A STUDY OF TURNAROUND STRATEGIES OF INDIAN CORPORATE SECTOR
-AN ANALYSIS OF SELECTED COMPANIES

ABSTRACT

THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

Ph.D. (Business Administration)

BY

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ABSTRACT

INTRODUCTION

In an era, whereby world economy is on doldrums, economic boundaries are dismantled, technological innovations are shaking the very basic foundation of old established industries. It is not only the matter of concern of worldwide corporate to find out the solutions for their survival; but it is equally important for Indian corporate houses as well to find out the avenues to remain in existence in such a cut-throat competition from all across with major global players also.

(Slatter, 1984) defines turnaround as sustainable recovery of sick firm. He says, "Sustainable recovery involves achieving a viable and a desirable business strategy, supported by an adequate organization and control structure."

In a study of 54 American companies (Schendel, Patton and Riggs, 1976) turnaround is defined as a decline and recovery in performance. While Indian author in his book 'Managing Corporate Turnarounds' (R.A.Yadav, 1992) - "Turnaround means a substantial and sustainable positive change in the performance of a unit through determined efforts." To put it in simple words, it implies producing a noticeable and durable improvement in performance from down to up, from no good enough to better, from unsatisfactory performance to acceptable and from losing to achieving."

It is often said that India is an emerging global-power; but whether we can sustain our presence in longer run? Do we have to introspect? Should we learn with others experiences and take ratify measures? It is a high time to get cautioned and learn from our mistakes, so that it may not occur again.

However, the preventive measures and revival programmes initiated by the government, financial agencies have not made much dent. The increasing trend of sickness both in large and small-scale industrial units is nowhere in control despite policies and actions initiated at various levels. It has become a national problem requiring a comprehensive redress rather than inventing quick fixes to stem industrial sickness and to revive sick units. Hence, a coherent framework consisting of the dynamics of corporate sickness, forewarning system and effective turnaround strategies are required to initiate timely actions to stem the number of sick industrial units multiplying, rehabilitate the viable sick units and decide about the fate of non-viable sick units.

Why such conglomerate fails? What are reasons behind? And how they have overcome in these situations? What strategies they adopted for turnaround. These are some of the basic questions for which not only any entrepreneur or manager will like to get equipped; but this research paper will serve as guidelines and may caution them to avoid any eventualities in their future business.

The Problem

Social Dimension:

Industrial sickness brings huge suffering for workers; they have to make sacrifices in form of non-payment of wages/ bonus, postponement of increments, modifications of service conditions, layoffs, retrenchments and lock outs. Unemployment also increases theft, downfall in morale, decline in law and order situation, these are the other social dimensions of industrial sickness. In the Indian context, whereby there is huge workforce available, it is not always easy to opt for retrenchment policies. Proper deployment of human resource in productive manner, to find out avenues for labour well being, Their education and for their living standard are some of the major aspects, which any management is suppose to take care of it, in the process of turnaround.

Blocked mindset:

In an organization that is on the verge of downfall, managers stop managing. It is often found that instead of finding out the solutions, most of the workforce/managers get involved in passing the bucks on others shoulders. Blaming and finding the faults on other working become the routine affair.

Managers start cursing the market and environmental conditions rather than finding out the avenues. Thus sickness not only creates a problem of economic downturn; but also reduces the morale and blocks the mindset.

Dampen the spirit of entrepreneurship:

Closure of any industrial unit brings mental trauma for everyone whether entrepreneurs, managers/employees and for their families.

Locking up Financial Recourses:

In a country like India, whereby most of our population still remains below the poverty line. Rs. 1,29,143.51 crores were the sum of accumulated losses reported in 5147 cases of sick units registered under BIFR by 2004.

Justification:

Turnaround situation should be taken as entrepreneurial challenge rather than obsession of failure and end of the path. It is a time when any Mangers skills are put on for the test. Most of the companies in their life span come across with such turnaround situations. Whether they recover, continue to decline or go into being wealth destroyer depends on their management and its turnaround strategies.

All the attempts of turnaround may not be fruitful, but by analyzing successful turnaround cases and their process/method, at least we can evolve suitable ways and probably right turning around strategies.

RESEARCH OBJECTIVE

The objective of this research study is to find out strategies undertaken by some of the Indian companies to overcome their bad performances by stopping the downturn and bring back situation to become profitable by turning around. It will provide a way to identify as how to turnaround sick business enterprise? Our efforts are to provide practical approach based on empirical research and experience. It's drawn from many Indian cases and actual examples.

Research Issues/Statement of Problems:

We will try to sort following problems through this research Paper:

1. Type of the sickness industry faces?
2. Sickness Analysis – which type of the ailment creating sickness? Among the most common disease which one among following is causing sickness:
    - Poor Management
    - Financial Indiscipline
    - Lack of market driven approach
    - High Cost
    - Over expansion/Big Projects
    - Over trading/Adverse product demand
    - Technical/Product failure
    - Labour Trouble
    - Lack of resources
    - Environmental factors
    - Other reasons
3. Which Type of Turnaround Strategy adopted?
    - The Customer approach
    - The Financial restructuring
    - The Process
    - Manpower restructuring
    - Other (If any)
4. Analysis of Vision Statement of the company
5. Introspection of major constituent of Turnover Strategy.
6. Leadership style of Turnaround Manager
7. Approach adopted for the process of turnaround:

(i) Market aspect/Customer approach
(ii) Finance aspect/Financial restructuring
(iii) Technical aspects/The Process
(iv) H.R. Aspects/Manpower restructuring

Process of Research: To get into the depth analysis, we adopted following process:

To diagnose the sickness

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Intensity of the sickness

↓

Reasons for particular sickness

↓

Which focus areas adopted as turnaround strategies?

↓

Among People, Product, Profit and Customer, which were the major constituents for turnaround?

↓

Vision and Mission of the turnaround companies

↓

To analyze the compiled statistics and to ascertain following facts:

1. Why does any commercial organization fall sick?
2. How to diagnose and predict sickness?
3. Measures to be undertaken to turnaround?
4. What are the turnaround strategies been adopted in common by most of the companies?
5. What are the most common focus areas of turnaround.

↓

Statistical compilation for each of the above stages

↓

Conclusion and suggestion by researcher

Rationale for selection of 10 selected companies of India:

We selected particularly those cases whereby the respective industries had major market share in their respective trade and are known for their professionalism working. These selected industries also had history of constant profit path; but than slipped down to losses? Why this happened to the industries with best of the professional abilities, with best of the talents available and with the best of their financial and market abilities.

If 'losses' can grip to these best run conglomerates, what may be the future for 'Medium' and 'small-scale' units. It is not a fear; but surely it is an alarming-bell to stand upon and acts to face the challenges of this millennium.

We took up about 10 cases of turnarounds, Especially in Indian context. We tried to select cases from different sphere of fields, starting from fast moving consumer goods, consumer durable companies, Process Industries, Chemical Industry, Financial institutions, Heavy industries, Electronic industries and capital-intensive industries as well. Our efforts are to have assortment of Public Sector and Private Sector; but we tried to select the cases that are the most prominent in their respective field/industry so as to awaken the insight and draw the attention of all.

Thus sampling is been from best possible sources to get the fruitful conclusions through research paper. We have collected information data and turnaround case histories of following Indian units:

1. TATA Motors
2. Crompton Greaves
3. Arvind Mills
4. Steel Authority of India

5. Gujarat Alkalies and Chemicals Ltd.
6. Gillette India Limited
7. Dena Bank Limited
8. Thermax India Limited
9. Philips India Limited
10. Siemens India

It is evident with the above cases taken up that efforts are been made to take up:

- Varied industries from Automobile, Consumer durables, Chemicals, Steels, telecommunication, Textile, Consumer Electronics and as well as of financial institutions.
- Government, Semi Government, Private and Public Ltd Companies.
- Small sector to large sector Industries.

To get the best of the results, our endeavor is to extract information, analyze strategies from the various industries of operations, so that we can dig out best of the results from our studies.

THE RESEARCH DSESIGN:

This study is an effort of about 5 years of working. After extensive review of relevant literature, research process was developed for empirical and systematic analysis. The research instrument consisted of structured questionnaire. and the respondent were visionary turnaround leaders and the team managers who were involve in the process of turnaround. The questionnaire were forwarded to respective companies through University/AIMA . Companies concerned deputed their executive to gather the relevant data, I kept following vigorously with them and after having deliberations with them on phone, through personal meetings and through E-mails, I could able to get the information on basic structured manner.

Data Sources:

- Secondary Data: Cases drawn from journals, books, Websites and research papers. These are the major source of conducting this research study.
- By observation: Collection of information by way of investigation, through questionnaire and by own observation. The information pertains to what is currently happening by either mailing structured questionnaire, taking interview through personal meetings/telephonic with turnaround leaders or gathering data in accordance to the questionnaire format from various sources so as to get the proper report in scientific manner.

Sampling Plan:

- Sample Unit: Successful turnaround visionary leaders /entrepreneurs and turnaround consultant approach, their actions and observations are recorded.
- Sample Size: 10 successful corporate turnaround cases representing different segment such as MNC's, Pvt. Sector and Small Scale Industries, Samples undertaken across the country.
- Sampling Procedure: By observation method or through E-Mail, hence questionnaire is specific, Point wise in relation to the subject.

Formation of Case Studies of 10 Indian selected companies:

To get the total story of turnaround, it was important to gather all information of all the 10 selected Indian industry in chronological order, hence information's are collected from various sources: through internet, through journals, through magazines, company's balance sheets, through company's press releases and through personal/telephonic/E-mail interview conducted with various turnaround leaders and the members of team managers involved in turnaround process.

To avail structured data, questionnaire was designed and from all the 10 companies, details were obtained in this requisite 5 pages format of questionnaire. Though it was the toughest job; but regular follow up and letter from AIMA/AMU facilitated the desired information to format the case study of each individual industry selected for research study.

Data Analysis:

All the available information through questionnaire was assimilated for different subjects in form of tabulated data. Since for each and every requisite sickness, focus areas, major constituents, and functional aspect of turnaround strategies and their style of leadership style, ranking and points were obtained from the companies in form of questionnaire, thus it was only to be assimilated and summed up to gather the most common ways adopted by these cases of turnaround industries.

There may about 20 types of reasons are which bring sickness to any industry; but here we could evaluate the basic 3 to 5 causes which effected the most to the corporate sector, similarly there may be about 40 actions required to turnaround; but we could able to filter down the most preferred 5 to 7 strategies/actions initiated by most of the successful companies.

ANALYSIS & FINDINGS:

Reasons for industry ailment – internal reasons: Companies were given queries to submit their various reasons of sickness/ losses, On the basis of assimilated data, we could establish the fact that only 3 causes constituted 53% of ailment while next 3 added up to another 28% of chances. Hence total 81% of Internal- reasons for the sickness are due to following six facts:

Internal Reasons for industry ailment	% age reasoning
High Cost	26%
Lack of Market Driven Approach	16%
Financial Indiscipline	11%
Over expansion	10%
Lower Profitability	10%
Poor Management	8%
Miscellaneous	19%
TOTAL	**100%**

Sickness Analysis-External Reasons: On the basis of tabulated data, it was found that 94% reasons of industrial ailment are due to following four factors:

Sickness Analysis-External Reasons	% age reasoning
Global Competition	45%
Government and Statutory Obligations	18%
Recession in the industry	17%
Environmental/Climatic factors	14%
Miscellaneous	6%
TOTAL	**100%**

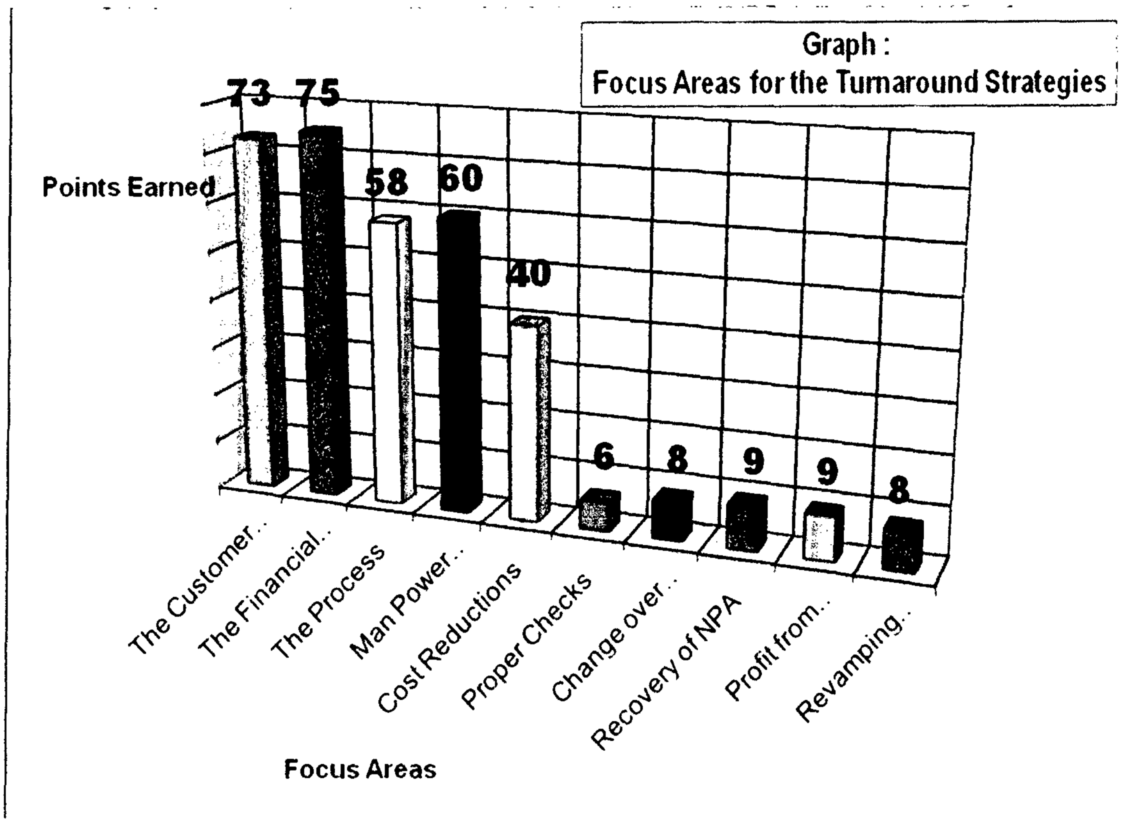
It is evident from the facts that only one factor such that 'Global Competition' remain the major threat for the losses of these industries. Global competition is the most visible and urgent face of challenge. Corporate India endeavors to revitalize to meet the challenge of new world without boundaries where goods and services traverse freely and where world-class competition will eliminate the weak and inefficient.

Focus areas for the turnaround strategies adopted:

Question was asked from these 10 selected companies that among all the actions initiated, what were the most common areas, which helped them in turnaround process?

- Focus areas: In this portion of study efforts are been taken to evaluate the focus areas / approach adopted by the management for turnaround looking in to:

- The Customer approach
- The Financial Restructuring
- The Processes
- Man Power Restructuring
- Any other- if any



It is evident from the above graphical chart displayed on the basis of gathered data that:

- Financial Restructuring got highest rating of 75 points
- Customer approach has got 2nd highest rating i.e. 73 points.
- Manpower Restructuring 'Manpower restructuring' function acquired total 60 points
- The Process remain on fourth on priority with 58 points
- Cost Reduction: as per ranking this function has got 40 points

downsizing/ restructuring human resources, here research reveals that in priority it comes on number 4^{th}.

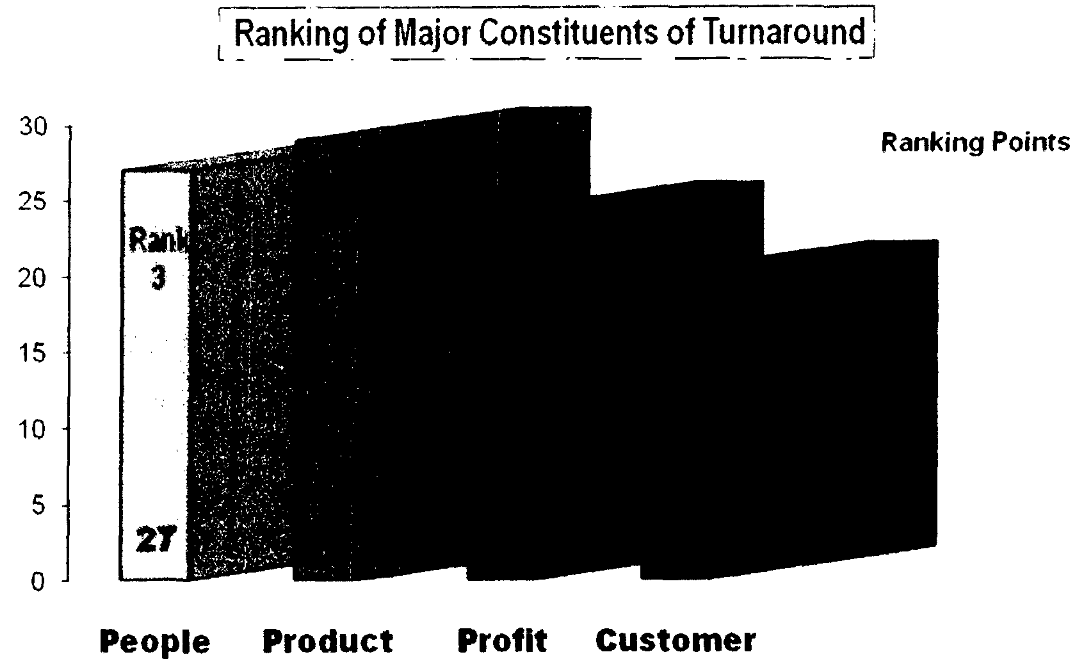
Though we find that Cost reduction comes on no. 5^{th}; but in fact most of the companies have taken this exercise as part of financial-restructuring; but few of them wanted to give it extra significance and thus they gave it extra rating.

Thus among all the focus areas above 5 are the most favored one, and 'Cost- cutting' has come out to be most effective work out to maintain the company's good business health.

Major constituents of turnaround strategies:

This study is been undertaken to evaluate that among People, Product , Profit and Customer,which are main contituent of turnaroun strategy. While opting for turnaround strategy, respondents are being asked that among all these four constituents, whom the have taken first as bieng important constituent? They have been asked to rank each one of them on the rating scale of 1 to 4, whereby 1 stands for better and 4 stands for worst.

When data for all the 10 relevant cases were assimilated following picture got potrayed, whereby the constituent scored least numbers, enjoyed better confidence and the one got highest score had least preference of turnaround strategiest.



The conclusion drawn is as follows:

- Customer being the most sought constituent of turnaround strategies being implemented and they ranked number acquiring total 22 points.
- While Profit, People and product remained second, third and fourth in consequence as per the preferred constituent of turnaround strategist.
- The above analysis reveals that 'Customer and profits' are the most sought criteria for opting for any turnaround strategy.

VISION STATEMENT:

It is also important to study the farsightedness of these turnaround firms, how they perceived their future and on what guide map they performed. Vision being the blue-print of future course of actions, imply the management outlook as how they would like to face the grim situation arise due to the reflection of losses by these units. We gathered the vision statement of all these 10 firms. Now if we have summarized the common vision statement of these firms, it may be inculcating following aspects:

- Cutting cost from all the fronts remained the major thrust area of all the companies.
- Profitable growth with satisfaction to stakeholders.
- Customer satisfaction and providing value for money to them with innovative product range time to time.
- To become world-class global dynamic and modern company.
- To serve the needs and interest of country and society with enduring ethics and values.
- Instead of just delivering the products/service, company has to play a role of 'Solution Provider'.

