

Shrinking Strategy in Management: An Analysis with Indian Context

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ABSTRACT

In the dynamic landscape of business management, organizations often face the need to adapt to changing market conditions, economic pressures, or internal challenges. One such adaptive approach is the shrinking strategy, which involves deliberate reduction in an organization's scale, operations, or resources to achieve sustainability, efficiency, or profitability. This paper explores the concept of shrinking strategy, its theoretical underpinnings, and its application in the Indian business environment. By examining real-world examples from Indian companies, the paper highlights how this strategy has been employed to navigate challenges such as economic downturns, technological disruptions, and competitive pressures. The analysis underscores the importance of strategic downsizing, divestitures, and refocusing efforts in ensuring long-term organizational resilience in the Indian context.

Keywords: Shrinking Strategy, changing market conditions, economic pressures, internal challenges, Indian Context

INTRODUCTION

In management, growth is often celebrated as the hallmark of success. However, in certain scenarios, shrinking—deliberately reducing the scope, size, or operations of a business—can be a strategic move to ensure survival and long-term profitability. A shrinking strategy, also known as downsizing, retrenchment, or divestiture, involves reducing workforce, closing unprofitable units, selling off non-core assets, or narrowing the product portfolio to focus on core competencies. This strategy is particularly relevant in volatile markets like India, where businesses face challenges such as economic fluctuations, regulatory changes, and intense competition. The Indian business landscape is characterized by diversity, rapid growth, and unique challenges. From family-run enterprises to multinational corporations, Indian organizations have increasingly adopted shrinking strategies to streamline operations and enhance competitiveness. This paper examines the shrinking strategy in management, its theoretical framework, and its practical applications in India, supported by examples from prominent Indian companies.

A shrinking strategy is a deliberate management decision to reduce an organization's scale or scope to improve efficiency, profitability, or market alignment. Unlike organic decline, which is unplanned, a shrinking strategy is proactive and strategic. It can take various forms, including:

- Downsizing: Reducing workforce or operational scale to cut costs.
- Divestiture: Selling off non-core business units or assets.
- Product Portfolio Rationalization: Discontinuing unprofitable products or services.
- Geographic Retrenchment: Exiting unviable markets or regions.
- Cost Optimization: Streamlining processes to reduce operational expenses.

The primary objectives of a shrinking strategy include cost reduction, improved financial health, and a sharper focus on core competencies. While often associated with distress, shrinking can also be a proactive choice to reposition a company for future growth.

Theoretical Foundations

2. Understanding the Shrinking Strategy

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The shrinking strategy aligns with several management theories:

- **Resource-Based View (RBV):** This theory emphasizes leveraging core competencies to achieve competitive advantage. Shrinking non-core operations allows firms to focus resources on high-value areas.
- **Contingency Theory:** This suggests that management strategies must align with the external environment. In turbulent markets, shrinking may be a necessary response to economic or competitive pressures.
- **Turnaround Management:** Shrinking is a key component of turnaround strategies, where firms in distress reduce operations to stabilize finances before pursuing growth.

In the Indian context, shrinking strategies are often driven by external factors such as economic reforms, technological disruptions, and global competition, as well as internal factors like mismanagement or overexpansion.

3. Relevance of Shrinking Strategy in India

India's economy, one of the fastest-growing in the world, is marked by opportunities and challenges. Factors such as digital transformation, regulatory changes, and global economic uncertainties necessitate strategic adaptability. Indian companies, both large and small, have employed shrinking strategies to address these challenges. Key drivers include:

- **Economic Volatility:** Fluctuations in GDP growth, inflation, and currency value push firms to optimize costs.
- **Digital Disruption:** The rise of e-commerce and technology-driven business models has forced traditional firms to rethink their strategies.
- **Global Competition:** Indian firms face pressure from global players, requiring them to focus on niche strengths.
- **Regulatory Changes:** Policies like GST and labor reforms have prompted companies to streamline operations.

