Paper –Strategic Management
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Dr. James Hussain
Assistant Professor (Guest Faculty)
Email.-mbajames123@gmail.com

Topic- Retrenchment Strategy Part 2

Retrenchment grand strategies are followed when organizations reduce the scope of their activities and re-group them through reduction in cost and assets, reverse declination in sales and profits Retrenchment is also called re-company strategy, which is designed to strengthen the distinctive competence of an organization During retrenchment, strategists work with limited resources and face pressure from shareholders, employees and media. Retrenchment can entail selling off the land and buildings to raise the required cash, closing marginal businesses, closing obsolete factories, automating processes, reducing the number of employees and instituting expense control systems

The five situations where retrenchment may be an effective strategy to pursue are:

- When an organization has a clearly distinctive competence but has failed to meet its objectives and goals consistently over time.
- When an organization is one of the weaker competitors in a given industry,
- When an organization is plagued by inefficiency, low profitability, poor employee morale and pressure from stockholders
- When an organization has failed to capitalize on external opportunities, minimize external threats, take advantage of internal strengths and overcome internal weaknesses over time.
- When an organization has suddenly grown large and a major internal reorganization is needed.

Firms use retrenchment strategies when the need for it arises. External developments such as government policies, demand saturation or changing customer needs and preferences are the risks faced by the companies in declining industries. There are internal or company-specific developments also in the organization such as poor performance, poor quality of functional management and wrong strategies that lead to company failure. In such situations, markets, Industries and companies face the risk of declination. Sometimes, this results in the curtailed operations or shut-down of the firms.

It is important to analyse and understand that decline is manifested in several symptoms that are usually reflected in the performance criteria of the companies. Some of the symptoms are as follows:

- Diminishing profitability
- Reducing sales
- Shrinking market shares
- Dwindling cash flow
- Increasing debts

An effective control and monitoring system can indicate the impeding danger and weaknesses can be checked by a vigilant management. This situation shows the way for recovery as a strategic option

Slatter assured that there are essentially four types of recovery situations, which are as follows:

- Realistically non-recoverable situation, where there is a little chance of survival.
- 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, new forms of competitive advantages can be found or cost reduction and revenue generation are possible.

- Sustained survival situation, where a turnaround is achievable but little potential for future growth exists. Sustained recovery situation, where a genuine and successful turnaround is possible owing to new product development or market repositioning and if the industry is still attractive enough.

If the organization opts to focus on the ways and means of reversing the decline process, it adopts the turnround strategy. If it decides to cuts off the loss-making units, divisions or SBUS, it means the divestment or divestiture strategy has been opted for. If none of these actions work, it chooses to abandon the activities totally, resulting in the liquidation strategy.