation in a market segment of little interest to the market leader, from which it penetrates the wider market.

Sometimes market penetration, particularly of mature markets, can be achieved through collaboration with others. In declining markets, the market penetration is possible to the extent other firms exit from the market. If they do, it may be relatively easy for a company to increase its share of that market.

**(ii) Market Development:**

Market development refers to the attempts of an organization to maintain the security of its present products while venturing into new market areas. It includes- (a) entering new market segments, (b) exploiting new uses for the product and (c) spreading into new geographical areas.

In capital-intensive industries a company with specific assets may have its distinctive competence with the product and not the market, and hence the continued exploitation of the product by market development would be a preferred strategy. Most capital goods companies have developed this way by opening up more overseas markets as old markets have become saturated.

Exporting is a method of market development. However, there are several reasons why organizations might want to develop beyond exporting and internationalize by locating some of their manufacturing, distribution or marketing operations overseas.

**(iii) Product Development:**

Product development is the creation of new or improved products to replace existing ones. The company maintains the security of its present markets while changing products or developing new ones.

The wet shaving industry is an example that depends on product development to create successive waves of consumer demand. For instance, in 1989 Gillette came out with its new Sensor shaving system that significantly increased its market share. In turn, Wilkinson Sword responded with its version of the product.

**2. Integration:**

Integration refers to combining activities related to the present activities of a firm, on the basis of the value chain. Recall that a value chain is a set of interrelated activities an organization performs right from the procurement of basic raw materials to the marketing of finished products to the ultimate consumers.

Integration as an expansion strategy results in a widening of the scope of the business definition of a firm.

**3. Diversification:**

Diversification is a much-used and talked about strategy. Diversification means identifying directions of development that take the organization away from both its current products and markets at the same time.

In reality, it is not a single strategy but a set of strategies that involve all the dimensions of strategic alternatives such as internal or external, related or unrelated, horizontal or vertical and active or passive diversification.

**4. Cooperative Expansion:**

Corporate strategies could consider the possibility of competition co-existing with cooperation. The term ‘co-opetition’ explains the idea of simultaneous competition with cooperation among rival firms for mutual benefit.

**The strategic alternatives based on cooperation among firms could take the following forms:**

1. Mergers

2. Takeover or Acquisitions

3. Joint Ventures

4. Strategic Alliances

**5. Internationalization:**

International strategies are a kind of expansion strategies that need firms to market their products or services beyond the domestic market. For this purpose, a firm would have to assess the international environment, evaluate its own capabilities, and devise strategies to enter foreign markets.

Some firms, when they face slower growth rates at home or a restricted domestic market, open up new markets in other countries. This has been a major reason for Japanese expansion. Before exploring the international markets further, firms must identify and consider a critical mass of GNP, population growth, competitor activity in the market, ability to produce domestically or in the foreign market.

Sometimes firms can introduce new products sooner in a foreign market than at home. For instance, U.S.-based pharmaceutical firms do so.

Sometimes firms may find that producing in that location can be more beneficial than exporting to a given country. For example, a host government may restrict imports to the country if there is a given level of ‘domestic-content’ production in existence.

Such protective policies serve as a trade barrier, accordingly, companies tend to establish manufacturing and marketing facilities in each major country in which they do business. However, some countries provide incentives to locate production facilities there.

For the same reason, supplier will often locate new facilities in countries where their customers are located. Japanese car companies established manufacturing plants in US

Supply of raw materials or technology may also be a reason for choosing to locate production facilities in another country. For example Canadian firms have invested in developing nations where new deposits of important ores or other resources have been found.

It should be noted that movement toward international markets is frequently incremental. Most firms begin by exporting that involves relatively low investment and risk. Then a firm may engage in a joint marketing venture with a foreign local who will act as its agent. Once a foreign presence is obtained, the firm may decide to expand its activities. Expansion at this stage may take place in the development of specialized products, new investments in local manufacturing facilities or direct investment in the foreign market.

There is environmental dilemma in business circle to say “Grow or Die” which has become the motivation factor for growth strategies. Growth is the prime motivating factor for any manager and consequently to any management. The growth can be internal growth by diversification and external growth merger or joint ventures.

Growth is accepted as the easiest way of life. All organizations look for expansion, thus expansion strategies are the most popular and common corporate strategies. Companies aim for substantial growth. A growing economy, rapidly increasing markets, customers seeking new ways of need satisfaction, and emerging technologies offer ample opportunities for companies to seek expansion. When a company follows the expansion strategy, it aims at high growth. This can be done by a large increase in one or more of its businesses.