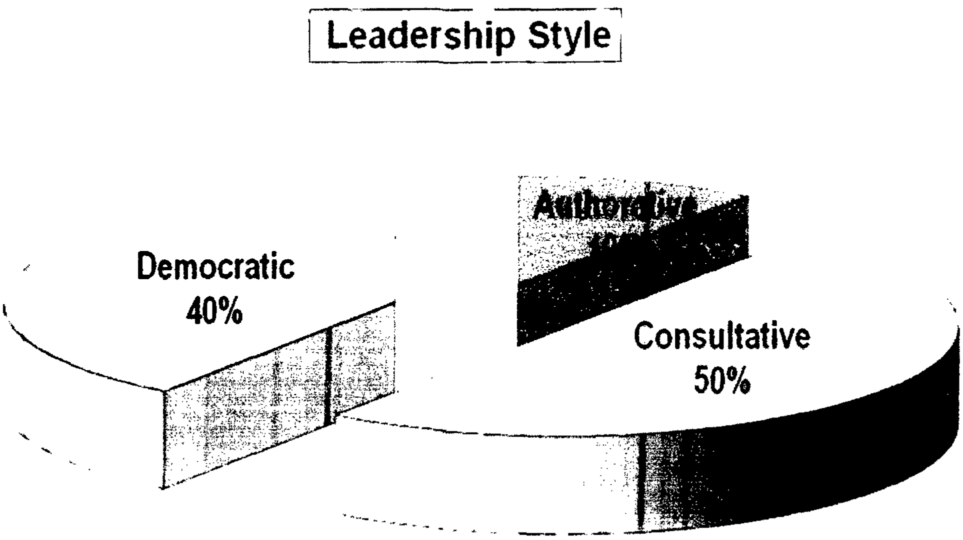
STYLE OF LEADERSHIP:

Managers regularly confront uncertainty and tough competition. To trail out any business empire, as winner is not an easy task. How to shape up your industry? What type of leadership generally adapted to turnaround industry? It is a million dollar question, in this study we have tried to evaluate the type of leadership adopted by most of these successful turnaround leaders. We have categorized broadly Leadership into three types of categories:

1. Authorative
2. Consultative
3. Democratic

Indian industries biggest problem in the years to come is not going to be lack of capital or technology or in the infrastructure; it is going to be the lack of effective leaders.

Leadership cannot be taught in business schools, it has to be taught by the practitioners. The stories that turnaround leaders tell to the next generation invariably communicate certain values and impact. They also generate fresh ideas and energize the future managers in a way pure theory never can. The best stories also have an edge – they talk of battles, how they fought and tough decisions got implemented, how they faced eventualities and trail out their empire successfully.



Through our study, we have tried to evaluate as which of the style of leadership best suited to any turnaround leader? Our analysis reveals that among 10 cases of successful turnaround, In 5 cases the leadership style adopted is of Consultative, We may term this leadership activity as group approach for solving the problem; but here we also observed that respective leader takes his own decision with his acumen, experience and farsightedness after consulting with everyone else.

Two companies have adopted Democratic style of leadership while one company had Authorative style of leadership. We conclude that companies should adopt 'Consultative' style of leadership. Turnaround actions are executed in effective manner only when all team members get involved to achieve the defined objective, turnaround gets faster. From top to bottom everyone thinks and act on one unilateral focused direction. Of course as all the fingers are not of the same size, there may be chances that few persons may work adverse to the turnaround requirement or they may not in accordance to the basic purpose or as per the individual industry culture or the mindset, there only we should act as ruthless to these stubborn attitude people or we may have to use Authorative style of leadership for this particular segment.

STRATEGIES FOR TURNAROUND:

"Strategy not being a lengthy action plan; but it is the evaluation of a central idea through continually changing circumstances." – (Jack Welch, 2001) Chairman & CFO of General Electric.

There cannot be any single turnaround strategy that can be applied for all sick units' revival. Each case has different type of sickness and accordingly different type of strategy to be made as per the requirement of situation; but here in our study we have split these turnaround strategies primarily in four blocks:

1. Marketing/Customer approach
2. Financial aspect/Financial Restructuring
3. Technical Aspects/The Process
4. H.R. Aspects/Manpower Restructuring

There are different elements of actions in a particular block of strategy, it is been tried out that for each element respondent view is taken by giving measures in terms of ranking (in scale of 1 to 5) as per the importance of implementation of a particular strategy. Our research study could able to draw following facts:

First 10 strategies for turnaround

1. Cost Reduction
2. Expedite Recovery
3. To increase Labour Productivity
4. Disposal of Non-Performing Assets
5. Budget Control
6. Efforts to sell Proper-Product-Mix
7. Billing based on credit worthiness
8. Inventory Control
9. Training and upgrading the skills
10. Downsizing Staff

There are some of the facts which are eye opener, among about 60 actions which we are suppose to take up as turnaround strategy, Downsizing of Staff has come on 10th position of first 10 actions to be taken up on priority.

For exploring better output from manpower resources, study says it is better first to increase labour productivity and train them for upgrading their skills.

Disposal of non-performing assets and selling proper product-mix are some of the actions which escape our attention in routine operational working.

This turnaround study may bring fresh approach to the business; it will provide insight as what may happen tomorrow. It may serve as guide to keep the organization healthy, wealthy and wise.

LIMITATIONS OF THE STUDY

There cannot be any single formula for turning around the sick unit, every industry have different type of internal and external problems. The causes of sickness may vary from industry to industry, trade to trade and may also be different on the basis of Geographically, Climatic and on environment point of view. Availability of skilled and unskilled manpower, Law of the land and Government policies are some of the other aspects, Which is not in control of any manager /any industrialist.

Thus to conclude any single strategy that will be viable in all the circumstances and for all the industries, is not possible; However we have tried to evolve here the basic common route of strategies taken in Indian perspective by all the industries (the cases taken for the research) for their successful turnaround.

We hope that in spite of the limitations narrated above, The study undertaken will be of immense useful for the practicing manager and industrialist to help them evolving right paths and strategies for their units with some alteration or modalities of changes in Strategy undertaken best suited to their internal and external problems.

Another limitation, which we faced, was the scarcity of time with our visionary leaders and consultants, to spare themselves for our interview and E-mail questioning response. We also faced initial reluctance from companies to divulge their internal information; but our rigorous follow up and convincing approach telling them the contribution this study will yield, paved the way and they finally acceded to our request.

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Certificate

February 16, 2010

This is to certify that the thesis entitled "Study of Turnaround Strategies of Indian Corporate Sector- An Analysis of selected companies" submitted to the Faculty of Management Studies and Research, Aligarh Muslim University, Aligarh, India, in partial fulfillment of the requirement of the award of the degree of Ph.D. in Business Administration is a record of original work done by *Mr. Amit Seth* during the period of his study in the Department of Business Administration, Faculty of Management Studies and Research, Aligarh Muslim University under my supervision and guidance and the thesis has not formed a basis for the award of any Degree/Diploma/Associate ship/Fellowship or similar title to any candidate of any university.

Place: Aligarh

(Prof. Javaid Akhtar)
Internal Advisor

भारतीय बागान प्रबन्ध संस्थान

INDIAN INSTITUTE OF PLANTATION MANAGEMENT

(An Autonomous Organisation Promoted by the Ministry of Commerce and Industry - Govt of India)

CERTIFICATE

This is to certify that Professor Amit Seth has carried out Doctoral thesis titled "Study of Turnaround Strategies of Indian Corporate Sector-An Analysis of selected companies" under my guidance as External guide along with Internal Guide Professor (Dr.) Javaid Akther, Dean of Faculty of Management Studies and Research, Department of Business Administration, Aligarh Muslim University, Aligarh, for the award of the Degree of Ph.D. (Business Administration).

I wish him all the best and good luck for his endeavor for his future academic pursuits.

Professor (Dr.) Ananda Das Gupta

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ज्ञान ही दर्शन
Knowledge is the Window

IIPM

Declaration

I do hereby declare that the thesis titled **"Study of Turnaround Strategies of Indian Corporate Sector-An Analysis of Selected Companies"** submitted to the Faculty of Management Studies and Research, Aligarh Muslim University, Aligarh for the award of the degree of **Ph.D. (Business Administration)** is a record of original work done by me under the supervision and guidance of Prof. Javaid Akhter, Department of Business Administration, Faculty of Management Studies & Research, Aligarh Muslim University, Aligarh (Internal Advisor) and Prof. Ananda Das Gupta, IIPM, Banglore (External Advisor) and it has not previously formed the basis for the award of any Degree/ Diploma / Associateship / Fellowship or similar title to any candidate of any university in India or abroad.

Amit Seth

Preface

In a business, ups and downs are part of life cycle. Most of the Management Institutes are imparting training and studies as how to be good managers? Students have been taught to manage various functions like Human Resources, Finance or Marketing etc.; but in actual life when they face real life in profession, situation is quite different.

Globe is squeezed to be one market, there are number of players in the market. Each one of them are not only wooing customer; but eying on the competitor as well. Business now is not only customer oriented; but has became competitor oriented as well.

Economic barriers are dismantled; recession has made the business situation vulnerable. Acquisitions and mergers have become the order of the day. In these circumstances how one can sustain his business? That is what no business school taught about and thus one has to learn it in factual situations either with experience or with experiments only which is time and funds consuming and some times these experiments leads to disastrous.

Being in corporate for 25 years and my last tenure as Vice President (Marketing Operations) with Metro Tyres Limited, I always wanted to nurture my learning more interactive with industry. Thanks to Aligarh Muslim University for their endeavor to promote more of industry-interactive research. This will not only open the gates for corporate executives in field of academics; but also provide platform for industry to have academician base consultancy.

Any study is not relevant unless it has some practical use. India which is traveling on turbulent time-path of world economy has to play a great role across a globe. There are certain non-operating assets, threat for the closure of industrial units either due to fierce competition or because of global recession. There are some heals which time treats them; but industrial sickness is such a wound that leaves its after affects on economy, on community as well for years together. These are such ailments which can not be treated just leaving it on time; it has to be handled delicately, thoughtfully and with experienced and learned individuals.

Truth is that India after independence remained 45 years under protected economy; sudden opening of liberal attitude of Government put forth challenges to Indian corporate entities. A more comparative global economy developed, Indian companies were caught off guard as market share and share prices began to drop. They decided either to wind up or to merge with stronger global firm. Some time strategy would be to cut costs and therefore cut staff. Massive layoffs, restructuring, downsizing, rightsizing and outsourcing were the order of the day. The social contract were broken, what followed, and still plagues us today, is nothing less than a 'psychological recession', this phenomenon has not only seriously affected the underlying mental state of India's workers, but the bottom line success of every organization.

This is also another side of the research fact that all the loss making units (taken into case study) could able to turnaround and withstand with the time. As there is new light of hope, new morning after a lapse of every dark troublesome night, the financial losses are also not the end, it is new beginning. It gets us prepared, strengthen once again to fight more vigorously, it leverages a lesson to combat with the odds. History is testimony to the fact that Japan got built and withstood with flying colors only after atomic bombardment on them. South Korea could able to emerge as affluent country after passing through deep economic crisis.

We Indians have still better circumstances, better pool of talents, scholars, visionary leaders, knowledgeable and aggressive business houses and last but not the least pro-business approach of Government; but let us learn with our experiences, share the turnaround strategies adopted by our companies and that is what we have tried to put forth in our this research studies.

Though we have selected 10 major Indian industrial conglomerates; but question is whether all is well? Whether rests of our industries are protected? Do they have not to face the same consequences? Perhaps it is very difficult to give any affirmative reply, thus this thesis is an attempt to explore the mind set of corporate executives, invigorate their thinking process to counter the current prevailing business economic situations. It is an exertion to provide a serious view and introspection by financial institutions, Government and corporate houses to dig out the alternatives to keep industrial units on profitable path and keep the resources intact. This research paper provides new dimension to academicians and students of management too.

Date: 15th Feb 2010

Aligarh

AMIT SETH

Acknowledgements

First of all, I would like to extend my gratitude to All India Management Association (AIMA), New Delhi and Aligarh Muslim University (AMU), Faculty of Management Studies and Research, Department of Business Administration for the opportunity extended to the corporate professionals like us to enrich our learning, to enable us to contribute to society being part of learned group of academicians.

I am indebted to my internal guide Professor (Dr.) Javaid Akhter, currently the Dean, FMSR, Department of Business Administration, A.M.U., Aligarh, for his guidance and supervision. I have great respect for him; he is an open mind person with an attitude always willing to co-operate and stretch out time from his busy schedule to provide us insight and motivation. I do not think I could have able to give this thesis to final shape without his support.

I am thankful to Professor (Dr.) Anand Das Gupta, Indian Institute of Plantation Management, Bangalore, who being my external guide, always willing to support. He remains always a source of encouragement and keeps on extending his helping hand.

My special thanks to Professor Kaleem Mohammad Khan (who is now in Bangladesh) to provide me direction and guidance at initial phase of my research work, I am thankful to Professor (Dr.) Mr. Khalid Azam, Chairman, FMSR, Department of Business Administration, A.M.U., Aligarh for his inspiring research paper which he co-authored with Prof. Kaleem on the same subject of 'Turnaround', which facilitated my more interest on the topic and because of his kind co-operation, my endeavor resulted to submit my this Ph. D thesis.

Last but not the least; let me convey my gratitude and heartfelt thanks to all the companies' executives (Respondent to my questionnaire) who spared their precious time for an interview and filling up the information desired for research purpose. I shall always be indebted to all these senior corporate dignitaries for their generous behavior and ready to part the facts of their company's turnaround strategies.

Date: 15th Feb 2010

Aligarh

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A Study of Turnaround Strategies

of Indian Corporate Sector

-An Analysis of Selected Companies

1.1 Introduction:

India is on fast move to liberalization, borderless economy, employment generation, foreign investment, open technology transfer paves the way to give industrial Sector, The high priority it deserves.

At the same time, lots of existing industries are not able to cope up with fast dynamic changes taking place in the economic environment. Lot of Corporate entities are finding it difficult to match the pace of competition.

Crisis, chaos, Uncertainty and dilemma are there. The weaker players will either close down or be forced to merge with others to survive. This situation of rampant industrial sickness is not only alarming to Indian Economy; but also adversely effecting and creating mental trauma to entrepreneurs, managers, employees and their families.

This is right time to introspect our strength and weakness, to prepare ourselves and take lessons from the shortcomings, share the thoughts of researchers, learn from the experiences of others and thus taking initiatives and steps to turnaround the sickness and we term this whole activity as 'TURNAROUND MANAGEMENT'.

(Slatter, 1984) defines turnaround as sustainable recovery of sick firm. He says, "Sustainable recovery involves achieving a viable and a desirable business strategy, supported by an adequate organization and control structure."

In a study of 54 American companies (Schendel, Patton and Riggs, 1976) turnaround is defined as a decline and recovery in performance. While Indian author in his book

'Managing Corporate Turnarounds' (R.A.Yadav, 1992) - "Turnaround means a substantial and sustainable positive change in the performance of a unit through determined efforts." To put it in simple words, it implies producing a noticeable and durable improvement in performance from down to up, from no good enough to better, from unsatisfactory performance to acceptable and from loosing to achieving."

Eminent Indian turnaround expert (Pradip N Khandwalla, 2001) in his book 'Turnaround Excellence remarks "A turnaround is a process, a happening spread over many moons, full of passion and drama, tragedy and triumph. But it is also a structure, architecture of management actions which hang together in distinctive edifices." In another study (Khandwalla, 1989) writes, "A full turnaround would be situation where the profitability has approached industry levels and has stabilized at least at these levels".

In an era, whereby world economy is on doldrums, economic boundaries are dismantled, technological innovations are shaking the very basic foundation of old established industries. It is not only the matter of concern of worldwide corporate to find out the solutions for their survival; but it is equally important for Indian corporate houses as well to find out the avenues to remain in existence in such a cut-throat competition from all across with major global players also.

It is often said that India is an emerging global-power; but whether we can sustain our presence in longer run? Do we have to introspect? Should we learn with others experiences and take ratify measures? It is a high time to get cautioned and learn from our mistakes, so that it may not occur again.

Illness in any industry is a curse on our society. It is not only the national wealth loss; but it also brings low morale, unemployment which in turns deteriorates law and order position as well. Considering all these facts, it was thought to take the research paper on the issue of 'turnaround management'. Then it was thought appropriate to select some Indian corporate-houses case studies so as to evolve the basic facts for more useful and significant research studies.

Before proceeding a head let us look into the basic background as why these 'turnaround'-management' studies are required in current status of scenario.

1.2 Back Ground:

India is on path of development, economic barrios are been dismantled. Fast in-flow of technology, finances and superior products with least prices has become order of the day.

For Indian industries, it is matter of challenge, either to give up or to stand and face challenges of fierce competition thrown upon them because of liberalization and opening up of economy.

As the time passing, Indian industries or even big conglomerate finding it difficult to sustain in these circumstances. It is evident with this fact that the ten cases that we undertook for the studies are from the most prominent and prestigious organizations in their respected field; but they even cannot withstand against the blow of competition in the era of globalization.

Let there be no further setback to Indian industries. Let other companies take lessons from these 10 cases and put their sleeves up to act upon before it is too late. No doubt that one can take appropriate actions in case they find their firm in turmoil; but whether we have that much time to experiment, can we afford to leave the situation on time? No we can't afford to do that, it will be national loss and that is why it was thought appropriate to evolve best turnaround strategies.

1.21 Sick units are wealth destroyer

Economic growth of any county depends upon few indicators, Industrial stability, its soundness and profitability. At one end few industries are wealth creator with their continuous profitable path, on the other hand sick firms are wealth destroyer.

For well being of any nation and its society, It is important to keep check on Industrial performance, Action should be initiated to check the losses, Restructure the business operations before it becomes another wealth destroyer. If company puts proper attention towards wealth creation, it bounds to achieve economic growth and prosperity.

For every rupee of capital employed in year 2001, Our 500 Indian firms created only 16 paisa of wealth in comparison to USA, Who in contrast created five times more wealth. The decline of wealth is due to the fact that our most of the capital employed in hands of wealth destroyer. They destroy 30 paisa in year 2001, for each rupee of capital employed. (Business Today, 17th February 2002)

1.22 Protected markets

The problem of industrial sickness in India has not emerged recently. Protected market structure and policies of high tariffs, quantity restrictions on imports, price regulation on inputs and barriers to domestic have contributed to cost inefficiencies and industrial sickness.

After liberalization, when protected barriers for the Indian industry started getting dismantled, restriction on imports of technology were withdrawn, quantitative restrictions on imports were also lifted. Even some of the best of so-called professionals managed companies found themselves on cross road and on path of losses.

When the organization flourishes, every individual flourishes whether employee, employer, suppliers, investors or society at large; but when industry declines the blames are always are put on employees and their management and they get suffered most in this process. In next segment we will analyze how these sick units' affects our social arena around and put forth the morale down of the masses engaged with it.

1.3 The Problem

1.31 Social Dimension:

Industrial sickness brings huge suffering for workers, they have to make sacrifices in form of non-payment of wages/ bonus, postponement of increments, modifications of service conditions, lay offs, retrenchments and lock outs.

Unemployment also increases theft, downfall in morale, decline in law and order situation, these are the other social dimensions of industrial sickness.

In the Indian context, whereby there is huge workforce available, it is not always easy to opt for retrenchment policies. Proper deployment of human resource in productive manner, to find out avenues for labour well being, Their education and for their living standard are some of the major aspects, which any management is suppose to take care of it, in the process of turnaround.

1.32 Blocked mindset:

In an organization that is on the verge of downfall, managers stop managing. It is often found that instead of finding out the solutions, most of the workforce/managers get involved in passing the bucks on others shoulders. Blaming and finding the faults on other working become the routine affair.

