

# Routes to Strategic Growth: Organic or Inorganic Growth

## Organic Growth

**Organic growth in management parlance refers to the growth of a company that occurs naturally.** In other words, if a company grows through increased revenues and increased profitability on its own without resorting to mergers and acquisitions, then it is known to grow organically. For instance, companies like Infosys are known to shun mergers and acquisitions and instead, concentrate on growing through expansion its business. The main advantage of organic growth is that it helps companies focus on their core competencies and avoid the traps of cultural clash and differing value systems that happens when two firms merge. Apart from this, organic growth is natural as mentioned earlier which means that the management of the company can feel comfortable about the growth prospects by doing what they are good at.



## Inorganic Growth

On the other hand, inorganic growth refers to the expansion of the bottom line through mergers and acquisitions (whether they are friendly takeovers or hostile takeovers). The main advantage of inorganic growth is that it helps companies with large cash reserves to invest them in productive mergers and acquisitions that help the bottom line of the company.

Apart from this, companies in distress can benefit through inorganic growth as a more successful company can bid for it and help both companies in the process. Further, **inorganic growth helps in consolidation of similar strategic imperatives and business drivers**. Of course, when a company grows inorganic it has to go through all the joys and perils that mergers entail in a way that is similar to how couples go through when they get married. On a serious note, inorganic growth helps companies beat the downturn as was evident in the recent merger between American Airlines and US Airways. The merger that was actualized as this article is being written points to the need for consolidation in the aviation industry, which is leaving many airlines in the red.

## Which is Preferable?

The answer to the question as to which kind of growth is preferable depends on the strategic intent of the companies involved. If the driver of strategy is increased market share alone, then inorganic growth makes sense. On the other hand, if operational imperatives are involved, inorganic growth leads to friction and mismatch between organizational cultures between the two companies. Apart from this, when the objective is to keep the two companies distinct and the merger is only to consolidate operations, there is a chance that inorganic growth might work. Finally, organic growth helps the organizational identity whereas when companies grow inorganically, there is the possibility of the merged organization losing its identity.

## Closing Thoughts

In these recessionary times, the number of mergers and acquisitions are increasing mainly because these companies believe that size matters and big is better. Further, the fact that regulators are encouraging mergers and acquisitions is another factor in favor of inorganic growth. However, there is a word of caution here and that relates to the fact that companies must think twice before taking the plunge as growing inorganically does not lead to expected increases in revenues all the time

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