The scope of the business is broadened in terms of their respective customers groups, customers functions, and alternative technologies, singly or jointly in order to improve its overall performance. An expansion strategy has a significant and profound impact on a company’s internal structure and processes, leading to changes in most of the aspects of internal functioning. Expansion strategies are risky as compared to stability strategies.

Expansion strategy is adopted when environment demand increases in pace of activity, due to increase in market size and large opportunities being available. Management feels more satisfied with the prospects of growth from expansion; it is a matter of pride for employees to the chief executives in working for companies perceived to be growth-oriented.

Alternatively, after a long time in the business, companies often feel that they can take advantage from their experience to go in for expansion. There may be enough resources generated from existing operations that companies feel that the best way to utilize these resources is to go in for expansion.

#### Type # 3. Retrenchment Strategy:

Retrenchment strategy may require a firm to redefine its business and may involve divestment of a major product line or an SBU, abandon some markets or reduce its functions. Retrenchment in pace may necessitate a firm to use layoffs, reduce R&D or marketing or other outlays, increase the collection of receivables etc.

The efforts aimed at redefining the business and reducing the pace of activities can improve performance of a firm. Retrenchment in combination with expansion is not uncommon. “Retrenchment alone is probably the least frequently used generic strategy”

Retrenchment strategy involves a partial or total withdrawal either from products, markets or functions in one or more of a firm’s businesses.

Retrenchment strategy is generally followed during the period of decline of a business when it is thought possible to bring profitability back to the firm. If the prospects of restoring profitability are not good, abandoning market share, reducing expenses and assets can use controlled divestment.

**Reasons for following retrenchment strategy:**

1. The firm is doing poorly.

2. If there is pressure from various groups of stakeholders to improve performance.

3. If better opportunities of doing business are available elsewhere a firm can better utilize its strengths.

The retrenchment strategy is particularly followed for dealing with crises. For minor crises pace retrenchment will be suitable, for moderate crises, divestiture of some division or units may be inevitable whereas for serious crises, a liquidation strategy will be imperative.

The retrenchment generic strategy is adopted when an organization intends substantially to reduce the scope of its activity. For this purpose, the problem areas are identified and the causes of the problems are diagnosed. Then, steps are taken to solve the problems that result in different types of retrenchment strategies.

Various external and internal developments threaten the prospects of industries and markets. In declining industries companies face such risks as falling demand, emergence of more attractive substitutes, adverse govt., policies, and customer needs and preferences are undergoing changes. In addition to external developments, there are company specific developments such as poor management, poor quality of functional management and wrong strategies that cause company failures.

In such circumstances the industries, markets and companies encounter the danger of decline. Several products such as black & white TV, VCRs, jute and jute products, calculators and wooden toys have either disappeared or are facing decline, and the companies in these industries and markets were forced to eliminate operations or shut down.

The decline manifests in several symptoms reflected in the performance indicators of companies such as diminishing profitability, dwindling cash flow, reducing sales, shrinking market share and increasing debt.

A vigilant management can establish an effective monitoring and control system to timely receive the signal of impending danger and check the malaise. In this situation recovery becomes a possible strategic option.

**Slatter has postulated four types of recovery situations:**

1. Realistically non-recoverable situation with little chance of survival as the company is not competitive, the potential for improvement is low, there is a cost disadvantage, and the demand for basic products or services is in a terminal decline.

2. Temporary recovery situation where there could be initially successful retrenchment but no sustained turnaround. This could happen when the repositioning of the product is possible, now forms of competitive advantages can be found, or cost reduction and revenue generation are possible.

3. Sustained survival situation where a turnaround is achievable but little potential for future growth exists. The industry may be in a process of slow decline. A company facing such a situation could either divest or go in for a turnaround, if it foresees a comfortable niche in the industry where it perceives chances of being the industry leader.

4. Sustained recovery situation where a genuine and successful turnaround is possible owing to new product development and/or market repositioning and if the industry is still attractive enough. Possibly the decline was caused more by internal factors than external conditions.

**A retrenchment strategy can take any of the following forms:**

1. Turnaround strategy: Turnaround strategy is mainly appropriate when firm’s problems are pervasive but not severely critical. It is a strategy adopted by firms to stop the decline and revive their growth. Robbins and Pearce has suggested comprehensive model for turnaround process.

A turnaround situation exists when a firm encounters several years of declining financial performance subsequent to a period of prosperity. In simple words, turnaround situation is nothing but absolute and relative-to-industry declining performance of a sufficient degree to warrant explicit turnaround actions.

Turnaround situations are caused by combinations of external and internal factors. But it has been largely observed that root cause of turnaround situation lies internally only. Firms wrong decisions or delay in taking decisions or underestimation of external / competitive threat or complacency may lead to turnaround situation.

