Investigating the Appropriate Aggressive Strategies of David Approach on Uncertainty Conditions
The Case of Iran Steel Industry

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Abstract

Nowadays most of the successes and failures of organizations is dependent to appropriate organization strategies. Paying attention to external environment is one of the factors which always had an important role in strategy formulation. Economical boycott is one of the conditions which results in uncertainty condition and most of the organizations use defensive strategies in order to resist against of these conditions and avoid using aggressive strategies but in the other hand using aggressive strategies can be effective for some organizations to reach their goal. The statistical group included experts of industry from different organizations so that a questionnaire was conducted and the data was analyzed by SPSS software. Results demonstrated that market development and market penetration in this condition are appropriate aggressive strategies in the Iran steel industry.

Keywords: Aggressive strategies, Uncertainty conditions, Sanction, Steel Industry

1. Introduction

It is well obvious that companies have difficulties managing changes in their environment (Henderson & Clark, 1990). Environmental uncertainty is one of the main causes that creates a challenge for strategy making (Bower, 1970). In this situation taking information from
environment and interpreting of them cannot be comprehended as a set of easily recognized signals so most of the firms prefer to avoid uncertainty rather that confront it so they try to use defensive strategies (Cybert & March, 1963). In order to avoid uncertainty most of the companies don’t use aggressive strategies. They avoid to develop their products and markets because they think to their survival but every situations have its own opportunities. In this study using aggressive strategies has been investigated in uncertainty condition.

2. Literature Review

2.1. Aggressive Strategies

Strategic management can be defined as art and science of formation, implementation and evaluation of multi-task decisions which helps organizations to reach their long term goals. In fact strategic management uses different kinds of strategies in this way (David, 2009). Strategies are tools which have been designed for special purposes. Each strategy answers three questions. One of them is what goals should be achieved. The other one is where these goals and which industry and market should be emphasized. At last how these sources due to the opportunities and threats can be allocated to products and activities (Walker et al., 2011).

There are different approaches toward strategies. In this research David approach has been used. David has explained different strategies to use in action. The first group is integration strategies. Forward integration tries to buy related distribution and retail companies in order to its control on their sales and channels. In backward integration manufacturing and commercial companies tries to develop their ownerships and control on raw material suppliers and in this way they increase their certainty on supplying raw material. Another strategy is horizontal integration which companies use it to own competitors and increase their control on them. Using this strategy causes economies of scale and company cost reduction.

Another group is intensive strategies. One of these strategies is market-penetration which tries to increase their market share for their products and services. Another strategy is market development which means offering new products and services to target markets in different new regions which includes international marketing. The last strategy in this group is product development which helps companies to increase their sales by improving the products and services.

The third group is diversification strategies which include three strategies. The first one is concentric diversification which means companies try to offer new products and services that related to current products. The second one is conglomerate diversification. Unlike the first strategy companies try to offer new products and services that are not related to current products and in this way they increases their diversification. The third strategy of this group is horizontal diversification. In this strategy companies try to offer new products and services to their current customers which their new products are completely Irrelevant to their current products. The risk of using this strategy is modest because customers know the companies and they trust their products.
These three strategy groups, which were introduced previously, are called aggressive strategies. David expresses five other strategies as defensive strategies. The first strategy of this kind is the partnership strategy, in which a few companies attempt to become partners in order to reduce the risks in the market and use the opportunities created. The other strategy is the retrenchment in which the company reduces parts of its assets and focuses on fewer but stronger sectors. Another strategy is the divestiture strategy in which the company sells some parts of it. The last strategy is the liquidation strategy in which the company sells all of its assets to its true value. A combination of these defensive strategies can is also applicable. (David,2009).

Different guidelines have been presented in different situations. Defensive strategies are helpful when the certainty in the environment is reducing, because using these strategies the companies can become defensive and reduce the environmental risks and also using each of the aggressive strategies needs certain conditions(David,1985).