Shrinking strategies are particularly relevant for Indian conglomerates, which often operate diverse businesses. By divesting non-core units or downsizing

inefficient operations, these firms can enhance agility and profitability.

4. Types of Shrinking Strategies in Indian Businesses

Indian companies employ various shrinking strategies based on their specific challenges and goals. Below are the key approaches, illustrated with examples:

4.1 Workforce Downsizing: Downsizing the workforce is a common shrinking strategy to reduce operational costs. While sensitive due to its social impact, it is often necessary to ensure financial stability.

- **Example: Jet Airways (2019)** et Airways, once a leading Indian airline, faced severe financial distress due to rising fuel costs, competition from low-cost carriers, and high debt. In 2019, the airline downsized its workforce significantly as part of a turnaround attempt. Despite efforts to reduce staff and operational costs, the company could not secure funding and eventually ceased operations. This case highlights the risks of delayed or poorly executed shrinking strategies.

4.2 Divestiture of Non-Core Assets Selling non-core business units or assets allows companies to focus on high-growth areas and improve liquidity.

- **Example: Tata Group's Divestitures:** The Tata Group, one of India's largest conglomerates, has strategically divested non-core assets to streamline its portfolio. In 2016, Tata Steel sold its loss-making UK steel operations to Greybull Capital, reducing its exposure to volatile international markets. Similarly, Tata Chemicals sold its urea business to Yara International in 2018, focusing on high-margin specialty chemicals. These divestitures allowed the Tata Group to allocate resources to growth areas like digital services and renewable energy.

4.3 Product Portfolio Rationalization: Discontinuing unprofitable products or services helps companies concentrate on high-demand offerings.

- **Example: Hindustan Unilever Limited (HUL):** HUL, a leading FMCG company, has periodically rationalized its product portfolio to focus on high-margin and high-demand categories. In the early

2000s, HUL exited its non-core businesses, such as animal feeds and seeds, to focus on personal care, home care, and food products. This strategic shrinking enhanced HUL's profitability and market leadership in core segments like soaps, detergents, and packaged foods.

4.4 Geographic Retrenchment: Exiting unprofitable markets or regions is another shrinking strategy to optimize resources.

- **Example: Vodafone Idea's Market Exit:** Vodafone Idea, a major Indian telecom operator, faced intense competition from Reliance Jio and Bharti Airtel. To manage losses, the company reduced its presence in rural and less profitable regions, focusing on urban markets with higher ARPU (Average Revenue Per User). While this retrenchment helped cut costs, it also reduced market share, illustrating the trade-offs of geographic shrinking.

4.5 Cost Optimization: Streamlining processes and reducing operational expenses are critical for financial health.

- **Example: Maruti Suzuki's Lean Operations:** Maruti Suzuki, India's leading car manufacturer, adopted cost optimization strategies during the COVID-19 pandemic. The company reduced production capacity, streamlined supply chains, and optimized dealership networks to manage declining demand. By focusing on lean operations, Maruti maintained profitability despite a challenging market.

5. Case Studies of Shrinking Strategies in India

5.1 Reliance Industries Limited (RIL): Strategic Refocusing: Reliance Industries, led by Mukesh Ambani, is a prime example of a company using shrinking strategies to pivot toward high-growth sectors. In the early 2000s, RIL operated diverse businesses, including petrochemicals, textiles, and retail. However, to capitalize on the digital revolution, RIL divested non-core assets and refocused on telecommunications and digital services through Reliance Jio. The company sold its textile and petrochemical units to focus on building a digital ecosystem, including JioMart and Jio Platforms. This shrinking strategy, combined with aggressive

investments, transformed RIL into a global tech leader, attracting investments from companies like Google and Meta.