The immediacy of the resulting threat to company continued existence caused by the turnaround situation is known as turnaround situation severity. Low levels of severity are indicated by declines in sales or income margins, while extremely high severity would be indicated by impending bankruptcy.

The recognition of a relationship between cause and response is very important for a turnaround process and hence, the importance of properly assessing the cause of the turnaround situation so that it could be the focus of the appropriate recovery response is very important.

The response to turnaround situation can be broken down to two phases i.e. retrenchment (contraction) phase & recovery (consolidation) phase.

The retrenchment phase is focused on the firm’s survival and achievement of a positive cash flow. The means to achieve this objective needs an emergency plan to stop the firm’s financial bleeding. It involves the classic retrenchment activities such as liquidation, divestment, product elimination, and downsizing the workforce.

Retrenchment strategies are also characterized by the revenue generating, product/market refocusing or cost cutting and asset reduction activities. When severity is low, a firm has some financial buffer. Stability may be achieved through cost reduction alone. When the turnaround situation severity is high, a firm must immediately arrest the decline or bankruptcy is imminent.

Cost reductions must be supplemented with more drastic asset reduction measures. Assets targeted for reduction are those ones which are underproductive. In contrast, more productive resources are protected from cuts and further reconfigured as critical elements of the future core business plan of the company, i.e. the intended recovery response.

After retrenchment phase, organization has to sink in these bitter steps and for that purpose a stabilization plan is required to streamline and improve core operations.

The second phase involves a return-to-growth or recovery stage and the turnaround process shifts away from retrenchment and move towards growth and development. It is often seen that those firm declined due to external factors needs entrepreneurial reconfiguration i.e. top management’s creative intervention. Recovery through efficiency maintenance (maintaining leaner/efficient organization post retrenchment) would be possible if turnaround causes are internal.

Means such as acquisitions, new products, new markets, and increased market penetration would fall under entrepreneurial reconfiguration. Recovery is said to have been achieved when economic measures indicate that the firm has regained its pre-downturn levels of performance.

Between these two stages, a clear strategy is needed for a firm. As the financial decline stops, the firm must decide whether it will pursue recovery in its retrenchment reduced form through a scaled-back version of its pre-existing strategy, or whether it will move to a return-to-growth stage.

It is at this point that the ultimate direction of the turnaround strategy becomes clear. Essentially, the firm must choose either to continue to pursue retrenchment as its dominant strategy or to couple the retrenchment stage with a new recovery strategy that emphasizes growth. The degree and duration of the retrenchment phase should be based on the firm’s financial health.

One can find lot of similarities between ailing bedridden human being and firm in turnaround situation. That is why; author has drawn parallels between turnaround processes and medical treatment process.

2. Divestment or divestiture strategy: Divestment strategy involves the sale of a company or major component of it. This option is suitable for those corporations operating with weak competitive position in the industry. If turnaround and captive strategies are not viable then this strategy is adopted. The sellout strategy makes sense if management can obtain a good price for its shareholders and the employees can keep their jobs.

For Example – Ford sold its ailing jaguar and Land Rover unit to Tata Motors in 2008 for $2 billion. In year 2013-14 /aiprakash Associates sold some Cement manufacturing facilities.

3. Liquidation strategy: Liquidation is the termination of the company. This is the last resort to any company when all other attempts of turnaround, captive company, sell out fails. In case of liquidation firm has to go through tedious and complex legal formalities. Sometimes firm’s management is given to courts in return for some settlement of its obligations.

This is referred as bankruptcy. While the terms bankruptcy and liquidation are often used together, they technically mean two different things. Liquidation is part of bankruptcy, but it is not the entire process. Bankruptcy deals with a much more broad scope of events that lead to the eventual discharge of firm’s debts.

Lot of American companies became bankrupt especially after Sub Prime crisis. Here is the list of top 10 bankruptcies.

When business is in decline but is worth saving, the organization adopts a turnaround strategy. While adopting a divestiture strategy, an organization cuts off the loss-making units, divisions, or SBUs, curtails its product line, or reduces the functions performed. If none of these remedies work, then it may opt to eliminate the activity totally, resulting in liquidation strategy.

Businesses are like human beings. If excessive sugar (growth strategy in business perspective) is consumed then we become diabetic (loss making or poor performance in business point of view). To recover from diabetic situation, we have to cut down unnecessary things. This cutting down in personal lives are known as retrenchment in business parlance.