2.2. Impact of external environment on organizational strategies

Companies are always deciding and planning; therefore, in order to make any decisions or do any strategic planning, it is necessary to understand the current situation through examining the factors of internal and external environment. This is the job of environmental analysis’s to investigate the impact of the environmental variables on all parts and sectors of the organization, including both inputs and outputs in order to accurately identify the opportunities and threats. In other words, through the environmental analysis the environmental opportunities and threats will be identified and then based on it and according to the identification of the internal strengths and weaknesses of the organization, which has to be made before, the goals are set and the organizational procedures and policies are defined. This would help the management to deal with the opportunities and threats in the external environment with an integrated approach and achieve its goals in a decent way. Especially since the early 80’s and after the competitive pressures, it was obvious to the most organizations that they had to dedicate parts of their power and energy in getting to know the business environment.

One of the important factors in determining the strategy is the external environment of the organization. Changes in external forces will cause a change in demands for products and services and also affect the supply of raw materials. The external forces will also create opportunities and threats for the organization which can affect the organization’s moves. These external forces are:

1) Economic forces;
2) Social, cultural and environmental forces;
3) Political and legal forces;
4) Technology forces;
5) Competitive forces.
2.3. Economic sanction

The concept of economic sanction is an economic tool to change the behavior in a country by other countries. The countries that boycott another country are trying to change the policies of that country towards themselves. Economical sanctions follow this goal in three ways. First, they prevent the physical movement of the goods. Second, they restrict the exchange of the business sources. And finally they restrict the information about the products (Comitee Of Economic Affairs, 2007). Sanction affects the external forces of the strategic management which influence the strategies of the organizations. It can make the laws of economy, politics and technology change (David, 2009). Uncertainty in the on-time delivery of the raw materials, lack of price stability and reduction of investments are some of the effects of the external forces on the organizations.

As discussed before, in terms of risk, the defensive strategies are used to address risks. But the main issue in this study is the proper aggressive strategies in these situations. In fact, using these strategies, companies can use the limited environmental opportunities. To investigate this issue, the steel industry has been selected as the case study and the proper aggressive strategies have been studied in terms of sanction.

3. Methodology

In this study, various strategies of David’s model are reviewed, which seem to be proper for aggression in sanction or recession situations and the goal is to identify the appropriate strategies in specific situations. The variables of the research are not separable as dependant and independent. The research hypotheses are defined as bellow.

1) In terms of recession and sanction, using the upward vertical integration strategy is a proper strategy in steel industry.
2) In terms of recession and sanction, using the downward vertical integration strategy is a proper strategy in steel industry.
3) In terms of recession and sanction, using the horizontal integration strategy is a proper strategy in steel industry.
4) In terms of recession and sanction, using the strategy of penetration in the market is a proper strategy in steel industry.
5) In terms of recession and sanction, using the strategy of market development is a proper strategy in steel industry.
6) In terms of recession and sanction, using the strategy of product development is a proper strategy in steel industry.
7) In terms of recession and sanction, using the strategy of homogenous diversification is a proper strategy in steel industry.
8) In terms of recession and sanction, using the strategy of heterogeneous diversification is a proper strategy in steel industry.
9) In terms of recession and sanction, using the strategy of horizontal diversification is a proper strategy in steel industry.

The figure below provides a framework of the research problem which aims to find the appropriate aggressive strategy in the considered situation.

![Diagram of Aggressive Strategies and Sanction]

**Figure 1- The aggressive strategies and sanction**

The data for the test was collected through a questionnaire made by the researcher, whose validity and reliability were approved by experts and the Cronbach’s test as %93.2 of all the questionnaires answered. The steel industry of Iran was chosen as the case study of this research and the questionnaires were distributed in the Exhibition of Iran’s steel industry held in Isfahan. 52 questionnaires were given to the expert representatives of the companies, from which a total number of 33 questionnaires were answered to. The Likert scale was used to investigate the experts’ opinions about the suitability of the strategies. The research hypotheses were tested by the t-student test with an average of 3 in its range. The null hypothesis was to assume the mean of the population equal to 3 and H1 is an inequality. The results were tested with %95 confidence level and accuracy of %5.