Managers start cursing the market and environmental conditions rather than finding out the avenues. Thus sickness not only creates a problem of economic downturn; but also reduces the morale and blocks the mindset.

1.33 Dampen the spirit of entrepreneurship:

Closure of any industrial unit brings mental trauma for everyone whether entrepreneurs, managers/employees and for their families.

In a statement (produced by Board for Industrial & Financial Reconstruction as on 31.12.2004), It is evident from year 1987 to 2004, in total 18 years, total 5147 units were reported for rehabilitation, Among that only 436 institutions got revived.

Table: 1.1 BIFR Year Wise Performance (As on 31.12.2004)

Year	*Cases registered*	***Cases Disposed Off in year***				*Bench Month*
		under revival	*Revived*	*Winding up reminded*	*Dismissed*	
1987	311	0	0	0	8	24
1988	298	0	1	12	29	36
1989	202	0	1	31	78	42
1990	151	3	3	43	44	48
1991	155	3	4	47	28	42
1992	177	3	7	30	42	36
1993	152	6	13	64	59	36
1994	193	7	38	79	48	45
1995	115	13	25	63	29	48
1996	97	19	92	85	25	38
1997	233	5	35	85	25	38
1998	370	7	21	50	36	11
1999	413	7	10	64	69	27
2000	429	5	37	151	153	36
2001	463	28	47	129	114	36
2002	559	52	33	135	247	36
2003	430	54	40	145	360	36
2004	399	47	29	89	87	16
TOTAL	**5147**	**259**	**436**	**1302**	**1377**	**618**

Thus such a huge numbers of sick Industries and such statistics dampen the spirit of entrepreneurship.

1.34 Locking up Financial Recourses:

In a country like India, whereby most of our population still remains below the poverty line. Rs. 1,29,143.51 crores were the sum of accumulated losses reported in 5147 cases of sick units registered under BIFR by 2004.

Life of 8,45,070 workers and their families got effected due to these sick units (Reference-BIFR Statement AS ON 31.12.2004).

Table: 1.2 CUMULATIVE DETAILS OF REGISTERED CASES (INDUSTRYWISE) AS ON 31.12.2004

S.No	Industry	Total Cases	Networth Rs. in Crores	Accumulated losses	Workers
1.	Textiles	957	8846.03	19065.18	661967
2.	Metallurgical	847	13128.21	26953.77	225624
3.	Paper & Pulp	285	1396.70	2441.23	69494
4.	Chemicals	367	4995.01	8824.38	72271
5.	Engineering	16	196.23	1048.79	36999
6.	Electrical equipment	232	3540.39	7169.25	67782
7.	Cement and Gypsum	83	1966.37	2811.64	26212
8.	Vegetable Oils &	269	1736.72	4871.53	36652
9.	Electronics	82	547.96	1028.82	13921
10.	Food Processing	231	1877.44	2850.91	59133
11.	Drugs	176	3002.94	6743.35	37524
12.	Transport	79	732.71	1497.31	38533

S.No.	Industry	Total Cases	Net worth Rs. in Crores	Accumulated losses	Workers
13.	Jute	53	124.54	878.34	149924
14.	Glass & Ceramics	109	980.35	3745.36	41427
15.	Sugar	54	808.33	1163.29	38559
16.	Rubber Goods	87	557.78	1024.72	15216
17.	Leather & Leather	56	983.06	1752.76	12051
18.	Fertilizers	47	3292.78	8484.40	20862
19.	Timber Products	20	61.72	161.13	4008
20.	Miscellaneous	1097	16789.93	26627.35	845070
	Total	5147	65565.20	129143.51	

Source: Statement produced by BIFR as on 31.12.2004

1.4 Justification:

Uncertainty requires a new way of thinking about Strategy. It is also true that there is no fix formula for Turnaround. Every company has their own complex problems, different types of internal and external environments and varied opportunity and threats; it is thereby also true that one strategic option adopted by one company may not suit to the other organization.

The continuation of our Indian Economic journey will depend on how well we utilize our resources and safeguard our industries to be another wealth destroyer.

There is no doubt that India is emerging as preferred destination for foreign investors. FII inflows have reached a new height by crossing the $ 10 billion mark in 2005. India is considered as one of the fastest growing economies of the world; but at the same time our infrastructure deficit is gigantic. India's Prime Minister Manmohan Singh has gone on the records that the country needs to spend $150 billion over the next 10 years to get its infrastructure up to acceptable level. About 150 million Indian households do not have electricity. Some 100 millions families live without water at home.

Can we afford to live such a luxury of 5147 sick units and unemployment of 845070 workers with Rs.129143.51 Crores losses? To initiate the process of turnaround is a challenging assignment. It requires total change of mind set. This study of turnaround provides justification to control the checks on industry performance and to avoid the drainage of economic resources.

There is no institute which will tell how to turnaround the organization, Company realizes to horn-up their activities before it is too late, There is no topic of 'Turnaround – Management' covered by any Management Institution nor it is there in academic-curriculum. Most of CEO and managers find themselves in dilemma to face such eventuality of sickness. Even for most successful business organization, a phase comes whereby they have to face turbulent environment, stagnation and decline in business.

Turnaround situation should be taken as entrepreneurial challenge rather than obsession of failure and end of the path. It is a time when any Mangers skills are put on for the test. Most of the companies in their life span come across with such turnaround situations. Whether they recover, continue to decline or go into being wealth destroyer depends on their management and its turnaround strategies.

(Pradip N Khandwalla, 2001) Turnaround Management has a special relevance in the twenty-first century. The globe is fast becoming single, seamless market place, full of opportunities but also full of traps and pitfalls. Corporate sickness is likely to mushroom in this hyper-competitive, hyper-turbulent environment. Many organizations, possibly most, will lose out at some time or the other. Should they be allowed to die, thus causing large social, financial and human losses?

(Srivastava and Yadav, 1986) A developing country like India experiencing shortage of several products, constraints of resources and mounting unemployment can ill-afford the growing incidence of industrial sickness as the common effects of sickness are locking up of financial resources, wastage of capital assets, loss of production, decrease in employment and massive industrial unrest. No doubt, a large number of measures have been initiated at the macro level by the government, Reserve bank of India, Commercial banks and financial institutions for the revival of sick industrial units as well as to prevent the increasing incidence of industrial sickness.

However, the preventive measures and revival programmes initiated by the government, financial agencies have not made much dent. The increasing trend of sickness both in large and small-scale industrial units is nowhere in control despite policies and actions initiated at various levels. It has become a national problem requiring a comprehensive redress rather than inventing quick fixes to stem industrial sickness and to revive sick units. Hence, a coherent framework consisting of the dynamics of corporate sickness, forewarning system and effective turnaround strategies are required to initiate timely actions to stem the number of sick industrial units multiplying, rehabilitate the viable sick units and decide about the fate of non-viable sick units.

All the attempts of turnaround may not be fruitful, but by analyzing successful turnaround cases and their process/method, at least we can evolve suitable ways and probably right turning around strategies.

When it is been thought to select Indian Corporate Cases of turnaround, it was obvious to have samples from each cases from particular industrial domain varying from Service sector to Goods industries, from Heavy Industries to Light engineering, from Textile to Steel Industry, Chemical industry to Fast-moving-consumer industry, Consumer Durables to Industrial Products and Electronics industry to Banking/Financial Institutions.

While selecting the particular industry, it was also thought to take cognizance of the fact that only large, gigantic, famous and prestigious company cases should be taken for studies, as the basic purpose of research is to evaluate the reasons of sickness and strategies adopted for turnaround of well to do companies at one time but went on to losses later.

The cases of only those companies are been selected whereby company is enjoying highest market share of respective trade/industry and been considered as one of the most respected companies of Indian Corporate sector.

In case small or medium scale industry would have been picked up for studies; there would have been chances of apprehensions that small units are bound to get sick because of the threats from big players, because of low volume of business, because of lack of sufficient funds etc.

To zero down any chances/apprehensions and to provide doubt free research output, It was also thought to select cases from Public Sector units, Public Limited Company as well as from Joint venture firms having partnership of Private Sector with Government organization.

Random selection of the cases from industries of varied nature, Stature and structure justifies the sampling undertaken.

Since samples chosen takes care of heterogeneous nature of different industry, thus to evaluate all the factors of sickness and strategies, it was thought better to take 10 cases only, so that elaborate in-depth analysis can be undertaken.

There may be obvious question 'Why only ten cases? Why not five or twenty cases been selected?' Since the 10 cases represent best combination of the Indian Corporate industry. Each chosen case is a mirror of the particular industry it belongs; Particular case of industry reflects its environment, its strength and weaknesses, its threats and opportunities which are faced by them in their respective trade.

Thus number of ten cases justifies the true picture of entire Indian Corporate Sector. In nutshell, these ten cases itself satisfy the quench of all the answers of requisite research requirements and its validity and it is sincere endeavor to fetch realistic conclusion from the research studies undertaken.

Why such conglomerate fails? What are reasons behind? And how they have overcome in these situations? What strategies they adopted for turnaround. These are some of the basic questions for which not only any entrepreneur or manager will like to get equipped; but this research paper will serve as guidelines and may caution them to avoid any eventualities in their future business.

We have selected case studies of these ten reputed institutions so as to convey that if it may happen with them, it may happen with anyone else also. Go and get up before it is too late. Our thesis of turnaround is an attempt to keep check on wealth destroyer companies, to help them reviving and thus contributing in some way to Indian economy and society at large in this era of turbulent and fast changing business scenario. This research study thus justifies the efforts and the subject –'Turnaround Management' that is quite relevant and being the need of the hour.

1.5 Research Objectives:

1.51 Research Scope

The scope of this research study is to find out strategies undertaken by some of the Indian companies to overcome their bad performances by stopping the downturn and bring back situation to become profitable by turning around. It will provide a way to identify as how to turnaround sick business enterprise?

Our efforts are to provide practical approach based on empirical research and experience. It's drawn from many Indian cases and actual examples.

Evaluation of suitable Turnaround Strategy is not mere a thesis report. It has relevance to current economic scenario and will be step-by-step guide for the managers, entrepreneurs and for the Financial and Re-habilitation Institutes.

Market conditions are fast changing and thus the economic conditions and our life style, habits and our civilizations, Fast emerging competition, Introduction of new product, new technologies, and foreign investments has put on challenge for old industries?

1.52 Research Rational

What should be ideal Strategies? How one can survive in this modern complex and competitive world? This requires an in-depth analysis. Opportunities are enormous; but what is required an assessment and overcoming of internal weakness.

This research paper provides the new insights into why any industry fails do and what should be successful Turnaround Strategy, Any sick company should adopt?

Lot many books are written on 'Turnaround' subject by many authors, Turnaround consultants. Every one suggests different solutions and strategies for this process of turnaround.

There are many ways, many solutions; but our analysis through this research paper would evaluate the most common route / link adopted by successful Industries for their successful turnarounds.

Diagnose the sickness; before it is too late and preventive measure if taken at right time, turnaround of any ill industry can be possible.

Stepwise systematic study helps in identifying right strategic and tactical choice to turnaround the industrial sickness, here the attempts are been made to minimize the management jargons words, It has been put forth in a simple and easy manner so that it should be useful and understandable to present generation of entrepreneur, industrialist and managers.

Turnaround Process provides basis for Internal-Introspection and External-Environment-Analysis under the threats and opportunities of the organization

Appendices 1.1: Internal –Introspection and External-Environment-Analysis

Internal Appraisal

	Assessment of Strengths/Weakness	Techniques for Analysis
Marketing	Market Growth, Market Share, Competitor Share, Production Capacity, Life Cycle Stage, Customer Perception, Profitability, Prices & Margins, Marketing Capabilities	Marketing Audits, Market Share Analysis, Price-Volume Relationship, Cost Analysis, Profit Analysis, Sales Force Productivity, Consumer Satisfaction Index, Brand Monitoring Surveys.
Finance	Profitability, Cost, Debt Ratio, Ability to meet liabilities, return On Investment, Capital Cost, Cash Flow, Control & Checks, Tax Administration, Financial Management.	Ratio Analysis, Cash Flow Analysis, Payback, Return on Capital Employed, Break Even Analysis, Earning per share

	Assessment of Strengths/Weakness	Techniques for Analysis
Manufacturing/ Operations	Facilities, Skills, Quality of Management, and Manpower, , Operating Efficiency, Industrial Engineering Capability, Value Engineering	Capacity Utilization, Inventory Analysis, Cost of Production Analysis
R&D	Resource Allocation, New Products Developments, Quality, Expertise and Experience of personnel, Marketing – Oriented Approach,	Analysis of Patent Generated, New Product Commercialization record, Comparison of R&D investments v/s successful new product launches.
HRD	Commitment of the firm towards HRD, Resource Allocation for the purpose, Personnel Quality, Knowledge, Expertise, Experience, Health of the Organizational Climate/ Structure/ System	HRD Audit, Personnel Turnover Analysis, Employees morale surveys etc.
Corporate Factors/ Resources	Quality of the firm, Top Management Performance Record, Top Management's Chief Characteristics, Resources Availability, Its Allocation and Utilization, Organizational style whether traditional/rigid or modern/flexible. Top Management future-oriented approach/profitability approach, Executive Turnover rate	

External Environment Analysis

↓

Macro Environment Factor	**Micro Environment Factor**
Industry	Technology
Customer	Demographic
Competition	Socio-Cultural
Suppliers	Economic
	Political
	Legal
	Governmental Policies

1.53 Research Issues/Statement of Problems:

We will try to sort following problems through this research Paper:

1. Type of the sickness industry faces?
2. Sickness Analysis – which type of the ailment creating sickness? Among the most common disease which one among following is causing sickness:
    - Poor Management
    - Financial Indiscipline
    - Lack of market driven approach
    - High Cost
    - Over expansion/Big Projects
    - Over trading/Adverse product demand
    - Technical/Product failure
    - Labour Trouble
    - Lack of resources
    - Environmental factors
    - Other reasons
3. Which Type of Turnaround Strategy adopted?
    - The Customer approach
    - The Financial restructuring
    - The Process
    - Manpower restructuring
    - Other (If any)
4. Analysis of Vision Statement of the company

5. Introspection of major constituent of Turnover Strategy.
6. Leadership style of Turnaround Manager
7. Approach adopted for the process of turnaround:
   - (i) Market aspect/Customer approach
   - (ii) Finance aspect/Financial restructuring
   - (iii) Technical aspects/The Process
   - (iv) H.R. Aspects/Manpower restructuring

1.6 Process of Research Appendices 1.2: Research Process flow chart

To get into the depth analysis, we adopted following process:

To diagnose the sickness

↓

Intensity of the sickness

↓

Reasons for particular sickness

↓

Which focus areas adopted as turnaround strategies?

↓

Among People, Product, Profit and Customer, which were the major constituents for turnaround?

↓

Vision and Mission of the turnaround companies

↓

To analyze the compiled statistics and to ascertain following facts:

1. Why does any commercial organization fall sick?
2. How to diagnose and predict sickness?
3. Measures to be undertaken to turnaround?
4. What are the turnaround strategies been adopted in common by most of the companies?
5. What are the most common focus areas of turnaround strateqies?

↓

Statistical compilation for each of the above stages (In context to ten case studies being take up)

↓

Conclusion and suggestion by researcher

Literature Review

Lot of books, papers, and research topics are written on 'Turn around' aspect. We are hereby reviewing some of the literature published of some of the International as well as Indian prominent authors.

The title of literature, we intend to introspect may not have 'Turnaround' word but basic theme and essence will be to find out strategies at the time of trouble, sickness, uncertainty and in crisis:

2.1 Concept of turnaround

(Pradeep Khandwala, 2001) in his book 'Turnaround Excellence' defined the Turnaround aspect "Turnaround is recovery to profitability from a loss situation. To guard against transient or even fake turnarounds, a turnaround was successful if the company was profitable for at least two years after at least one year of losses. And the net profit had to be at least 2 percent of total revenues in at least one of these two years."

(R.A.Yadav, 1992) The word 'turnaround" has been gaining significance in the world of business in the context of increasing phenomenon of business failure, Turnaround means a substantial and sustainable positive change in the performance of a unit through determined efforts. To put it in simple words, it implies producing a noticeable and durable improvement in performance from down to up, from not good enough to better, from unsatisfactory performance to acceptable and from losing to achieving. It is an attempt to revitalize an enterprise whose performance both in financial and non-financial terms is below the level projected or which stands out of line with the general run of the business in the same industry group.

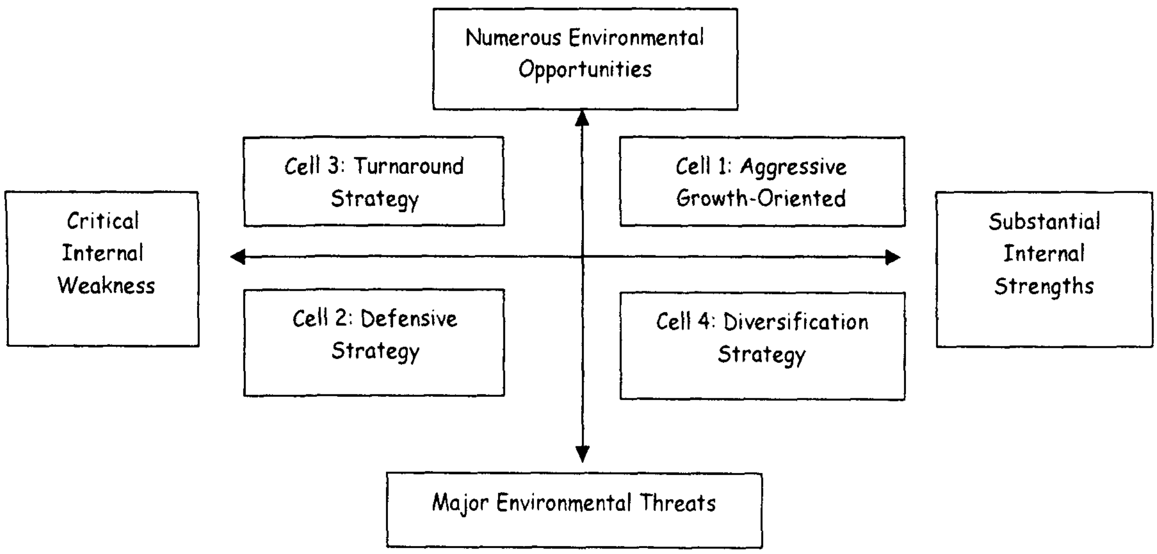
(Slatter, 1984) defines turnaround as sustainable recovery of sick firm. He explains, "Sustainable recovery involves achieving a viable and desirable business strategy, supported by an adequate organization and control structure."

In a study of 54 American companies (Schendel, Patton and Riggs, 1997, p.3) turnaround is defined as decline and recovery in performance. It refers to a four years of increase in income relative to Gross National Product (GNP), following a four years of decline in income relative to GNP with two years stabilization period between the downturn and upturn phases.

(Schendel, Patton and Riggs, 1971) studied the turnarounds of 54, mostly large US firms during the 1952 –1971 period. They identified eight different classes of turnaround actions, with sub-categories for several of them. A most frequently used category was organization and management changes. Others reflected an external orientation: marketing program changes, product diversification and geographic diversification. The most commonly used sub-categories were general management changes, new products and R&D, acquisitions, diversifications abroad, new plant construction, and internal product development.

