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Topic- Turnaround & Stability Strategy Part 3

A turnaround strategy is the most serious form of external retrenchment and leads to divestment and liquidation. The turnaround strategy means the process of reversing the negative trend in the organization. This strategy is necessary during the recession period of an industry. A turnaround strategy focuses on halting the present declining trend in the performance and improving the long-run efficiency of operations. This strategy also focuses on cost reduction and revenue increase techniques. When the action plan for the current survival starts giving positive results, it is necessary that attention should be devoted towards stabilisation. Decisions should be directed towards achieving normal profitability while keeping down the expenses at the same time.

There are certain situations or danger signs where turnaround is an effective strategy for the organizations to pursue. These situations are as follows:

- Negative cash flow
- Negative profits
- Declining market share
- Deterioration in physical facilities
- Overmanning, high turnover of employees and low morale
- Non-competitive products and services
- Mismanagement

An organization that faces one or more of the above-mentioned p referred to as a sick company.

STABILITY STRATEGIES

A stability strategy is adopted when the organizations attempt an incremental or marginal improvement of its functional performance by marginally changing one or more of its businesses. This takes place on the basis of customer groups, customer functions and alternative technologies

A stability strategy focuses on the improvement of functional performance and the maintenance of the same level of success as in the immediate past. It emphasises the continuation of similar business with similar objectives. The elements of stability strategy are as follows:

- There is no drastic change in product, service, markets or functions of the organization.
- The focus is on maintaining and developing competitive advantages as per the present resources and market requirements.
- The emphasis is on the maintenance of the level of improvement achieved in the past
- The main objective of this strategy is to strengthen the companies by marginally
- improving their performance. This strategy is generally adopted due to the following reasons:
- It is less risky and involves fewer changes, thus increasing the comfort level of the people
- Expansion may be perceived as a threat.
- Consolidation is sought through stabilising after a period of rapid expansion,

Stabilising strategies are usually adopted and followed by small and medium-sized firms in the short run when such firms are satisfied with their current performance. The following are situations where stabilisation may be an effective strategy to pursue:

- When an organization has achieved its desired objectives and level of performance.

- When an organization does not see any threat or opportunity in the environment.
- When an organization realises that the risks involved in changing the product market position according to environmental changes is not justifiable.
- When an organization's key person resists the introduction of new products and entry in new markets. When an organization's internal resource prevents further growth or change.