4. Results

After examining of the research hypotheses, the results were analyzed using the SPSS software and shown in the table below.
<table>
<thead>
<tr>
<th>Variable</th>
<th>T Value</th>
<th>2 way significance</th>
<th>Lower Level of Confidence</th>
<th>Upper Level of Confidence</th>
<th>Accept or Reject</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis 1</td>
<td>-0/207</td>
<td>0/837</td>
<td>-0/3283</td>
<td>0/2677</td>
<td>Reject</td>
</tr>
<tr>
<td>Hypothesis 2</td>
<td>-0/204</td>
<td>0/839</td>
<td>-0/3323</td>
<td>0/2717</td>
<td>Reject</td>
</tr>
<tr>
<td>Hypothesis 3</td>
<td>-0/151</td>
<td>0/881</td>
<td>-0/2925</td>
<td>0/2521</td>
<td>Reject</td>
</tr>
<tr>
<td>Hypothesis 4</td>
<td>2/251</td>
<td>0/031</td>
<td>0/0324</td>
<td>0/6494</td>
<td>Accept</td>
</tr>
<tr>
<td>Hypothesis 5</td>
<td>2/644</td>
<td>0/013</td>
<td>0/0812</td>
<td>0/6259</td>
<td>Accept</td>
</tr>
<tr>
<td>Hypothesis 6</td>
<td>1/693</td>
<td>0/1</td>
<td>-0/0584</td>
<td>0/63</td>
<td>Reject</td>
</tr>
<tr>
<td>Hypothesis 7</td>
<td>0/000</td>
<td>1</td>
<td>-0/2708</td>
<td>0/2708</td>
<td>Reject</td>
</tr>
<tr>
<td>Hypothesis 8</td>
<td>0/479</td>
<td>0/636</td>
<td>-0/2303</td>
<td>0/3717</td>
<td>Reject</td>
</tr>
<tr>
<td>Hypothesis 9</td>
<td>0/259</td>
<td>0/797</td>
<td>-0/2775</td>
<td>0/3583</td>
<td>Reject</td>
</tr>
</tbody>
</table>

Table 1- The mean test for the hypotheses

The table shows that the significance of the hypotheses 1 to 3 and 6 to 9 is more than 0.05 and therefore these hypotheses are rejected. Also, the significance of the hypotheses 4 and 5 is less than 0.05 and regarding the positive upper and lower limits, these hypotheses are confirmed.

5. Conclusion

The purpose of this study has been to find the proper aggressive strategies in terms of sanction and recession in the steel industry. The results show that the hypotheses 4 and 5 are approved, which is a proof that in terms of sanction and recession, penetration in the current market and market development are the best strategies to be used as aggressive strategies in these situations. Penetration in the current market is done via increasing the market share for the current products or services through making more efforts in marketing and expanding the current products and services to new geographic areas. In fact, sanction creates special situations in which using all strategies is impossible and the organizations should adjust their strategies according to environmental situations which create limitations for the organizations. In terms of sanction and recession it’s better that the companies in the steel industry avoid diversification of their products and also vertical and horizontal integration, and instead of
using defensive strategies, try to use market-focused strategies as aggressive strategies. In such situations branding for new products is difficult and integration is not a good strategy in terms of sanction, because the suppliers and the vendors suffer from a lack of market confidence. So in such situations, it’s best to focus on the current or the new market in order to sell the current products to them and to avoid investing for product development or integration. This practical result of this research can be applied to the companies in the steel industry and help them to set their strategies.

Future studies can implement the same research within other important industries to provide a more complete guide. Also identifying proper strategies with an approach other than David’s is recommended.

References

David F.R,(1985).How Do We Choose Among Alternatives Growth Strategies?, Managerial Planning 33, no. 4 pp:14-17,22.