(Study Material of AIMA, 2002) on Strategic Management put forth the circumstances in which Turnaround Strategy is implemented:

Appendics 2.1: Circumstances in turnaround strategy



There are four cells in the diagram, of which Cell: 1 may be said to represent the most favorable situation with numerous environmental opportunities and substantial internal strengths, Aggressive growth-oriented strategies are indicated in this type of situation. On the other hand, the situation represented by Cell: 2 the most unfavorable one call for strategies involving withdrawal or reduced operation in the product-markets. The least favorable situation is obvious in Cell 2 with major environmental threats and critical internal weakness indicating defensive strategies. Chrysler's turnaround under the leadership of Lee Iaococca in the early 1980's from the verge of bankruptcy is typical of a successful strategy developed on the basis of SWOT analysis revealing major external threats and critical weakness of the Chrysler Corporation.

Cell 4: Represent a mixed situation with substantial internal strengths combined with major environmental threats. Diversification strategies are indicated for this type of situation involving the use of current strengths to exploit long-term opportunities in other product-markets. A mixed situation of another kind is represented by Cell 3: A firm facing this situation has environmental opportunities but constraints of severe internal weakness do not permit immediate gains to be derived from the opportunities. A two-fold strategy is thus indicated-eliminating the weakness along with more effective pursuit of market opportunities.

Different researchers have put forth their views about 'Turnaround Management' concept; our point of view is that 'Turnaround' is a status whereby effective management skills are deployed in loss making concern to revamp its balance sheet into profits. The process to convert losses into profits can be termed as 'Turnaround Management'; but it is only feasible when there are opportunities available to grow, compete and prosper either yourself or with some strategic alignment with stronger partner (financially, technologically or Marketing Tie-ups).

Restructuring internal resources to get optimum business/profits have become prime objective: but at the same time audit/inspection/assessment of our internal weaknesses are prime requisite for any turnaround process. There may be chances that because of 'Environmental-opportunities', any company may get certain advantage for short term; but in long run, turnaround is possible only through re-hauling up company's internal resources, infrastructure, various faculties of management varying from Engineering, Administration, H.R., Marketing and Finance and that too from top management to the lowest level of employee in the organization structure of hierarchy.

2.2 Turnaround – International Scenario

Market conditions are very different in international scenario; Things have changed in last 15 years. Every Corporate house is trying for effective and successful strategy development in current scenario of fast changing market place.

- Technologies are copied more frequently.
- 'Customer' is put on as a prime focus in any agenda of transformation.
- Scale plays a pivotal role; but it may not necessarily be always advantage. The global spread has now made it even more difficult for a corporate head quarter to manage the company.
- Borders and boundaries have collapsed-geographically as well as commercially.
- Emergence of low cost competitors, Information technology has brought revolution in the total business scenario.

(Gary Hamel Prahlad) in their book 'Competing for the future gave the insight of international economic scenario:

When a competitiveness problem (stagnant growth, declining margins and falling market share) finally becomes inescapable, most executives pick up the knife and begin the brutal work of restructuring. The goal is to curve away layers of corporate fat jettison under performing business and raise asset productivity. Executives who don't have the stomach for emergency room surgery, like John Akers at IBM or Robert Stempel at GM, soon find themselves out of job.

Masquerading under names like refocusing, de-layering, de-clustering and right-sizing (one is tempted to ask why the "right" size is always smaller) restructuring always has the same result: fewer employees. In 1993, large U.S. firms announced nearly 6,00,000 payoffs – 25% more than had been announced in 1992 and nearly 10% above the level of 1991, which was technically the bottom of the recession in the United States. While European companies had long tried to put off their own day of reckoning, Bloated payrolls and out of control employment costs had, by the early 1990's made downsizing inevitable in Europe as it was in the United States, Some European Companies such as Volkswagen, eager to preserve industrial peace sought to maintain employment levels by reducing the number of hours worked by each employee.

The depressing assumption seemed to be that because there was no hope of raising output, the only solution was to share fewer jobs among more people.

Despite the excuses about global competition and the job-destroying, impact of productivity-enhancing technology, the fact was that most of the employment contraction in large U.S. companies was caused not by foreign competitors intent on "stealing U.S. jobs" but by U.S. Senior managers who had fallen asleep at the switch, for the most part the companies that have been most aggressive in reducing head count won't make it on to anyone's "most admired" list (see table 1-1), these companies tend to be rogue's gallery of under managed or wrongly managed companies.

Table 2.1: Some Companies Reducing Head Count in 1993

Reduced Head Count between 5 and 10%		Reduced Head Count 10% or more	
BASF	8	J.E. Seagram	17
Data General	8	Owens-Lllinois	16
Westing House	7	Monsanto	11
Baeden	6	Union Carbide	13
Dresser	5	IBM	13
Bethlehm Steel	7	Digital	17
General Motors	5	Amejahi	30
Honeywell	6	Kodak	17

Source: "The fortune 500", Fortune 18th April 1994 pp 257-280.

Though many scholars have conveyed their views as mentioned above regarding Turnaround in International perspective; however we feel that in Today's troubled world economy has created a vital need for practical solutions that start at the grass root level.

Virtually all companies across the world are feeling the effect of current economic conditions. Many are already bankrupt.

Global economy is passing through unprecedented times. In a history perhaps we have never recorded such magnitude of crisis and forces that threatens the future of both humanity and planet. Financial meltdown has triggered a global economic crisis and thus unemployment and poverty position is on alarming position.

To overcome the current global crisis that engulf the planet 'Turnaround management' can pull not only companies away from the trial of bankruptcy, but also nation economy can also be turnaround. A crisis is a terrible thing to waste; it exposes mediocrity and tells us where we need to improve. It forces us to take tough decision and eliminate the unnecessary.

What we eliminate in tough times should be something we can do without when business gets better. We have to resist the temptation to add back the things we remove.

2.3 Turnaround in Indian context

Satisfactory Underperformance is pervasive in India (Sumantara Ghoshal,Gita Piramel, Christopher A. Bartlett, 2000) In the room were about thirty-five managers from different Indian companies, belonging to both the private and the public sectors . Some were from multinational subsidiaries. All of them occupied very senior positions, including three who were CEOs. A number of them represented organizations that are household names in the country.

'How satisfied do you feel with your company's performance over the last three years?' we asked them. We focused on the word 'satisfied', to rap into their hones feelings. We put up a simple five-point scale, in which 1 represented 'complete satisfaction' and 5 indicated 'total satisfaction'. Total satisfaction does not mean that everything is perfect and all that needed to be done has been done.' We explained.' All it means is that company is dealing with the right issues and making progress in the right direction at the right speed.' Complete dissatisfaction stood for the opposite. We asked all the managers to pick their satisfaction scores-not for the part of the company they worked for, but for the overall company.

The response followed a predictable near-normal distribution with a skew to the right. Twenty-one managers gave their companies a 3, there were nine 4s, and five2s, No one rated his or her company either 1 or 5.

'Now', we asked them, 'what do 3 mean for you? After all, if 5 is excellent and 1 is abysmal, 3 lies somewhere in the middle-sort of OK performance. What is Ok? We put up a blank chart, with return on capital employed (ROCE) on the horizontal axis, and annual revenue growth on the other. What was 'OK' for each of these two key performance parameters?

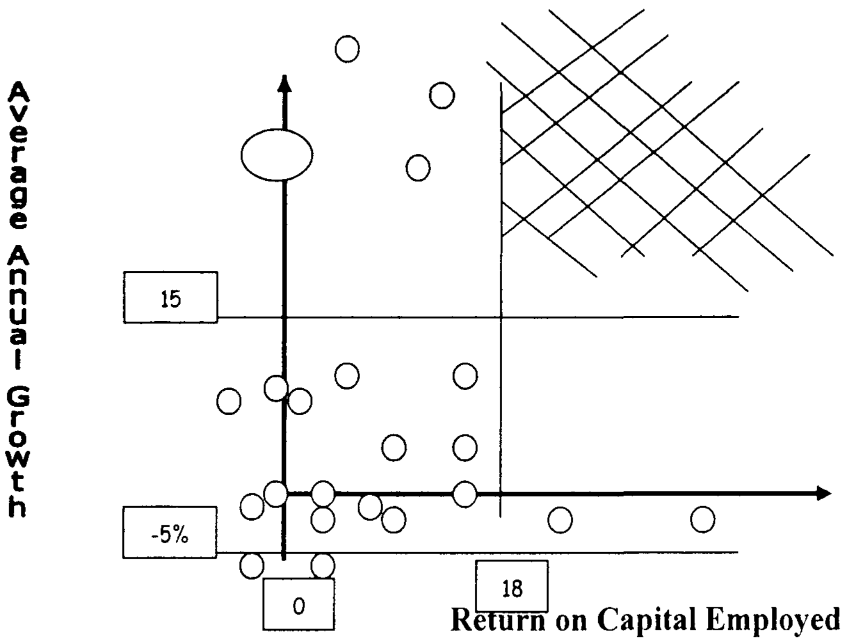
The first remarkable discovery was that most of the managers had no clue about their company's ROCE. They knew about their annual profits, but not about their annual profits, but not about either the asset base or the capital employed. These were senior level managers-typically among the top ten people in their company-and they had no knowledge about their company's ROCE! In fact many had not confronted the term earlier.

Once we got past explaining what ROCE meant, we could get back on track: what was 'OK' ROCE in their minds? With weighted average cost of capital (WACC) varying from 15 percent to 21 percent, the different participants suggested numbers between 18 and 30 percent. Eighteen was the minimum- anything below that would not be 'OK', they felt.

Then we turned to growth: what average rate of annual growth was OK? We emphasized that what we are seeking was their emotional response, not just intellectual one. 'What growth rate makes you personally feel OK- not great, not lousy, but acceptable?

Influenced by the specifics of their own industries, the different managers came up with different numbers-for some in IT based industries, for example, 40 percent growth was OK; for others, it was 15 to 20 per cent. Once again, 15 per cent was the lowest number-anything below that wouldn't do.

We then put up a chart showing the performance of the companies represented in the room- we had worked it out ahead of time (see figure). We drew thick black lines at 18 percent for ROCE, and at 15 percent for growth. Then we shaded the top right-hand box-where performance exceeded the minimum acceptable level for both of these parameters. Anything outside of this box was not OK; according to the participants' own definition of acceptable performance. There was not a single company in the room whose performance could find a place in that top right-hand box. Not one! There were a few who had grown rapidly, but their returns were relatively poor. There were others whose returns were acceptable, but not growth. And, for a vast majority of companies represented in the room, both growth and returns were below acceptable minimum.



Graph 2.1: ROCE v/s Average Annual

The point is simple. While all the thirty-five managers loudly claimed that their companies needed to change, and change quite radically, to respond to the changing economic and competitive situation in India, deep in their hearts none of them felt the urgency they were professing. Without that urgency they were professing. Without that urgency in their hearts and without their own belief about the possibility of radical change-of radical performance improvement-no one in their organizations was likely to develop that sense of urgency or that belief. People do not listen to what their senior managers say they look into the eyes of the managers too see the conviction and passion that lie behind the words. Without the energy of their own convictions, what chance did those managers have of leading change in their organizations?

The problem of industrial sickness has become a worldwide Phenomenon. In the U.K. over 10,000 units are estimated to fail each year and, one out of five firms listed on the stock exchange turns sick (Slatter, 1984) and of these only one in four manages a successful turnaround. During the decade, 1967-76,one in four companies listed on the U.S Stock exchanges had turned sick and only one-third of them got recovered (Bibeault, 1982), West Germany, once acclaimed the locomotive economy of Europe, alone reported over 12000 bankruptcies in 1982 (The Economic Times, February 10, 1986).

(R.A Yadav, 1992) The death toll of industries in developing countries like India has been more alarming, Banks once the citadels of commercial credit, have now become the intensive care centers for critically and terminally sick industrial units.

In India, growing phenomenon of industrial sickness has been one of the persisting problems, Industrial sickness, with in large and small scale industry, has assumed serious dimensions in recent years. It has affected industries of all types, sizes and in all regions of the country. Substantial amount of loan able funds of the bank and financial institutions are locked up in the sick industrial units, causing not only wastage of resources but also affecting the healthy growth of the economy. It is matter of grave concern for banks and financial institutions because of its far-reaching implications for the entire economy and the industrial sector in particular.

(Pradip N. Khandwalla, 2001) Many companies, large and small, fall by the wayside by the thousands every year. One estimate is that in the US one in four companies listed in

US stock exchanges turned sick during the decade 1967-76,and only a third of those that fell sick recovered. In India during the 1980s, the number of sick units grew some ten times, from around 22,500 at the end of the 1970s to over 200,000 ten years later. Several financial institutions were facing grave illness because the monies they had lent to these companies were practically irrecoverable. Should we let sick companies die and should society suffer the consequences? We do treat sick humans, and many do recover. Should we not also treat sick companies and help them recover?

(Pradip Chanda, 2000) The 'liberalization' of the Indian economy, that includes making the rupee convertible for revenue expenditure such as technology fees, royalty and import of capital goods and raw materials, lowering of import duties, and removing restrictions on imports and exports, and allowing part or full ownership of business (this was withdrawn in 1974-75), gained some serious momentum in the mid-nineties. The resultant sudden availability of international quality goods has imposed on Indian business houses the urgent need to become globally competitive. As India faces the new millennium as a player in an integrated world economy, its industries need to address the challenges posed by diminishing cross-border restrictions on the movement of capital and technology.

Appendices 2.2: Pre-Liberalization v/s Post-Liberalization

	Pre-liberalization	Post-liberalization
1.	Compulsory license from Govt. for setting up any industry	Licensing abolished in all industries, Except alcohol, cigarettes, pharmacy, and defense equipment
2.	Restriction on foreign ownership	Automatic approval for 51% foreign equity in most industries
3.	Restriction on capacity expansion	Removal of such restrictions.
4.	High import and excise duties.	Import duties in line with SA countries.
5.	Controls on imports	Free imports
6.	Restriction on raising funds from the market.	Companies free to tap capital.
7.	High personal taxes.	Tax rates slashed
8.	Restriction on downsizing/ closure	No change

Indian business, having operated for 50 years in a highly-regulated economy, that protected them not only from international competition but also from domestic competition, as a result of controls on capacities well below market needs, that created seller's markets, are digesting the new realities.

The Indian business have correctly diagnosed obsolete technology, over-manning and low per-capita productivity as the prime causes restricting Indian companies from achieving international quality and cost output. Now that other constraints on becoming globally competitive have been removed, Indian business houses are making strident demands for an exit policy, which is being projected as an essential element of business restructuring.

This is a paradox. For long any business or company in India, once incorporated, was anointed with permanence. Exiting failed enterprises is neither a social nor a political heritage in India. Since 1947, when India became independent, the stress has been on continuance at any cost, be it a private enterprise or a state-run public sector unit. Reconstruction banks, financial institutes and various State Industrial Development Corporations have been set up from time to time to extend support, often without justifiable cause, to prevent closures. Providing continuing employment has overridden any other consideration. The resultant maze of laws against any logical rationalization of business units or manpower, have left most industrialist wounded in battle, a situation well exploited by trade unions.

(P.K. Matoo, 1998) Indian Corporate entities particularly those concerned with economic activities, after having operated in a totally protected environment for decades at end, are finding themselves ruthless pushed into background by their far more sophisticated and far more resourceful multinational competitors. Many well established Indian brand names have almost been pushed out of the directory of locally available products. Many others are on their way out................. Corporate decision makers and management experts from newly globalizing countries including India will have to shed all inhibitions about the so-called weakness of corporate managements of their own countries, to identify the strong points of their management systems, to study how their pioneers established their presence even in restrictive environment of yester years and to develop schools of management thought which can reflect the realities of life and living in their countries and provide the best solutions for moving forward in a highly competitive if not a heartless world.

(Peters T, 1992) in his book, 'Liberation Management' writes - India has the capacity to directly leap into the 21^{st} century instead of going through all the evolutionary steps of the past decades. Indian industry boasts of a many a competent CEO, but only a handful of them have earned the status of being leaders of management thought. Good services and good products are not enough to keep a corporation going. Creativity innovations and leadership are needed in ample measure to maintain progress and growth. There has to be some movement towards empowerment of people and end of hierarchical organizations.

(Mr. Ranjan Das and Mr. Udayan Kumar Basu, 2004) in their book 'Corporate Restructuring' convey- With liberalization and opening up of the Indian Economy since the middle of 1991, Indian corporate sector felt the need to reposition itself quickly in order to effectively respond to emerging competition and also exploit the opportunities that were expected to unfold in the coming years. Repositioning became a critical necessity since most Indian companies flourished till that time under a protectionist umbrella and got used to business models that were hopelessly out of tune with the requirements of an intensely scenario. Some of the glaring inadequacies were in relation to-lack of customer focus, diversified portfolio, unprofitable product lines, outdated technologies, uneconomic capacities, poor productivity, and efficiency in asset utilization, slow and unwieldy business processes, over manning, huge overheads, high gearing etc. Fortunately, a consensus soon emerged among corporate, chamber of commerce, consultants, and academicians, that Indian companies will need to reposition themselves very quickly through series of well planned corporate restructuring initiatives that would help overcome not only the weakness, just mentioned, but also build new capabilities to exploit emerging opportunities. Seen from this angle, corporate restructuring really meant combining both defensive and offensive stances taken by Indian firms to reposition themselves in the new competitive space.

So many researchers have taken up the cases of Indian companies' turnaround; but India as a large itself passing through a turnaround phase; it is on path of economic growth. We expect that that in year 2009, growth will be around 7%. All countries have eye on India's economic pace of growth. In some or the manner they would like to be part of India's Economic success story.

Though India's manufacturing sector is facing difficult times, but the right mix of policies, right leadership and above all a vision about where India will be, we think it's possible for India to steer these difficult times with the help of talented pool of managers, their skill of turnaround experts has trailed out the country from recession and its look healthy compared to other elements hit by recession.

Turnarounds are the key to tomorrow's business success stories. Turnarounds take the wisdom of many and translate that knowledge into an action.

2.4 Sickness Analysis

(R.A. Yadav, 1992) each sick unit starts throwing up signals and symptoms in operational areas of management, which need to be identified and monitored before the unit, becomes gravely sick.

Table 2.2: Cause-wise Distribution of Sick Industrial Units

Causes of sickness	No. of sick units	% of sick units	% Contribution of the cause to sickness
Lack of good management	36	16.1	22.19
Poor implementation	56	25.1	21.70
Marketing Problems	29	13.1	15.81
Non-availability of raw materials	53	23.8	13.45
Shortage of working capital	03	1.4	7.2
Labour trouble	12	5.4	5.74
Techn. operational problems	13	5.8	5.55
Other Causes	21	9.4	8.36

(Bibeault, D.B., 1998) Corporate Turnaround (NewYork:Mc Graw Hill) He listed the following reasons for why a turnaround became necessary- bad luck (1 percent), external factors (23 percent), combination of internal and external factors (24 percent), internal problems (52 percent).

Study Material, (AIMA, 2002) on topic of Strategic Management describes the compelling reasons to go for turnaround strategies:

1. Lack of or inadequate financial controls.
2. Inadequate management.
3. Ineffective board of directors.
4. Competition.
5. High cost structure
6. Changes in market demand
7. Lack of market effort.
8. Big project or acquisitions
9. Financial policy
10. Overtrading

2.41 People – (Gerald Ross, Michael Kay) in his book 'Toppling the Pyramids' - There is tremendous lack of knowledge in business about what everyone in the company does, In most organizations, the people are so split up and the walls between them so great that they are profoundly ignorant of each other's problems. If you don't know what someone does, you're bound to resent to him or her. But since you don't want to be hostile, you keep the distance and smile a lot. It's a condition we call "terminal politeness." People survive by not throwing rocks at each other- in public. In the end, the business collapses because its problems are too important and sensitive to talk about.

2.42 Poor Management – (Schendel, Patton and Riggs, 1976) in their study Corporate Turnaround Strategies observed, "Management actions appear to dominate the upturn phase. Turnarounds appear due to much more management actions than to favorable environmental events and the key to upturn is explicit action by management".

