why do firm grow case study solution

Brand: Mehta Solutions
Product Code: case23
Weight: 0.00kg

Price: Rs500

Short Description
why do firm grow case study solution

Description
Caselet 1

why do firm grow ? It is an important question. Yet economists, management gurus and business school boffins have so far failed to answer it convincingly. There are three main competing theories. The traditional explanation is that firm grow to reap economies of scale, and to increase their market power. They stop growing once they reach an optimum size, when they run out of profitable investment opportunities or become too big an bureaucratic to manage. Life cycle theories, which become popular in the 1970 and 1980, identify several stages in the growth of firm, including an entrepreneurial phase, maturity and finally a period of decline. A third view, currently fashionable attributed firms' growth to their core competencies' . Admittedly, this is a somewhat nebulous concept. But in essence, it means that a firm's performance is determined by building on a set a of key skills that distinguish it from its rivals. These might include better technology, a trusted brand name, or the experience of its employees. All these theories seem plausible. Yet none of them squares with the evidence. The most important empirical finding, confirmed by study after study of companies big and small , is that a firm's growth largely follows a 'random walk'- an erratic and un predictable course. That is not quite the same as saying that it is driven purely by chance or good luck. But it does undermine the theories that purport to explain, and hence predict, corporate growth. But it is not total mystery. There is in fact evidence that smaller firms grow

faster than established ones. But company sizes do not appear to coverage, either within particular industries, or across them. More surprisingly firm's growth rates are only weakly correlated with that of the economy as a whole or, indeed, with that of their own industry. Recessions seem to hit only a few firms badly : most are largely unaffected, while some actually prosper. Two other findings complement the observation in big infrequent bursts, rather than with small, continue adjustments. This tends to make it hard to predict the timing or companies' growth spurts unpredictable. These findings cast doubt on all three rival theories of corporate growth. Take the traditional model. The idea of an optimal size is assuming that a firm's optimal size varies unpredictably. But that makes it almost useless, since it does not explain why such variations occur. Also, it would imply that corporate decisions could not decisively influence a firms growth. That is hard to believe. Some firms react quickly to shocks, while other try to resist changes: most try to alter their competitive environment to their advantage. The life cycle model also looks shaky. It implies that firms' growth follows a set, long run trend- which is not what evidence suggests. At first glance, the core- competencies model seems to stand up better . It is consistent with the finding that corporate growth rates differ widely and show little correlation with firm size or business cycle. It also chimes with the evidence that some companies are far more profitable than others and that differences in profitability tend to persist. But there is a problem with this theory, too, it implies that some firm will grow faster than others over long periods, because they possess durable competencies that are difficult to imitate. But that is not so. Although difference in profitability may persist, difference in corporate growth do not. So if the accumulation of competencies is really what fuels growth, those competencies either are themselves transitory, so have only temporary effects on growth.

Is it corporate growth inexplicable? Not necessarily. It has been observed that a firm that has just innovated will be reluctant to do again if that would weaken its position or cannibalize the returns from its original innovation. But it may sometimes be forced to, and it may to do so willingly if later from its original innovation enhance its position or do not eat its existing revenue streams. This would explain why innovation appears erratic. Since innovation is erratic, so too is growth. Also firms are unlikely to respond a to a shock immediately if they plan to restructure soon. They will respond only after enough pressure has built up to convince them that the shock is permanent and important. That corporate growth depends on this kind of creative destruction is an appealing idea. It also seems to fit the facts. There may be better explanations for companies' erratic growth performance.

1. Which company do you think in India confirms to the traditional explantation of why firm grow?

2. Which company do you think in India has improved its valuation after focusing on its core competencies.

Details
1. Case study solved answers

2. pdf/word in 24-48 hrs

3. Fully Solved with answers