Retrenchment is a short-run renewal strategy designed to overcome organizational weaknesses that are contributing to declining performance. It is meant to refill and

rejuvenate the organizational resources and capabilities so that the organization can regain its competitiveness. Retrenchment may be thought as a minor surgery to correct a problem. Managers often try a minimal treatment first-cost cutting or a small layoff-hoping that nothing more painful will be needed to turn the firm around.

When performance measures reveal a more serious situation, more radical action is needed to restore performance. Even sometimes organization also needs to exit from businesses to cut down the losses and improve performance.

**The situations which warrant the deployment of such strategy are:**

i. Current level of performance is far below the past performances, i.e., a decline in performance.

The management aims to wipe-out a previous year’s deficit.

ii. Its aim is to provide certain products/services to the public by retrenching some other products or services.

iii. It is statutorily banned from producing certain products/services due to administrative reasons (such as causing environmental pollution, against the law of the land etc.)

#### Type # 4. Combination Strategy:

When an organization adopts a mix of stability, expansion and retrenchment either simultaneously or sequentially for the purpose of improving its performance, it is said to follow the combination generic strategy. With combination strategies, the strategists consciously apply several generic strategies to different parts of the firm or to different future periods.

“The logical possibilities for a simultaneous approach are stability in some areas, expansion in others; stability in some area, retrenchment in others; retrenchment in some areas, expansion in other; and all three strategies in different areas of the company. The logical possibilities for time-phased combinations are greater, especially when the products, markets, and functions are considered and when the choice occurs through changing the pace or the business definition.” For example a paints company adopts combination strategies when it augments its offering of decorative paints to provide a greater variety to its customers (stability) and increases its product range to add industrial and automotive paints (expansion), and closes down the paint-contracting division (retrenchment).

**Reasons for following Combination strategies:**

1. When the organization is large and faces a fast changing complex environment.

2. The company’s products are in different stages of the life-cycle.

3. A combination strategy is suitable for a multiple-industry firm at the time of recession.

4. The combination strategy is best for firms, divisions of which perform unevenly or do not have the same future potential.

An introduction to combination strategies is made, Combination strategies are a mix of expansion, stability or retrenchment strategies applied either at the same time in different businesses or at different times in the same business. No organization has grown and survived by following a single strategy.

The complex nature of businesses requires that different strategies be adopted to suit the situation. For instance, as companies divest businesses, they also need to formulate expansion plans focused on strengthening remaining businesses, starting new ones or making acquisitions.

An organization following a stability strategy for quite some time has to consider expansion and one that has been on expansion path for long has to pause to consolidate its businesses. Multi-business firms have to adopt multiple strategies either simultaneously or sequentially.

Combination strategy is involving the blending up of different types of strategies for the company or its sub-units. Naturally, the deployment of this strategy is based on the premise that a company should have different strategies for different environments. A small company cannot get advantage of this strategy and only large groups of companies can derive advantage of this strategy.

A company pursues a combination strategy if it adopts more than one strategy, i.e., stability, growth or retrenchment simultaneously. Usually, a combination strategy results from environmental changes and redefining the business.

**Under the combination strategy, a company adopts any one of the following:**

1. Stability and growth strategies.

2. Stability and retrenchment strategies.

3. Growth and retrenchment strategies.

4. Growth, retrenchment and stability strategies.

A combination strategy results from environmental changes and redefinition of the business portfolio of the company.

#### Type # 5. Merger Strategy:

Economic implications of mergers and acquisitions have long been an interest to economics. A Merger by definition combines two firms leaving one surviving firm. An Acquisition, on the other hand, describes the purpose of one firm by another.

**Mergers are also often classified based on the type of merger firms’ activities as:**

i. Vertical Mergers

ii. Horizontal Mergers

iii. Conglomerate Mergers.

A merger is classified as Vertical if integrating firms belong to the neighbouring stages of production such as a wine maker purchasing a bottle or cork factory. A Horizontal merger, on the other hand, describes the case where firms who are involved in the same business line get together and form a separate firm. The third category of mergers is called conglomerate and they occur between firms with unrelated lines of business.

#### Type # 6. Restructure Strategy:

Restructure strategy involves expansion or contraction of the portfolio or changes in the ownership pattern and control. In case of real estate business, profit is earned by buying properties at lesser prices, restructuring them and selling at higher prices. This restructuring approach usually entails buying the firm, selling its corporate headquarters and terminating corporate staff members.

Restructuring normally not required only when a business is sick rather than it required for improving the performance of the units. Restructuring is important for growth and expansion of the companies and it is necessary to prevent a unit from becoming sick. Selling unhealthy business divisions and placing the remaining divisions under the right track of careful financial controls is an additional restructuring that is often used.