(Argenti, 1967) in his book *Corporate Collapse: The causes and symptoms* pointed out that the prime cause of failure is bad management. Good managers will seldom make the same fatal mistakes as poor managers, but if they do make them, their managerial ability will protect the company from their worst consequences. He described six top management structural defects by which a bad management can be identified: One-man rule, non-participating board, and unbalanced top team, lack of management depth, weak finance function and combined chairman-chief executive.

In an article-'Decision Making-Going forward in Reverse' (Einhorn and Hogarth) Harvard Business Review on Managing Uncertainty, Busy Managers analyze many situations and make hundreds of decisions every day. Why, for example, are sales up in one city but down in another? Would an investment in new equipment mean higher productivity or greater confusion? Is now a good time to look for a joint venture partner, or is better to wait? Rarely, however, do we stop to think about how we think. Each decision is the outcome of a complex process that usually involves two different kinds of thinking: looking backward to understand the past and looking forward to predict the future.

Thinking backward is largely intuitive and suggestive; it tends to be diagnostic and requires judgment. It involves looking for patterns, making links between seemingly unconnected events, testing possible chains of causation to explain an event, and finding a metaphor or a theory to help in looking forward.

Thinking forward is different, Instead of intuitions, it depends on a kind of mathematical formulation: the decision maker must assemble and weigh a number of variables and then make a prediction. Using a strategy or a rule, assessing the accuracy of each factor, and combining all the pieces of information, the decision maker arrives at a single, integrated forecast.

Although managers use both types of thinking all the time, they are often unaware of the differences. More-over, this lack of awareness makes decision makers stumble into mental traps that yield bad decisions; we can recognize these traps and improve our decisions.

2.43 Lack of Proper Information and Reporting System – (R.A. Yadav, 1992) it is observed that lack of proper information and reporting system, especially accounting information, is the significant factor associated with poor management that contributes sickness. The several deficiencies noticed concerning the information and reporting system are: (a) no or poor cash flow planning; (b) no or poor costing system; (c) no or poor budgetary system; and (d) the poor reporting of faults, break–down and sales. The lack of adequate information and reporting system decreases the ability of the management seeing the approaching disaster; with the result corrective measures are not taken in time. It results in management's inability to respond to changes, which then becomes a major cause of sickness, and keeps on increasing from incipient stage to grave situation.

2.44 External / Internal causes of sickness – Pradip N. (Khandwalla, 2001) Stories of turnaround usually refer to ailments the sick company suffered from. Some of the afflictions may be external to the organization; others internal. Although journalistic writers of turnaround stories tend to focus more on the sizzle of current turnaround actions, their comments on what caused the organization to be sick, simplistic and biased though they might often be, may provide clues to how turnaround actions are related to their activating causes. In this connection it is useful to differentiate between external causes of sickness and internal causes.

External causes can be turned to advantage by the management by creating external villains- competition, recession, adverse government action and policies, adverse technological change, infrastructural problems, adverse exchange rate movements, higher interest rates, etc. When losses occur, and the management can show that it was not at fault, stakeholders may more easily extend support to the management of turnaround-without demanding its head. But when there are internal factors causing sickness, stakeholders such as the board, the financial institutions, some-times the unions and the lower level managers are likely to demand a scapegoat, usually the head executive(s). If the CEO is not sacked he or she may be seen as partisan, or even as part of the problem, and may find it quite tough to cobble together a coalition of major stock holders in order to mount a turnaround effort. On the other hand, a replacement, especially from outside, is likely to be seen as neutral, and therefore given a period of grace to prove capability. A replacement may, therefore be able to galvanize support through persuasive communications and energetic or off-beat actions.

There is another dimension of causes of sickness worth nothing. This is their diversity; diverse causes of sickness usually require diverse ameliorative actions. That is management needs to take recourse to many turnaround elements. This diversity of actions may, in turn pull the organization in many different directions, and may therefore require powerful ways of keeping actions coordinated. This need does not necessarily mean an iron hand at the top. Fairly tight co-ordination can be secured by other means as well, such as consensus building through dialogue and participative decision making, focus on core values and corporate mission/ vision, a strong HRD/ OD for building cohesiveness and collaborating skills etc.

In-depth analysis of Industrial sickness were tried to be evaluated by many authors; but we feel that to avoid these industrial sickness in India require a comprehensive approach to weed out the reasons, which makes any organization weaker, sincere and quick approach is required to identify the reasons of recurrence of cash loss.

An early warning system is mandatory to determine sickness at incipient stage. It is always advisable to take preventive measures as soon as we find the initial symptoms of sickness. Delay in identifying or faulty assessment may affect the measures/actions to restore the financial viability and hinder the very earnest desire to turnaround the unit. Initial symptoms of any industrial sickness may be due to:

- Erosion of the net worth of the unit
- Continuous cash losses
- Persistent default in making payments to clear financial debts, supplier payment, timely disbursement of employee salaries.
- Dividends are skipped, decline of share prices.
- Slippage of market share and decline of share prices.
- Worsening of Debt-Equity Ratio.

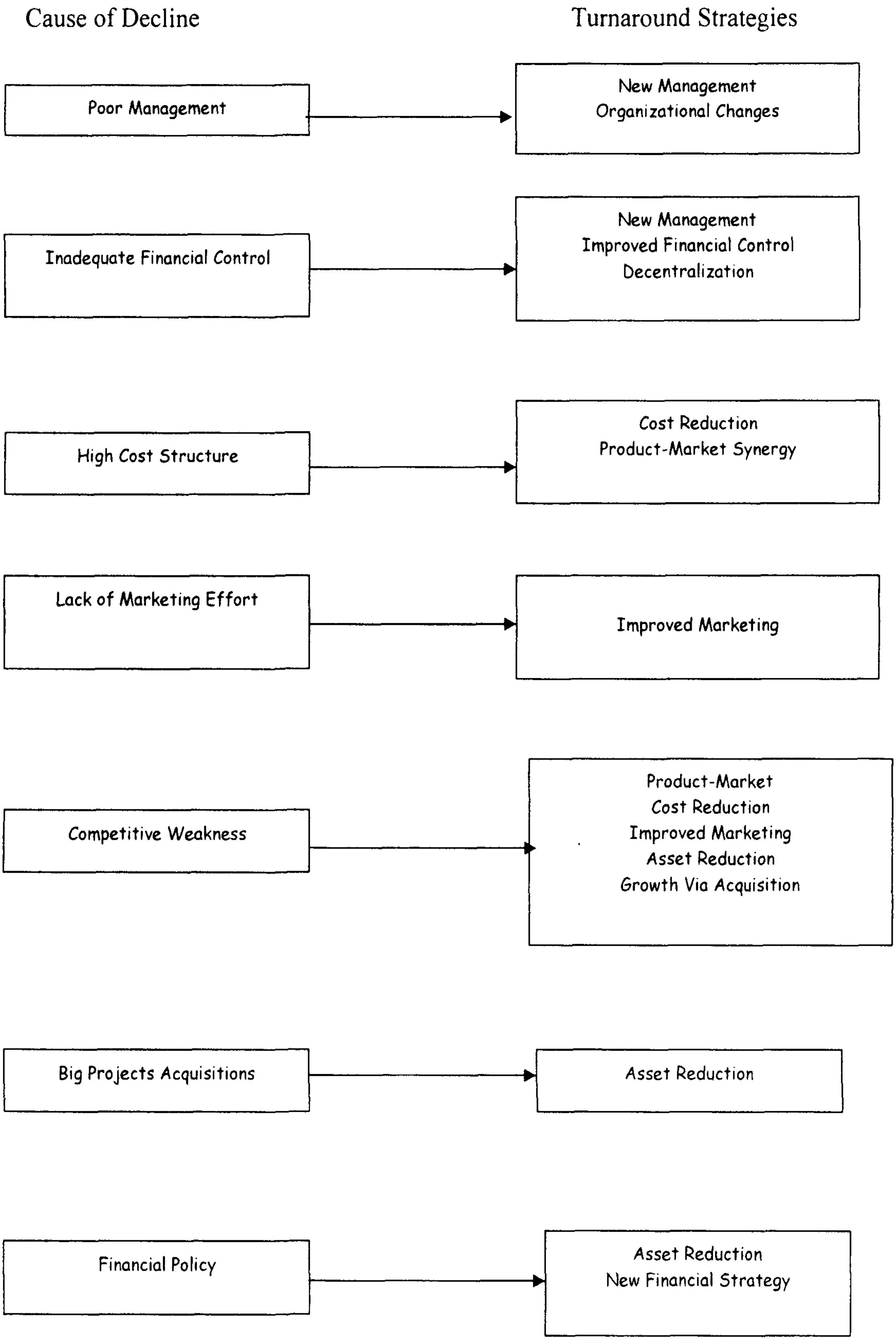
Growing competition and fast changing economic environment with the impetus of frequent technological up gradation also often lead to corporate failures. No economies are perfect to absorb these market resilience or the social disturbances occurs due to these corporate business losses. Thus it is imperative to have quickly and thorough analysis/audits and introspection of our all sphere of activities, whether it is financial, technological, personal or on marketing front, on regular basis.

2.5 Turnaround Process

Successful Turnaround strategy demands corrective actions in many deficient areas of the firm. Turnaround process must ensure that all actions are integrated with no contradiction to each other. Turnaround process involves many perceptual and attitudinal changes at all the levels of employees. Human change processes become sensitive when the firm is in a crisis. Hence change in leadership or active intervention from outside may be a must as a part of turnaround process.

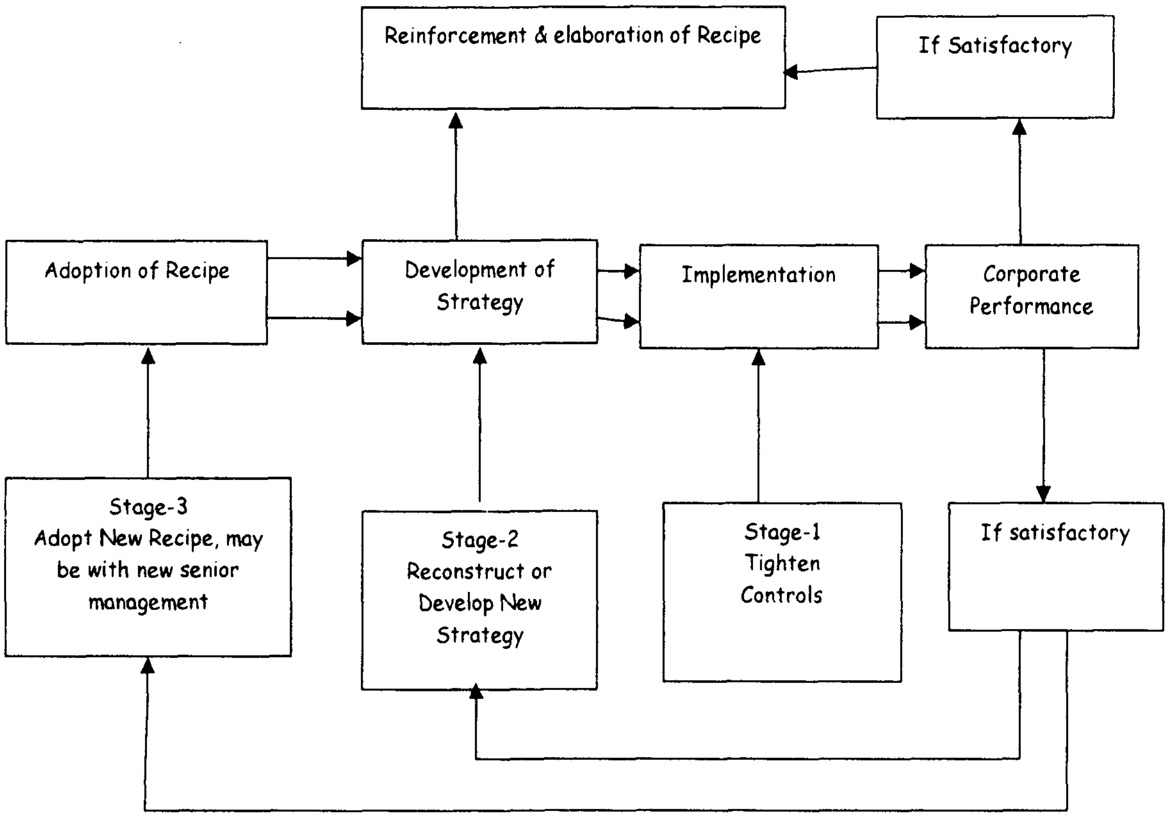
Slatter suggested turnaround strategies against various causes of decline; some of them are explained below:

Appendices 2.3: Cause of Decline v/s turnaround strategies



Similarly Grinyer and Spenders suggested the model for a turnaround process as shown

Appendices 2.4: Model for Turnaround Process



While the turnaround process is expired for proper implementation of turnaround strategy, relevance and application purely depends on a particular situation or requirement.

On turnaround process many books are been written, there are lot of research been taken place; but we feel that any turnaround is not possible unless the key/top officials are really willing to divulge the exact status/seriousness of the problems to stake holders or sometimes manipulated facts and figures are been produced by the management to safeguard their vested interest. We feel any initiative taken can be fruitful only and until there is an earnest desire and will to change/turnaround.

Basically 'turnaround' process' can be defined as a "Blue-print of flow of activities, the way any company would like to implement to convert their existing loss making firm into profitable venture." We feel that for any successful turnaround following steps are required:

1. Willingness to except the mistakes and readiness to divulge complete information.
2. Stimulation of positive energy across the organization to generate the confidence and to unite all, at the time of crisis to accept the challenge and to re-impose the trust that turnaround is possible.
3. Commitment and vision of management to be clarified and defined as well.
4. Evaluation of firm's potential areas of risk and firm's capabilities to chalk out the basic focus areas on which team have to work upon. This also should take care of current industry trend, practices and environmental business risk/threats.
5. Involvement, re-structuring, re-engineering of all the faculties of organization in accordance to work on doted focused line of working.
6. Generating confidence among stakeholders and company's image-building-exercise for public, suppliers and as well as for market too. To garner the support of financial institutions & suppliers, without which rehabilitation would not be possible.
7. Fixing up small profit centers (SBU) and assigning them defined period to act upon and measuring the results on regular intervals.
8. Feedback of the actions and to take corrective measures to make amendments in strategies, if required to best suit the organizational interest. Supportive and guiding attitude will help in getting faster results.

2.6 Turnaround Strategy

(P.K.Matoo, 1998) in his book 'Corporate Restructuring - An Indian Perspective' described the Common Accepted Strategic Options: Economic and Administrative liberalization of recent years have dramatically changed the situation and have substantially increased the number of strategic options which can be taken into consideration by decision makers while developing the restructuring plans of their units. The more commonly accepted options are as follows:

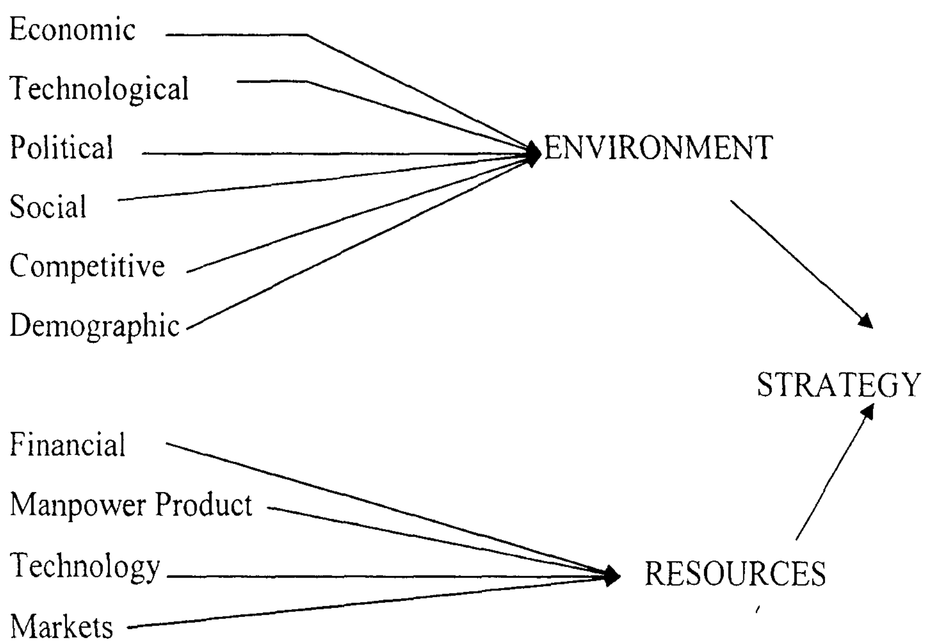
1. Cost Leadership Oriented Options
   - Capacity expansions,
   - Takeovers
   - Mergers,
   - Hiving off.

2. Product Excellence Oriented Options
   - Strategic alliances and collaborations, and
   - Joint ventures

3. SWOT Oriented Options
   - Diversifications
   - Globalization, and
   - Splits

(R.A. Yadav, 1992) Strategy is a comprehensive and integrated blueprint or plan to design for getting the organization where it wants to go. It refers to the determination of basic goals and objectives of the organization and the course or courses of action by analyzing the strength and weakness of the firm and matching them with external opportunities and threats as illustrated-

Appendices 2.5: Environmental and Firm's Resource Analysis



Corporate Strategy has mainly two aspects i.e. one formulation of strategy and second its implementation. Strategies should center on pinpointing the strong and weak aspect of the business and spelling out what actions are to be taken to eliminate weakness and to build on strengths.

Turnaround strategy is carefully evaluated action plan which is aimed at stemming the declining trend in the operations of an enterprise through identification of causes resulting in performance decline and initiation of concrete steps for improved financial and productive results leading to normal growth of business. Turnaround strategy is aimed at what is to be done, who is to do it, how it is to be accomplished and when it is supposed to completed. Turnaround strategy is required when there is a substantial and sustained declining trend in the performance of a unit normally measured in terms of profit. It may be caused by external factors and internal factors. The turnaround strategy is aimed at reversing the trend of declining performance immediately and stabilizing it leading to normal growth of the business in the long run. The thrust of turnaround strategy is either at increasing the operational efficiency or strategic decision or both.

(P.K.Matoo, 1998) The customer, the competition, and the corporation are the three basic players in the arena of business strategy. The strategist has to secure the best value for the customer while the same time ensuring that his strategy matches the endowments of the corporation. Strategy defines the manner in which corporation should differentiate itself from its competition using its relative corporate strength to better satisfying customer needs. Changes in socio political environment of a corporation induce changes in the relative position of the strategic triangle of a company comprising the customer, the competition, and the company. Customer needs are the key issues which keep on undergoing sure even though slow changes over time. These changes have to be very carefully evaluated and viewed objectively so that competition does not get the opportunity of challenging the status quo and the current standing of a corporation.

(Gerald Ross, Michael Kay) in their book 'Toppling the Pyramids' writes - Everyone has to decide to take the climb and get away from stage1. They all needed to get strong top management cooperation and an agreement that the old world could no longer solve the problems. As they moved to Stage 2 they put teamwork and cooperation in place. People learned how to work in teams and gained a broader alignment around common strategy and destination. In Stage 3, they started to explore the implication of mass customization technology. Teamwork became cross-operational as they sought to mold themselves to a range of customers in different segments. In Stage 4, they faced up to the managerial assumptions that were preventing true customer focus. By installing such ideas as market focused communities, they started to break up the monolithic management approaches of the past. By Stage 5, they had created the conditions under which they could use their ability to create variety at low cost as a strategic weapon. These stages have become familiar to us in many different situations and recognizing their existence is almost a critical success factor needed for making the transition.