5.2 Flipkart's Strategic Downsizing: Flipkart, India's leading e-commerce platform, faced challenges after Walmart's acquisition in 2018. To compete with Amazon India, Flipkart downsized its workforce and rationalized its product categories, focusing on high-margin segments like electronics and fashion. The company also exited loss-making ventures, such as its grocery delivery service in certain regions. This shrinking strategy allowed Flipkart to improve operational efficiency and maintain its competitive edge in the e-commerce market.

5.3 Kingfisher Airlines: A Cautionary Tale: Kingfisher Airlines, once a premium Indian carrier, is an example of a failed shrinking strategy. Facing mounting losses due to high debt and operational inefficiencies, Kingfisher attempted to downsize by reducing flights and staff in 2012. However, the strategy was poorly executed, with inadequate stakeholder communication and failure to address core financial issues. The airline eventually collapsed, highlighting the importance of strategic planning and execution in shrinking efforts.

6. Challenges and Criticisms of Shrinking Strategies: While shrinking strategies can enhance efficiency, they come with challenges, particularly in the Indian context:

- **Social Impact:** Workforce downsizing can lead to job losses, affecting employee morale and public perception. In India, where unemployment is a concern, such moves attract scrutiny.
- **Brand Reputation:** Exiting markets or discontinuing products may harm brand image, especially for consumer-facing companies.
- **Short-Term Pain:** Shrinking often involves upfront costs, such as severance packages or asset write-offs, which can strain finances.
- **Risk of Over-Shrinking:** Excessive downsizing may weaken a company's ability to compete or innovate.

For instance, Jet Airways' aggressive downsizing alienated employees and customers, contributing to its

downfall. Indian companies must balance shrinking with long-term growth plans to avoid such pitfalls.

7. Best Practices for Implementing Shrinking Strategies: To ensure successful implementation, Indian companies can adopt the following best practices:

1. Clear Communication: Transparent communication with employees, investors, and customers minimizes resistance and maintains trust.
2. Strategic Planning: Shrinking should align with long-term goals, ensuring that core competencies are preserved.
3. Stakeholder Engagement: Involving key stakeholders, such as unions and regulators, is critical in India's socio-political environment.
4. Focus on Core Strengths: Divestitures and downsizing should strengthen, not dilute, a company's competitive advantage.
5. Employee Support: Offering retraining, outplacement services, or severance packages can mitigate the social impact of downsizing.

HUL's successful portfolio rationalization demonstrates the value of aligning shrinking with a clear strategic vision, ensuring stakeholder buy-in and long-term growth.

8. Future Outlook for Shrinking Strategies in India: As India's economy evolves, shrinking strategies will remain relevant. The rise of digital technologies, sustainability concerns, and global competition will push companies to streamline operations and focus on core strengths. For instance, the shift toward electric vehicles may prompt traditional automakers like Tata Motors to divest legacy internal combustion engine businesses. Similarly, the growth of fintech may force traditional banks to exit unprofitable rural branches. Moreover, India's startup ecosystem, known for rapid scaling, may increasingly adopt shrinking strategies to achieve profitability. Startups like Paytm and Byju's, which faced financial challenges due to overexpansion, are now focusing on core offerings and cost optimization. The shrinking strategy will thus play a critical role in

ensuring the sustainability of India's entrepreneurial ventures.

CONCLUSION:

The shrinking strategy, though often viewed as a sign of distress, is a powerful tool for organizational resilience and competitiveness. In India, where businesses navigate a complex interplay of economic, technological, and regulatory factors, shrinking strategies like downsizing, divestitures, and portfolio rationalization are vital for survival and growth. Companies like Tata Group, HUL, and Reliance Industries demonstrate how strategic shrinking can unlock value and position firms for long-term success. However, the strategy requires careful planning, stakeholder engagement, and alignment with core competencies to avoid pitfalls, as seen in cases like Jet Airways and Kingfisher Airlines. As India's business landscape continues to evolve, shrinking strategies will remain a critical management tool. By learning from successful and failed implementations, Indian companies can leverage shrinking to navigate challenges and thrive in a competitive global market.

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