However, no journey can be taken without leadership at all places in the organization. This change cannot be man-dated. Nor is it restricted to those at the top. You are at the top. You are part of it regardless of where your position in the organization or what nominal title you hold. Everyone is a part of this change.

(Hamel Prahlad) wrote in his article 'Competing for the future', It is a view of strategy that firm must unlearn much of its past before it can find the future. It is a view of strategy that recognizes it is not enough to optimally position a company within existing markets; the challenge is to piece the fog of uncertainty and develop great foresight into whereabouts of tomorrow's markets. It is a view of strategy that recognizes the need for more than instrumentalist, annual planning rain dance; what is needed is strategic architecture that provides a blue print for building the competencies needed to dominate future markets.

It is a view of strategy that recognizes that companies not only compete with boundaries of existing industries, they compete to shape the structure of future industries .It is a view of strategy that recognizes that competition for core competence leadership precedes competition for product leadership, and that conceives the corporation as a portfolio of competencies as well as a portfolio of businesses. It is a view of strategy that recognizes that competition often takes place within and between conditions of companies, and not only between individual businesses.

It is a view of strategy that recognizes that product failures are often inevitable, but nevertheless provide an opportunity to learn more about just where the mother lode of future demand may lie. It is a view of strategy that recognizes that to capitalize on foresight and core competence leadership, a company must ultimately pre-empt competitors in critical global markets; that the issue is not so much time to market, but time to global preemption.

High (Courtney, Jane Kirkland, Patrick Viguerie) - Strategy under Uncertainty, A different kind of analysis should be done to identify and evaluate strategy options at each level of uncertainty. All strategy making begins with some form of situation analysis – that is, a picture of the world will look like today and what is likely to happen in the future. Identifying the level of uncertainty thus helps define the best such an analysis can do to describe each possible future an industry faces....................At the heart of the traditional approach to strategy lies the assumption that by applying a set of powerful analytical tools, executives can predict the future of any business accurately enough to allow them to choose a clear strategic direction. In relatively stable business that approach continues to work well. But it tends to break down when the environment is so uncertain that no amount of good analysis will allow them to predict the future.

Levels of uncertainty regularly confronting managers today are so high that they need a new way to think about strategy. It offers a discipline for thinking rigorously and systematically about uncertainty. On one plane, it is a guide to judging which analytical tools can help in making the decisions at various levels of uncertainty and which cannot. On a broader plane, our framework is a way to tackle the most challenging decisions that executives have to make, offering a more complete and sophisticated understanding of the uncertainty they face and its implications for strategy.

(Al Ries Jack, Trout, 2003) in his book Marketing War-fare - The way to develop strategy, some companies believe, is to assemble three or four of their best people and lock them up in a room until they come with the answer. "The ivory-tower think tank approach," it is often called.

Other companies are fond of taking their entire senior management team to conference center (or preferably a Caribbean island) to formulate plans for the future so as to "get-away-from-the-phones, get-away-from-it all" approach.

Both approaches attempt to get long long-term strategic thinking as far away as possible from day-to-day tactical decisions. Both approaches are wrong.

Strategy follows tactics: As form should follow function, strategy should follow tactics. That is, the achievement of tactical results is the ultimate and only goal of a strategy. If a given strategy doesn't contribute to tactical results, then the given strategy is faulty, no matter how brilliantly conceived or eloquently presented. Strategy should be developed from the bottom up, not the top down.

Only a general with deep, intimate knowledge of what happens on the battlefield itself is in a position to develop an effective strategy.

Strategy should evolve out if the mud of the market place, not in the antiseptic environment of an ivory tower.

There is lot of literature available on management turnarounds of different cases across the world; but each country has specific intra-firm and environmental factor, thus it is not possible that strategy adopted by one company in particular country may stand true with another company of even of same country or for that sake even in other country as well. We have tried to explore the possibilities to look into the common strategies adopted by the 10 industrial corporate houses for their turnaround.

As far as, from our point of view 'Turnaround Strategy' has basically two aspects:

- Human Aspect
- Restructuring Aspect

There is no magic in turning around a failing business. It is a question of hard work and thorough planning and fast actions. The decisions need to be taken democratically but to be implemented dictatorially.

Human Aspect: For any sick industry, employees' morale remains shaken with the bleak future, non-payment of salaries. In these circumstances, to get the team job from the depressed work-force remain a greatest challenge for any leader.

For making a successful turnaround, nothing is more important than leadership. Leader is driving force, he does not only inculcate the confidence but provide with the ray of the hope for survival with demonstration of his vision-plan and engaging and involving 'Top to bottom every one' for only one mission that is turnaround.

Though leader provides a blue-print; but decision is to be taken by entire team so not only does the team take the plan seriously, but also they act upon seriously being party/member to the consultation process of decision making.

Re-Structuring Aspect: Any leadership and strategy can work upon only when there is an 'action' without which any successful turnaround cannot take place.
There is big question, how any distress company approach and act upon the process of repairing their broken process, this re-structuring process may differ company to company and from situation to situation; but here we think following common factors are part of any revival plan:

- Vision and Mission Plan: For achieving any turn around management is supposed to define their 'Vision and Mission plan' in an advance, blue-print should be prepared for future actions.

- Seek support and help: Re-build confidence of stake holders, whether they are equity partner or financial institution. Let them be also partner in re-building the organization and be member of the implementation team of 'Vision-Plan'.
- Change of leadership/management: This is a situational action; but people working in any sphere of activity for a long chunk of years, in some organization and culture get immune and accustomed to stereotype of working with pre-conceived set-thought of mind. It becomes imperative to change the leadership/management team in most of the cases.
- Redefining Focus: This involves re-assessment of company's business, its marketing policies, product portfolio and demographic area/channels, whereby products & services are sold. Fresh approach, out of the box thinking and speedy action are required to revamp the business by adjusting the product mix and re-positioning of product, if necessary.
- Cutting Cost/divesting Assets: Non-performing assets are blocked money and higher cost is barrier for the growth as you cannot be competitive unless you trim the fats got built up in the organization with the time. Non-performing assets liquidation helps in re-deploying the funds generated through its sale for re-paying debts.
- Improving Productivity: Any troublesome business should find ways to increase employee productivity. Employees are the most vulnerable assets any company has. They have to be kept abreast with the changes occurring and this helps in providing speed on the process as each employee being 'change-agent' himself.
- Improving Profitability: Profit is ultimately an objective of any business organization, to do this company has to take following steps:
    1. Each sub-unit of the organization has to work as individual profit centre.
    2. Tightening finance controls and reducing unnecessary overheads.
    3. Whenever necessary, shed off excess labour/officers/managers.
    4. Investing on labour serving equipments.
    5. Better Inventory control and by managing debt on low rate of interest.

- Alliance for betterment: In some cases, it is advisable to shake hands with another potential strong business partner; it may make sense to establish a strategic alliance with another company, if one finds it fruitful to re-build its business.

2.7 Rationale of Turnaround Management

(Pradip Khandwalla, 2001) eminent writer on Turnaround subject writes in his book 'Turnaround Excellence' there is something very robust about turnarounds for they represent the capacity of the organization –a human collectively-to revive itself from its deathbed. Turnarounds have, perhaps, the same robustness as social revolutions; only the scale is smaller. Every successful turnaround reaffirms the capacity of human collectivities to rebuild what is decayed and transform it for a fresh lease of life.

(Rajesh Mascarenhas, 2005) Turning around a troubled company is by no means an easy task. It requires skill foresight, perseverance. That is why there are more failures than success. That is why there is lot to be learned from companies that have turned around successfully.

(Hugh Courtney, Jane Kirkland and Patrick Viguerie) The framework can help managers determine which analytic tools can help in problem solving under uncertainty and which can not .If we look into a wider perspective, it offers executives a discipline for thinking rigorously and systematically about uncertainty and its implication for Strategy.

(R.A.Yadav, 1992) It is well-established fact that earlier the trouble is detected, more easily and economically it may be countered.

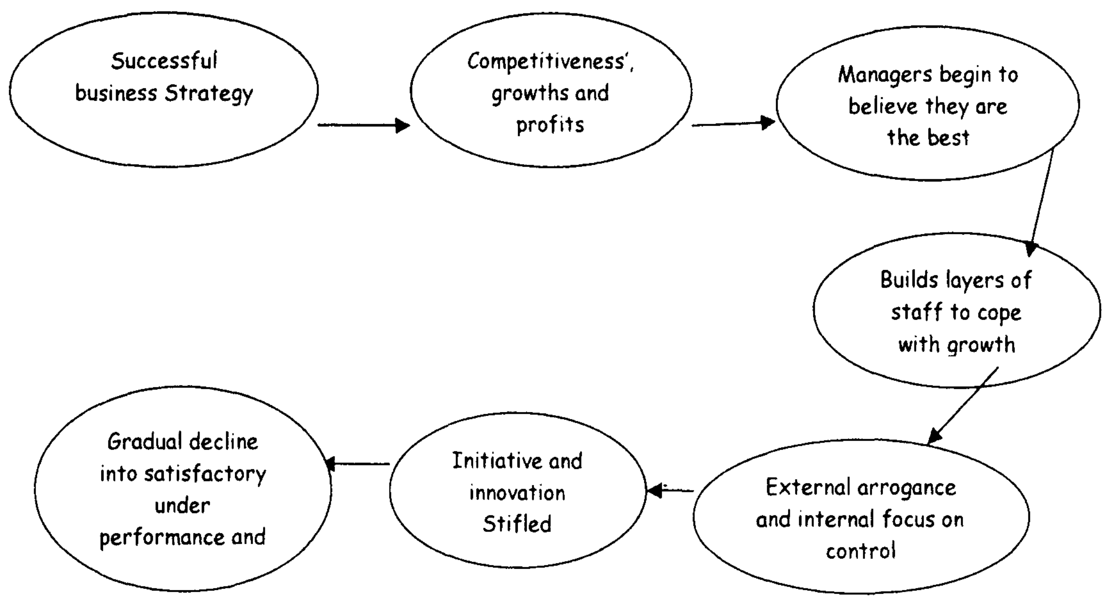
The companies do not go burst 'overnight' as many people think. The process of sickness can take years and thus seeds of sickness may be discernible very early in the story of a company's rise and decline.

An early warning signal of probable failure will enable both management and investors to take preventive measures: operating policy changes, reorganization of financial structure and even voluntary liquidations will usually shorten the length of time losses are incurred and thereby improve both private and social resource allocation.

(Sumantra Ghoshal, Gita Piramal and Christopher A. Bartlett, 2000)
Described the dynamics of Satisfactory Underperformance-

There is a highly predictable process through which the pathology of satisfactory underperformance takes hold of a company

Appendices 2.6: The Dynamics of Satisfactory Underperformance



By luck, change or foresight and courage, a company develops an effective and successful business strategy. The strategy fits the market demands, and matches the company's strengths. As a result, the company becomes highly competitive, with growth and profits as the ensuing rewards.

With growth and profits come recognition and celebration, Top managers of the company start seeing their face on the covers of business journals. The Harvard Business School writes a case on their success, soon they start believing all that is being said of them-They are the best. It is their brilliance that caused it all. They go on the lecture circuit to tell others how they did it, despite great odds.

With growth comes the perceived need for better control. After all, if they did all, then they must continue to do it all, to protect the success and build on it, as the company becomes bigger, to do it all they need support to collect all the information, to bring all the important choices and decisions to them. So, they hire layers of staff, as instruments to leverage their own brilliance in the expanded organization. The staff joins the business press in telling them how good they are, and it all becomes a positive reinforcement cycle.

(Sumantra Ghoshal, Gita Piramal and Christopher A. Bartlett, 2000) In a deregulated, competitive economy driven by the cruel logic of markets, a company that fails to change fast enough can and will die-as is manifest in the slow march to extinction that has already become inevitable for some of India's great old companies. At the same time, in this deregulated market economy, a determined can transform a company much more quickly and much more effectively than was possible in the past.

(John Humphrey, Raphael Kaplinsky, Prasad V.Saraph, 1998) The policy environment has been transformed through liberalization, exposing companies to the pressures of global sing economy. Competition is fiercer than ever before. At the same time, the nature of competition in manufacturing is changing across the world. Competition based on price is being replaced by competition based on a broader range of factors, including Quality, rapid response to customers and speed of innovation……. Globalization, in its many forms, has become the name of the game. Whether it is in confronting new forms of competition in the domestic market or in surviving in fiercely competitive external markets, producers are facing the increasingly icy winds of global competition…………………………….

This has given a new edge to international competition, forcing new patterns of production on producers operating in fiercely competitive markets. Surviving in the modern global economy is not just a matter of producing inputs or products for users in another location, but doing so in a context of intense competition-both from low-wage rivals in developing countries and high-wage and technologically sophisticated rivals in the IACs (Industrially advanced countries).

'Rationale' as the word itself implies to find out the ground, basis and justification of the very existence of turnaround. Lot many authors have tried to put their pen down to explain it; but we feel that rationale for any turnaround has very genuine reasons:

1. Should we wait and watch? : Whether any sick industry can afford to wait for the right time when all factors whether intra-firm or environmental will be in her favour? No there is greater uncertainty about the future. It may be marginally helpful to borrow some time; but putting up our hands down, will be more disastrous. Predicting about the future is completely unpredictable.

   We have to bury uncertainties and push our self to evolve compelling case for 'turnaround strategy'.

2. Sickness paves low morale: Since industrial sickness involves vast public funds, it not only provides mental trauma and business loss for any entrepreneurs; but also snatches bread and butter from the hands of managers, employees, suppliers. Many households get on the brink of road due to the closure of ancillary units engaged with the principal unit, which turned down to be sick.

   The sickness not only dampens the spirit of society but also slow down the industrial growth. We have to strive hard to combat from this ugly situation and black days.

It is not only important to detect the very reason of sickness on time; but also to take preventive measures and managing turnaround of the sick unit, and thus it has very rationale for the best interest of the society at large.

3. Losing Business effects economy: The economy as a whole gets affected due to industrial sickness, large scale of unemployment, Non-availability of goods leads to high cost, large public funds also gets involved.

   Re-payment of bank loans gets due, in turn financial institution performance gets affected resulting to decline of overall economy of the nation. Hence it has very reason to look for pragmatic alternatives to the ineffective organization working and to explore the possibilities for revival of the units, whose financials are at stake.

4. Failures are the pillar of success: In a fast changing world, nothing is permanent, Even the factors effecting any unit to be sick, may also not last longer, whether it is external factors like Government rules and policies, market competition, scarcity of resources or may be internal factors like-wrong chief executive or poor management. Most of the time, we find solutions to the problems. Healthy unit may become sick temporarily and may recover vice versa.

Every turnaround is lesson for the corporate. It is not the end. It is new beginning of new road for the future prosperity, well being for all, contribution for the society and nation as well.

2.8 Types of Turnaround

(AIMA, 2002) on Strategic Management-Turnaround Strategy is to arrest unit's sickness, react to, or danger signals for corporate sickness and take off to a growing status.

In the turnaround strategy operating turnarounds are easier. They are four types.

1. Revenue Increasing
2. Cost cutting strategies
3. Asset reduction strategies
4. Combination strategies

2.81 Customer – oriented approach for turnaround

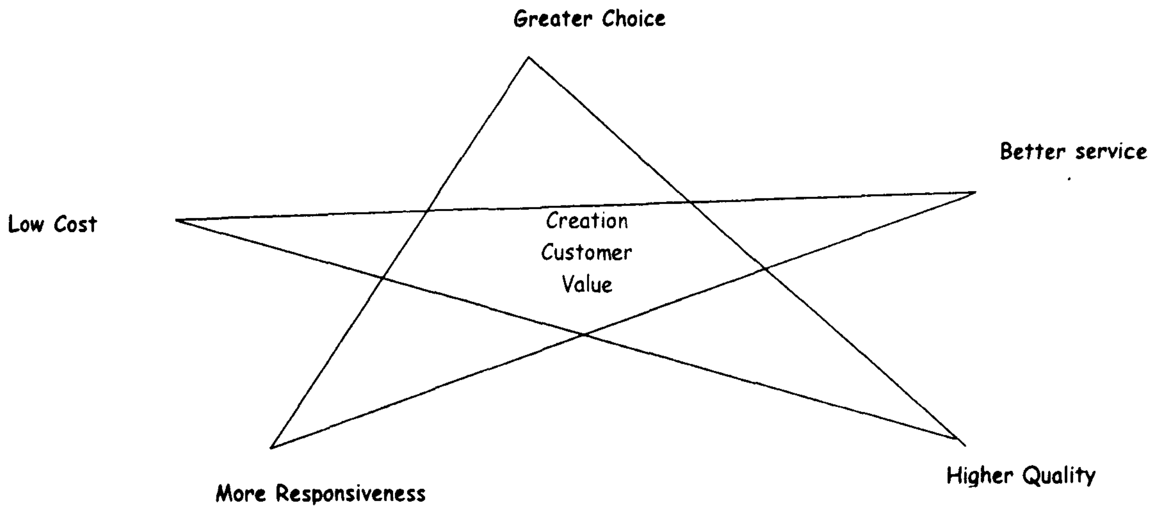
(Gerald Ross and Michael Kay) Toppling the Pyramids - 'Redefining the way companies are run 'This book change the mindset, It question whether a pyramid with the boss on top, Couple of very senior managers beneath him, some senior managers below them, and so on down the line until you actually reach the people who do the work.

This traditional pyramid structure works if market conditions are stable and in a business where things don't change quickly. In present scenario market conditions are volatile and it is fast changing companies need to respond quickly. Customer wants they want when they want it. Everything is fast changing; there is a flux now. All around us there is dislocation, stress and break-up of the established orders, this book focuses to the need to change our image of the organization from the rigid pyramidal form to bottom-up approach, where customer is Supreme.

In the bottom up molecular organizations business operations molded up in a way to fit the customer. Anything that does not add value to that customer is eliminated or adjusted and thus if requires a tremendous knowledge of the customer and need a structure where organization should flow with the way people really work and the people who are in continuous touch with customer directly.

In this world, empowerment of the operating people and customer is not an option. It is the only way you can get the flexibility you require. The old conservative pyramidal, Top-down structure will not allow you to act fast enough, it is a time to delight your customer-to wins and hold their loyalty.

(AIMA, 2002) study material on subject 'Strategic Management' Being customer-oriented means devising all the organizational plans, strategic and tactics by keeping customer at the focal point, It then knows what their customers are and what they require, what are their cherished dreams and nightmares?



2.82 Cost Control:

Gerald Rose, Michael Kay (Toppling the Pyramids, page.33) when every component of the business has its own economic base, the game is not over. Even though an individual factory may be efficient on its own, the costs of shared facilities and overall management coordination can make it uncompetitive. The customer is not willing to pay extra to maintain a fancy head office, baroque administrative systems and the other costs of management integration.

How low do these costs have to go? The bar that multi Niche Company has to get under is the management costs set by the efficient niche competitors who are not carrying those costs of management. There can be no other market. Neither cost reductions nor operational flexibility can be achieved without very different behavior.

Command and control is dead. Empowerment is one manifestation of a wider behavioral approach that includes-self management and the automatic regulation of costs, in a world of little management, self-regulation of action, costs and accountability is the only way to stop the business from going bankrupt. In this world, not only are people responsible for their actions through membership on a team, but also they have to carry the costs of serving the customer directly to ensure effective control of these costs.

2.83 People /Change of mind-set:

(Gerald Ross, Michael Kay) Key to implementing change program is making the people in charge of the change figure out what needs to be changed. Forcing them to do the work results in their truly understanding the issues plaguing the company, even better; it compels everyone to think strategically.

This is important because the key people in the organization will become the missionaries for the change process. They will develop from students to teacher. The only way be able to do that is by truly understanding how their company operates, what works well and what needs changing. They will never gain that understanding by merely listening to some consultant present a report. They need to come out of this with "their answer", not ours. They had to "own" it.

(R.A. Yadav, 1992) Overstaffing has been found as one of the major problems in the case of sick units. The management of surplus manpower and lay off of employees in divested activities are the basic concerns in this regard. The former may be managed by the manpower reduction strategy. It should be resorted to only when the survival of the unit is at stake on account of high amount of wages, since it is difficult politically and socially to retrench employees in most of the cases. An important aspect of this strategy is the retrenchment of surplus manpower and its management. It calls for evolving fair and acceptable separation, adequate compensation and effective communication both within and outside the unit.

health, turnaround are seldom needed, though some firms in such position will undertake actions plans to significantly improve their operating efficiencies.

When the business is strong operationally but weak strategically, a strategic turnaround is almost always indicated. When both operating and strategic health are strong, turnaround strategies are seldom needed, except, perhaps to improve the firm's asset utilization, which may some-times lag. The type of turnaround strategies to be pursued, on the basis of a firm's operating and strategic health, are shown in the matrix given on the next column.

Appendices 2.8: Matrix showing the Turnaround

Firm's Operating Health

Firm's Strategic Health	Weak	Strong
Weak	Liquidation or Both strategic & operating	Strategic Turnaround strategy
Strong	Operating Turnaround Strategy	No turnaround Strategy is needed

Keeping the above discussion in mind, there seems to be five generic approaches to business level turnarounds.

1. A fundamental rebuilding and repositioning of the enterprise via major revisions in business strategy.
2. Revenue increasing/generating strategy
3. Cost cutting/reduction strategies
4. Asset reduction strategies
5. Combination effort strategies

and equipment, land patents, divisions and inventories and ii) through retrenchment-pruning of marginal products, closing and sale of older plants, a reduced work force, withdrawal from outline markets, cutback in customer service and the like.

The final strategy is a combination effort. This one is pursued in a grave situation where fast action on a broad front is required. Under combination strategies, cost reducing, revenue generating and assets reductions pursued simultaneously and in, relatively balanced proportions. Combined actions, frequently, come into ply when the turn around effort entails bringing in new management and it is given, relatively, free hand to make whatever changes it deems fit in restoring the business to a good condition. Attempts to retrench, rebuild and reposition a business in the market place, nearly always, have to draw upon a multi-prong approach rather than a single category of turnaround actions.

When a business faces a down turn in its performance, some turnaround efforts are taken. However, all turnaround efforts do not prove successful. Many companies have found that the turnaround strategies require different kinds of experience, managerial focus and leadership styles. Sometimes they have "turnaround specialist", managers who are put in charge of units needing turnaround or take charge at times when a turnaround strategy is required.

Turning around any sick industry is a challenging task, Lot many experts, analysts and authors have tried to put their views about the 'Turnaround Strategies' to be adopted for revival of any sick industry; but we feel that there is no uniform formula to find out exact solutions for any ailing industry for its rehabilitation. Each situation and circumstances differs with each other. It is a complex task for any turnaround-specialist. We feel that to evolve right kind of strategies, one is supposed to take following step-wise approach:

1. Winning Confidence of Top Management and their interest and involvement in any turnaround are mandatory. Generally owner/top management gets so tired of the routine situations like, facing day to day payment reminders call from bankers/financial institutions for clearing old over dues demand for disbursement

(Schendel, Patton and Riggs, 1973) have examined the pattern of decline and turnaround of 54 companies in seventeen different industrial sectors of the US economy and forty different industries.

They categorized the type of turnaround situation as follows:

2.84 Efficiency/ Profitability decline-

The first type of turnaround situation relates with organizational efficiency/profitability decline. This is usually, measured by declining net income after taxes. Sometimes, net cash flow and earning per share are also used as indicators of this situation.

2.85 Stagnation or Decline:

The second type of turnaround situation relates with stagnation or decline in organizational size or growth. This type of turnaround receives high priority in terms of management attention.

The reason for such attention is partly, because of the obvious link between size, growth and net income and partly from the research findings linking profitability to relative market share. In most of these turnaround situations growth is measured in absolute terms. There are certain instances, where market share has also been used as measure of growth at the business unit level.

2.86 Assets Utilization:

The third type of turnaround situation relates with organizational assets utilization. These situations have not received much management attention in the past. However, assets utilization turnarounds are likely to receive far greater attention from top management in future.

There are few studies which have dealt comprehensively with the objective to analyze the type of turnarounds. However it will be difficult to generalize the 'types' which are used for turnaround; but we may find out most common trend of turnarounds.

Type of turnaround action depends upon

- The objectives pursued by the business
- The business and the characteristics of the sector in which it is competing
- Relative strength of the business and the competitive conditions

There are many types of turnarounds in differing circumstances, some of them are:

- Cost cutting exercise
- Marketing approach of turnaround
- Disinvesting non-performing assets and last but not the least
- Turnaround through management reshuffling and through change of mind set

Any organization with the time, built up fat during the days company trailing through its best of time, health and profitability. Organization when keeps growing and sailing is smooth, there is less change as far as management is concerned, inefficiency start creeping in, and management gets sleepy.

But with the change taking across the global, market scenario also getting changed. It becomes difficult for any old company with consistent profitable history to change. Mindset of old employees are also gets dull and not accustomed to change as desired. In absence of capability to introspect and comfort with new ideas and vision, there remains status quo and thus there is a need to reshuffle/change the culture, mindset and some time even top management or middle management also, if they are not in line and party to the process of change.

Sleepy management, those who are unwilling to adapt to change and loosely running the enterprise is replaced by new management that introduces tighter controls and a tougher management style.

Not one of the turnaround remains like any other and each had very different requirements that lent themselves to different solutions and they required different kinds of people too.

2.90 Turnaround Strategies and their Selection

(Kaleem Mohammad Khan, M. Khalid Azam) in their article on Response to Turnaround situations: A study of the selected Indian firms - When business faces decline in organizational performance in terms of efficiency, profitability, stagnation or decline in organization growth or size, management has to decide the type of turnaround strategy that should be pursued in a particular situation. The goal of these strategies is to arrest the decline, and to turn the company around as quickly as possible. The foremost task, before pursuing and strategy, is to diagnose the situation. This means identifying the reasons of poor performance requiring a detailed analysis of the company's operations as well as of the structure of the industry in which it operates. Once these assessments are completed, one can turn to the task of selecting the turnaround strategy to be followed. Broadly speaking, there are two types of turnaround strategy to be followed. Broadly speaking, there are two types of turnaround strategies that can be followed according to the current operating and strategic health of the firm. In operating turnarounds the emphasis is on increasing revenues, decreasing assets or a combination effort. The same strategies can also be used in strategic turnarounds. However, in strategic turnarounds, the focus is on the strategy changes sought. Performance becomes the derivative of the strategy change. In the operating turnarounds, the primary focus is on the performance targets to be achieved. Any action that can help achieve them is to be considered, whether they make good long-term strategic sense or not. In practice, of course, the distinction between strategic and operating actions and turnaround becomes blurred. The distinction still relevant, though because of the different priorities and trade-offs with short term versus long-term actions. In the two types of strategies, with weak operating position and a moderate or strong strategic position, an operating turnaround strategy is needed. With an average operating position and an average or weak strategic position, strategic turnaround is normally indicated. When a firm has strong strategic position and average operating

The first strategy is pursued, when the cause of poor performance is diagnosed as bad strategy can take different forms:

I. Shifting to a new competitive approach and, thus, trying to reposition the business,
II. Overhauling key functional area strategies to produce better support to the basic overall business strategy.
III. Merger with another firm, and
IV. Reducing product mix and customers are more closely matched to firm's strength, which of these cures are more appropriate depends on conditions prevailing in the industry and on the firm's strengths and weakness vis-à-vis the competitors. Usually, a turnaround had to be based on a firm's strength and what is best at doing.

The second strategy, i.e. revenue generating, is focused, primarily, to increase sales volume on its existing lines of products. Sometimes it may reintroduce those products which were discontinued. In addition, the company may produce some products that may help in utilizing its facilities more fully. Some major efforts such as price-cutting, increased promotion or increased direct sale efforts would be undertaken that were not related to business long-term direction. This becomes a strategic approach, when there is a little or no room in the operating budget to cut back on expenses and still reach breakeven.

Cost cutting turnaround strategies work best when the organization cost structure is flexible enough to permit radical surgery, when operating efficiencies are identifiable and readily rectifiable and when the firm is relatively close to its current points or its sale are about 60 to 80 percent of its break even. Accompanying a general belt tightening, an increased emphasis is laid on budgeting and cost control, elimination of jobs and hiring. At times, existing plants and equipments are modernized in order to gain greater productivity and sales.

The fourth strategy, i.e. assets reduction, is necessary when cash flow is a critical consideration and especially, if the business is close to bankruptcy. The most practical way to overcome this situation and to generate cash is i) through sale of some of the plant

(Michael De Kare-Silver) in his book 'Strategy in crisis' wrote, - It is my observation and experience that the key lies in the people in the company. It's people that make the difference. If they understand the strategy, see how it will be indeed put them at a competitive advantage in the industry, how it's stretching but achievable, and have a commitment themselves to making it happen, then it will. (See Figure, down below)

Strategy Identification + **People** = **Market success**

It's about sharing the strategy ideas, communicating what they mean, why they're important. What are the benefits? It's about instilling that sense of passion and excitement in the goals that are set that is often seen around successful founding entrepreneurs. It's getting people to develop that sense of ownership and personal responsibility that we have seen at Wal-Mart, British Airways, and Hewlett Packard....Research has suggested a number of key success factors which drive this people-orientation. Assuming an effective strategy has been developed that is properly grounded and credible, then we can explore six factors in total that have been identified that enable people to make the difference. They are particularly about increased employee involvement and sharing in the ideas and values that drive the organization- and in the rewards that come through when success is realized:

- Sharing the strategy
- Sharing the values
- 'Symbolic egalitarianism'
- Sharing the information
- Training
- Sharing the benefits

Let's look at each of these in turn and then briefly explore the typical roadblocks wining companies have also had to overcome in order to create the environment where people actually can unleash their energies productively and practically go forward and make that difference.

of salaries on time from employees, suppliers stop supplying raw materials because of delayed payments and failing to achieve stakeholders' expectations to sustain profitability. It's so happen quite often that top management become so hopeless and tired of fighting with the circumstances thus starts losing a confidence for any revival or turnaround.

In this situation to convince any management about your team, its ability to turnaround, is a herculean task. Any activity, any step further may not be possible unless one takes his management into confidence.

2. Situation assessment with the method of dialogue process to diagnose exact problems and its gravity:
    - Balance sheet assessment
    - Effectiveness of operations
    - Systems and procedures
    - Production and its productivity
    - Market strategy & pricing
    - Unit-wise, department-wise and process-wise profit analysis
    - Introspection of non-performing assets
    - Financial burden and interest cost liabilities
    - Appraisal of Management-quality and their effectiveness
    - Environmental factors such as market-competition & Government policies
    - Review of infrastructure available and install capital machineries
    - Assessment of fixed and operational losses
    - Interdepartmental co-ordination and conflicts
    - R&D's ability
    - Support, willingness & interest of stakeholders
    - Working capital & Cash-flow status
    - Sales forecast v/s capacity utilization

3. <u>To define & mission plan</u> Defined blue-print of action plan ensure participation of all (Top to bottom) for its execution and implementation.

   In next point of 'Literature-review', we have tried to cover-up this point of 'Vision & mission' in depth.

4. <u>Identification of focus areas to be addressed and execution of mission plan</u>:
   - Once problem is identified, key-executives or think-tank of the organization, sit together to chalk-out the focus areas to achieve a vision plan of turnaround.
   - Core team consisting of all faculties from Marketing, H.R., Finance & Accounts, R&D and Production should be formed, headed by turnaround leader.
   - Focus and mission plan should be splitted to small-strategic-business units so as to enable the faster and effective implementation of turnaround mission.

5. <u>Execution of Focused mission, down to the line:</u>
   - Turnaround leader should not only convey his vision and mission plan to each and every body down the line ;but make it sure their effective participation by involving for the purpose.
   - Control, checks and feedback of the process are pre-requisite, measuring the performance on regular intervals, providing deadlines, amending course of action, looking into the need of situation, are some of the other steps of implementation of the focus approach of turnaround.

2.10 Vision and Mission for the Turnaround organization

(Pradip Chanda, 2000) has described the need of vision and mission for sick units in following manner:

The Vision

The vision for an under achieving or sick company is unlikely to be clear, primarily because in the early days of rehabilitation, a number of issues that could determine its future roadmap, will remain unresolved. That apart, resource constraints will restrict the management's ability to look for enough ahead to delineate a meaning full role for the company in the present business. The problem is exacerbated if circumstances demand that the company redefine its business, and look for survival in a different business.

The Mission

The Mission in any company is dynamic.

This is truer for an under-achieving company or a sick company. During the turnaround process, it is often best to break down the task ahead into small measurable steps, and then progress one step at a time. The immediate goals set are per force modest. Only after the first milestone is achieved, the company can aspire to reach the second milestone, which in all probability will call for a re-assessment of potential and ability.

The mission therefore, necessarily evolves over period of time. It needs constant updating and re-focusing, based on the experience gained during the early days, when the first few rehabilitation initiatives deliver positive results. While writing the mission statement, the management will have to determine the time frame for which this will be valid, and be prepared for an update at the end of this period.

(Gary Hamel Prahlad) it is not the future, just what is occupying senior management's attention? In two words - restructuring and reengineering. Whereas downsizing and core process redesign are legitimate and important tasks, they have more to do with shoring up today's business than creating tomorrow's industries. Neither is a substitute for imaging and creating the future. Neither will ensure continued success if a company fails to regenerate its core strategies. Any company that succeeds at restructuring and reengineering, but fails to create the markets of the future, will find itself on a treadmill, trying to keep one step ahead of the steadily declining margins and profits of yesterday's businesses.

(Hamel and Prahlad) urged senior Managers to look toward and ponder their ability to shape their companies, in the years and decades to come. Top Executives have more to do with sharing up today's business than with building tomorrow's industries. Restructuring tries to correct the mistakes of the past; reengineering mostly involves catching up to competitors.

Since change is inevitable, managers must decide whether it will happen in a crisis atmosphere or in a calm and considered manner, with foresight about the future of the industry; whether the agenda for change will be set by a company's unique point of view about the future or by its more prescient competitors.

Too often it is observed that profound thinking about the future accurse only when present success has been eroded. To get a head of the industry change curve, senior managers must recognize that the real focus for their companies is the chance to compete the future.

(Gary Hamel Prahlad) wrote in his book 'Competing for the future' - For variety of reasons we prefer the word foresight to vision. Vision connotes a dream or an apparition, but there is more to industry foresight than single blinding flash of insight. Industry foresight is based on deep insights into trends of technology, demographics, regulation, and lifestyles that can be harnessed to rewrite industry rules and create new competitive space. While understanding the potential implications of such trends requires creativity and imagination, any 'vision' that is not based on a solid factual foundation is likely to be fantastical.

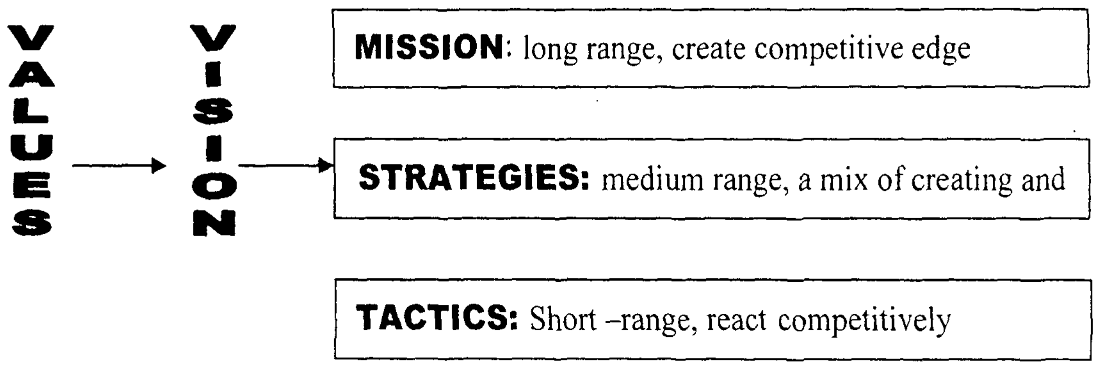
(Rajiv Shaw, 1997) A clearer understanding of the organization's role will enable long-term survival. Even more importantly, this foreknowledge helps in predicting a future. For if you know what is going to happen tomorrow and you don't like much, you can create conditions that prevent, forestall, or avoid the event. At worst damage limitation measures can help reduce impact.

At best, and I believe that this is worth striving for, however fuzzy and indistinct the vision is, You can shape a desirable future, by putting in place events and practices that pioneer the way. And this requires continuous work and development and change, because it is easy for competitors to copy and beat you as it is based purely on what they have to lose. So this innovative spirit has to be absorbed into the organization as a permanent effort, and that requires the establishment of an organization environment that promotes learning and creating culture.

A. Class elements: These are the most important, elements without which the organization cannot exist. This is your MISSION. This must stand the test of time and societal compatibility, and reflect core values, which govern the way you will conduct the business. These are long –range objectives, which must in detailed fashion, spell out the future seen by your values. These mission statements can be as long as you wish to make them. Just as a single photograph may not represent you satisfactorily (simply open your passport), use multiple perspectives.

B class elements: These elements are the desirable characteristics, which provide recognition to market (competitor and customer), vendor, finance, manpower, technology and such STRATEGY considerations. These are shorter range in focus and usually stretch from one year to four at most five years in the future.

C class elements: Shorter term Tactical advantage decision parameters such as launch profiles, timing, pricing, blitzes, segment focuses, loan licensing, specific acquisitions etc. constitute the C class elements. These objectives are edge oriented and are short term-usually under one year.



'Vision and Mission' being an objective of any organization. It is pre-requisite preliminary defined statement which reflects the management perspective about their future action plan. There is list of literature available by many scholars about it; but here we would like to put forth our views:

Vision reflects clear goal and it is one of the important and absolute essential ingredient for a turnaround. It provides a clear picture of leader/management of what they *want* and an honest assessment of the current reality of the situation that is.
First step to turnaround is to speak about your thoughts as a leader, ask about your thoughts as a leader addressing to all, ask about it and apply it. This all is nothing but called as a 'Vision', which creates an energy all its own.

Many ailing sick units take up turnaround strategies execution without any pre-conceived in-depth, thought-out-plan. For them turnaround may be either, 'To cut costs to survive' or 'Enhancement of business to get more income'.

Turnaround is complex task which requires well thought , well discussed action plan whereby all positive and negative results has to be understood before taking any action, 'Vision' is the guiding drive for direction setting and use in creating the strategic business plan that will successfully direct the turnaround efforts.

Most turnaround attempts fail for want of clear, motivating and achievable objectives. The holy bible itself tells that "People without a vision will perish", there is no fun of any existence, if we do not pursue clearly defined spelt out goals. Our endeavors of any turnaround are destined to fail in whatever we do or attempt to do.

'Mission' is a game plan to achieve vision. No turnaround can be achieved without plans, without deliverable objectives, without sense of time frame. Mission statement is more specific, action oriented and expressive. It outline the company's outlook, what it does and for whom. It is reflecting company's goal, business plan for a public at large with the intention to provide superior products or services to customer, and provide meaningful job and development opportunities to employers and finally best of return on investment to stakeholders.

'Vision' is a source of inspiration, it is dream. Turnaround is a focus approach to resolve the problems and 'Mission' gives us focus on direction and focus on plan elements and resource utilization.

2.11 Turnaround/Transformational Leadership & Management

(R.A.Yadav, 1992) For successful turnaround, the company should be viable unit and should have management that is sensitive to internal as well as external challenges. Successful turnaround performance calls for in-depth management knowledge, penetrating ability, ruthless, adherence to objectives, a great deal of self confidence, hard work and human energy of a high order.

Turnaround Manager is an architect as well as an implementer of turnaround strategy. Hence he should be tough minded and have the qualities of self- confidence, decisiveness, objective orientation and an impatience to get something done. He should have certain skills such as an entrepreneurial instinct coupled with professional management skills, a broad business experience not necessarily in the same line and good negotiating skills to negotiate with the parties concerned such as creditors, bankers, labour unions etc. The turnaround leader's personal style is more important during the period of turnaround than at any other time in corporate life. Personal traits inspire confidence in the ultimate survival of the sick unit, (Bibeault, 1982) in a survey of eighty-one turnaround chief executives has ranked the personal characteristics of turnaround leaders as under:

1. Objective oriented
2. Self-confident
3. Maintains positive outlook
4. Inspired confidence in others
5. Innovative and creative
6. Highly visible and active

In a same study by (R.A. Yadav, 1992) conveys – Sound management and effective leadership had been at the root of most of the successful cases of turnaround. The finding of a suitable manager is perhaps the most difficult task of sick units, particularly where it is found that the sickness has been attributed to bad management or the management integrity and honesty has been doubtful. In India appears to be shortage of top-level management personnel. The sick unit, which requires better management, becomes victim of this acute shortage. Managers of proven ability are usually absorbed by the healthy units. The sick units usually get a superannuated person with practically no stake for his career. It is hard to find good manager and very difficult to be loaned or deputed from a working industrial unit. The government and the financial institutions have now realized and agreed that a pool of experience turnaround managers should be constituted, but it is at yet not in existence. Needless to say that the greatest need of a sick unit is an effective top management who can put the unit back on the rails again.

(Pradip Chanda, 2000) in his book 'The Second Coming' there is some learning here. Assets do not seem to loose intrinsic values. Committed managers re-discover them and use these creatively. They exploit the same assets to drive turnarounds. They do not scrap plants; they modernize them. They do not reduce prices; they build low-cost capabilities to compete better. They do not continue to make what they always made; instead, they make what can be marketed profitably. The restructure the companies; they do not destroy them.

They are not happy with stopping losses; they build sustainable competitive advantages. They not only earn the right to live, but also the right to grow…Turnaround managers have to be entrepreneurs, visionaries, redesign architects and crisis managers-all rolled into one. They have to create resources out of liabilities, find opportunities where none is apparent and travel down uncharted paths to solve problems. They will embark on a value journey that will essentially reinvent the company. The only capital they will have at their disposal…………………There are no short-cuts, no magic formulae. Turning a sick company around is a tough grind. It needs stamina to battle it out. Moments of achievements will be few and far apart. It needs a hunger to succeed and a will to win.

In a same book (Pradip Chanda, 2000), describes the qualities of Leadership- Federal Express has developed a leadership guide, which acts as an excellent reference manual to evaluate the leadership qualities required in a potential Turnaround CEO.

1. **Charisma:** This is by far the most difficult attribute to assess. Fed-Ex defines it as the person's ability to make others proud to be associated with him or her. A person who is able to make everyone around enthusiastic about assignments. A person who is able to transmit a sense of Mission to the subordinates.
2. **Concern for the individual:** This is particularly relevant when dealing with shaky managers in an under achieving company. Typically, a good leader is known to coach, advice and teach. He or she treats each subordinate individually and as individuals, valuing each worker and respecting his or her contribution, however small. He is able to delegate but does not abdicate, which would only create anxiety and uncertainty. He or she is prepared to listen and makes time to provide a feedback.
3. **Intellectual Stimulation:** He is able to create an environment, which, which seeks reason and evidence. Asking "Why?" he or she encourages others to do so. He is not only able to provide new ideas but also able to make the subordinates think in the new ways.
4. **Courage:** He has courage of conviction and the tenacity to persist against all odds; above all, he has the courage to carry the can, if and when something goes wrong. He or she is not in the business to find scapegoats.
5. **Dependable:** He is consistent, and honors commitments. He or she is also accessible and available.
6. **Integrity:** He believes in code of ethics and is prepared to fight for principles. The company's interest is always supreme and management privileges are not abused by him or her.
7. **Judgment:** His judgment is based on facts, reasoning and logic. Whenever a decision is taken on gut feel, he or she is able to explain why, normally with empirical evidence.

8. **Self -Motivated:** He has a high degree of self-motivation and sense of purpose.
9. **Energy:** He has very high levels of energy, both physical and mental, and brings an infectious enthusiasm for the task on hand.

'TRAITS OF VISIONARY LEADER', were described in Study Material of (AIMA, 2002) on the subject of Strategic Management visionary Leaders are people who are open to new ideas, concepts and ways of thinking. They plan it in such a way that they are able to spare time to meet people who want to see them. They have an open-door policy. Very often such people do not have their telephones screened nor do they put red light on their door. They are warm, supportive and expressive, always communicating to all, saying, "We are together like family." They convert their vision into an easy-to understand philosophy that integrates strategic direction with cultural values. They continuously motivate their employees to embrace and support the vision. They make contact with them at all levels so that can understand employees concerns. They would like to know what perceptions people have about vision and its impact on their lives. They translate the vision into a philosophy by continuously relating the vision to individual cares, concerns and work.

Such persons always remain at the center of action positioned as fine shaper of the vision. To show their belief in the vision, they set an example to others, showing their belief. They would always concentrate on the major strengths within the organization that will ensure success of the vision. They would measure the success of the organization in terms of its ability to fulfill the vision. They act as the torchbearer of the vision.

The failure is a self-fulfilled prophecy, in an environment, whereby business is closed. The people in-charge or engaged with it become disheartened and the low morale spreads. In these circumstances to turnaround the business is a great deal, it requires a visionary/charismatic leadership.

So many authors have tried to put their views about 'Turnaround Leadership'. Turnaround leaders can be termed as 'Change Agents'. In whatever manner we can highlight about their traits, it will be fruitful for the coming generations and that is why, I thought to put my pen down on this particular subject i.e. 'Turnaround Leadership'.

Leader making the tough calls, even his position always remain on risk, suppose to keep the morale of his team and fellow members high. He is supposed to gain the confidence of company's stakeholders as well. These all requires great confidence, visionary approach, determination and special traits, which we have tried to enumerate down below:

- Focused with clear vision
- Ruthless in initial stage of turnaround process
- Team builder and developing other leaders
- Pressure builder and guide/coach
- Acceptable personality, Confidence-generator and inspiring
- Accountability Definer
- Performance Evaluator
- Decisive, tough but patient
- Versatility to change and handle variety of assignments

2.12 Relevance of Turnaround

'Corporate Restructuring' book written by (John Humphrey, Raphael Kaplinsky, Prasad V. Saraph, 1998) Relevance of changes in the Indian economy for other developing countries. Clearly, India has some special features. It's very large size, with a market of over one billion potential consumers, means that it is most likely to be more inward-oriented than other, smaller, restructuring economies. India is also distinctive in that its pursuit of import substituting industrialization was not only unusually autarchic in nature (for example, heavily prescribing the role to be played by foreign direct investment), but that it also emulated the soviet model by placing emphasis on the capital and intermediate goods industries. In some respects, too, firms in India face particularly disadvantageous conditions for restructuring. It has a poor physical infrastructure, a population with low levels of education, and poorly developed supply chains of small and medium enterprises

(Pradeep Khandwalla, 2001) Turnaround Management has a special relevance in the twenty-first century. The globe is becoming a single, seamless market place, full of opportunities but also full of traps and pitfalls, Corporate sickness is likely to mushroom in this hyper competitive, hyper-turbulent environment. Many organizations, possibility most, will lose out at some time or the other. Should they be allowed to die, thus causing large social financial and human losses? Turnaround Management provides ladder to rise from the pit.

(Rajiv Shaw, 1997) Crisis promotes learning, and that is what India is going through. Those who learn will be truly strong, capable of taking on the world. By the same logic, you can create your own testing situations, which cause the organization to reach above the ordinary, and thus create winners.

(Pradip Chanda, 2000) Turnarounds aim to contain the high social costs of closure by redefining businesses, improving productivity, retraining work forces and competing on Quality.

The painful fact in India, unfortunately, is that, historically, industries in the private sector, though large in number, have been marginal player in its economy, Government – owned public sector undertakings that control banking, insurance, telecommunication, mines and metals, steel utilities, airlines, railways, ports, and road works, are the basic drivers of the economy. And these units have, over period of time, absorbed large resources in terms of money, effort, time and manpower. Nationalization of ailing industries e.g. jute and companies making bicycles to biscuits, has added to numbers. The country can ill-afford to ignore the vast resources sunk in these ventures. Nor it can afford to ignore the plight of a large number of private enterprises that have become unviable because of country's historical policies. Consequently, turnaround attempts must from an integral part of its economic well-being, by putting to productive use the vast resources tied up in such corporations. A recent estimate puts the figure of non-performing assets of banks (almost entirely with nationalized banks), i.e. loans given to companies unable to service such loans or repay them at a staggering 30 percent of loans outstanding.

(Michael De Kare-Silver, 1997) The market place has now become saturated with competition. New products and new competitors are emerging with increasing frequency in every industry. Mapping the way through this market maze is an enormous challenge. The winning companies we will describe are ones who are seizing that challenge firmly in both hands and with every effort. It's zero-sum game. Companies of often-equal strength are arrayed on all sides. What will distinguish the winner? What steps will enable one company to take advantage of the opportunities an ahead of another?

The path suggested here must be taken by the leaders of the company. Lasting success is so fragile that the challenge of effective strategy development cannot be left to others alone to initiate and pursue. The generals must marshal their troops.

(P.K.Matoo, 1998) in his book 'Corporate Restructuring' emphasized the relevance of restructuring/turnaround - In the new era of liberalization and globalization when protection provided by high tariffs and other trade barriers is no longer available, it is not enough for a unit to be able to yield a steady out put of goods, services and even profits year after year. Improvements in quality of goods and services produced, reduction in costs and maintenance of prices of outputs at competitive levels, have also to be taken care of. The health and vigour of a corporation in today's fast changing world depend to a large extent on the manner in which its management is able to recognize the gross as well as subtle changes taking place in the work environment and put them to use further the objectives of the unit. Under normal circumstances changes in the attributes of the work environment take place in a gradual and predictable manner and enough time is available to access the impact. But when change assumes the velocity of a hurricane, routine tinkering with policies, structures and practices is of no use. It has to give place to a result –oriented approach which can keep the enterprise on course and enable to target new destinations and new heights of achievement. Corporate restructuring provides the management with a steady, reliable way of meeting the challenges both of time as well as opportunity.

(Ranjan Das, Udayan Kumar Basu, 2004) Corporate Restructuring became a key starting 1992 when extensive economic reforms, undertaken by the Government of India, led to greater competition (including competition from MNC's) with simultaneous opening up of more opportunities. During this period, the Indian industry also felt the pressure from various stakeholders to pay greater attention to such areas as enhancement of shareholder value, ensuring focus in business portfolio, acquiring greater market power and size in every product category, building brands and distribution capability, professionalization of family business and privatization of public sector enterprises. All these signaled the need for extensive restructuring of the Indian corporate sector. The scale and size of corporate efforts that we have seen in India, particularly during the last five to seven years, have far exceeded the level that was experienced during the pre-1991 phase. However, a lot more needs to be done if India Inc. Wishes to become globally competitive and shareholders are to be rewarded handsomely.

(Rita Gunther Mcgrath and Ian C. Macmillan) Business lore is full of stories about smart companies that incur huge losses when they enter unknown territory–new alliances, new markets, new products, new technologies.................................Why do such efforts often defeat even experienced smart companies? One obvious answer is that strategic ventures are inherently risky: The probability of failure simply comes with territory. But many failures could be prevented or they're cost-contained if senior managers approached innovative ventures with the right planning and control tools.

Economy is trailing through uncertain phase, not only in India, but globally. In some part of the world, it was unheard recession, they have ever faced. Big empires also trembled downed. Now it is a time to introspect and turnaround the situation.

This declining trend in business is a cause of concern for everyone else-employer, employees, stakeholders and for Government itself. Any failure is not an end, it is another fresh beginning. Let us learn by our mistakes, amend our strategies and act upon for significant recovery. Even after successful recovery, turning around is a learning lesson for any organization and they would like improvement as ongoing routine process.

In current business scenario, one requires unique and more effective strategies, Thus better understanding and exploring better alternatives so that organization can reach full recoveries. Though is a challenging task; but this turnaround is quite relevant in prevailing circumstances.

To save nation wealth, Non-performing assets can be re-deployed in profitable manner.
It provides lesson to all, studies of this turnaround explore some facts/truth about organizations decline, downfall, recovery and its resurrection. It compels society at large to have cautious approach and help them to take preventive measures so that these types of failures can be avoided in future.

In current scenario of global business, when economy still could not able to recover from the shock of 'Recession', most of the business organizations are seriously looking for the long term solutions to face the circumstances of these type of declining trend, they want answers to face such state and worried to safe guard their business interest so that it may not occur again in their business tenure. Though question is quite relevant but to get the remedy may not seems to be so easy.

While going through Literature review we observed that lot many scholars have tried to evaluate the sickness and tried to explore their turnaround strategies; but specifically there is very rare literature is available of Indian industry specifically. If there are any literature is available in Indian perspective, either it pertains to such an aged period which has no relevance in present conditions of internal and external environments of business or the studies are so complex and theoretical that it looses its basic purpose of finding out easy, simple, smooth and clear understanding of most common root causes of industrial sickness and the most common route of turnaround strategies of the Indian Corporate sector. Thus their remains a gap in research studies undertaken till yet. This only induced me to take up this study of turnaround cases of some of the most reputed Indian corporate industries in an era of post-liberalization.

Earlier there were some studies been taken for about 120 Indian industrial units, varying from small to middle and large scale of industrial units; but small & middle industries have their own set of problems, which may differ from large giant industrial houses. Small companies otherwise are suppose to work under so much of constraints resources and limitations, hence it will not be fair to analyze the facts on the combined consolidated data of all the industries. Looking into this gap of the literature available as far as Indian context is concerned, we took these studies specifically of only 10 big Indian Corporate houses so as to find more accurate, practical findings through our research paper. To make enable our Indian commercial establishments to evaluate the causes which are making our industries sick and to facilitate them for finding out some of the most common route of successful turnaround strategies.

Research design and Methodology

3.1 Research Objective:

In an era of business turmoil, there are lots of Industries who got sick or on verge of collapse. Nation wealth is on stake; lots of assets becoming non-productive, lot of retrenchments are taking place. Uncertainty, Unemployment, law and order problems have crept in. The subject taken 'A Study of Turnaround Strategies of Indian Corporate Sector' is a quite relevant topic. It contributes to the society and in turn nation as well.

The main objective of the research undertaken is as follows:

(1) To diagnose the sickness and intensity of the industrial disease?

(2) What were the reasons for the particular sickness?

(3) What were the focus areas for the turnaround strategies?

(4) What were the major constituents of turnover strategy, Vision Statement of the company and style of leadership expected from turnaround leader/Manager?

Our objective of the research is to provide in-depth analysis into why do companies fail and how successful turnaround can be achieved. We will examine and try to provide insights on the following specific issues:

- Why do commercial organizations fall into financial losses/sickness?
- How to diagnose and predict financial losses/sickness?
- Measures taken to turnaround these losses/sick units?
- What turnaround strategies are been adopted in common by most of the turnaround cases?
- What was the most common focus area of turnaround Strategy?

3.2 Research Methodology:

Change is inevitable; Turnaround has become mandatory, for individual, for corporate and as well as for the nation.

The studies taken up here are of exploratory nature. The type of research we have adopted can be termed as 'Descriptive' and 'Applied' Research. In a Descriptive Research, we make ex-post-facto studies. As our case-studies of 'Turnaround' are for the tenure of post-economic-liberalization era, our observation/report is about as what has happened or what is happening?

Other type of research we have adopted is Applied Research, whereby our aim is finding a solution for a grave problem of industrial sickness faced by society in large or specifically by industrial/business organization.

We have conducted the research on following stepwise approach:

3.21 First Step: Selection of Companies

In current situation of borderless economy, foreign players with financial and technical muscles are entering in Indian markets. Indian industries who built up fats with the time in easy going sellers market, found suddenly themselves with the enhanced production capacities around the world, thus resulting to lower margins and subsequent challenges faced by technologically more innovative and competitive product range. We have tried to evaluate through this study as how this whole liberalization process has affected our Indian industrial conglomerates? How our industries got them prepared to face the challenges of global economy.

We selected particularly those cases whereby the respective industries had major market share in their respective trade and are known for their professionalism working. These selected industries also had history of constant profit path; but than slipped down to losses? Why this happened to the industries with best of the professional abilities, with best of the talents available and with the best of their financial and market abilities.

If 'losses' can grip to these best run conglomerates, what may be the future for 'Medium' and 'small-scale' units. It is not a fear; but surely it is an alarming-bell to stand upon and acts to face the challenges of this millennium.

We took up about 10 cases of turnarounds, Especially in Indian context. We tried to select cases from different sphere of fields, Starting from fast moving consumer goods, consumer durable companies, Process Industries, Chemical Industry, Financial institutions, Heavy industries, Electronic industries and capital-intensive industries as well. Our efforts are to have assortment of Public Sector and Private Sector; but we tried to select the cases that are the most prominent in their respective field/industry so as to awaken the insight and draw the attention of all.

Thus sampling is been from best possible sources to get the fruitful conclusions through research paper. We have collected information data and turnaround case histories of following Indian units:

1. TATA Motors
2. Crompton Greaves
3. Arvind Mills
4. Steel Authority of India
5. Gujarat Alkalies and Chemicals Ltd.
6. Gillette India Limited
7. Dena Bank Limited
8. Thermax India Limited
9. Philips India Limited
10. Siemens India

It is evident with the above cases taken up that efforts are been made to take up:

- Varied industries from Automobile, Consumer durables, Chemicals, Steels, telecommunication, Textile, Consumer Electronics and as well as of financial institutions.
- Government, Semi Government, Private and Public Ltd Companies.
- Small sector to large sector Industries.

To get the best of the results, Our endeavor is to extract information, analyze strategies from the various industries of operations, so that we can dig out best of the results from our studies.

3.22 Second Step: To ascertain the stage of sickness/Financial Losses

Revival of any sick industries is possible only after analyzing the critical stage of sickness. To make it easier and to take appropriate decision, We have categorized following three stages of sickness:

i) Initial Symptoms
ii) Incipient Sickness
iii) Gravely Sick
iv) Critical-No Chance of sickness

Initial Symptoms: The first appearance of the sickness is measured in terms of declining in sale, Erosion of profit, loosing market share, and negative working capital and cash losses.

Insipient Sickness: In spite of initial symptoms, Industry is on Road of continuous decline, financial institution started loosing faith on credit worthiness, Skipping of dividends start making worried to the investors and share holders, Suppliers start getting pinch of delayed or non-payments of bills. Employees are been sacked for or non-payment of their salaries.

Gravely sick: Mismanagement, Declining market share with least hope of revival, Talented manpower leaving the organization, Institution start exercising their power for credit squeeze, Supplier stop supplying, Constant Union agitation and labour problem. Owner interest to divert out most of the funds at earliest possible .In this situation the erosion of net worth is more than 50 percent, Insufficient cash flow, lack of working capital becomes order of the day.

Critical: It is the situation when the erosion of the net worth is of more than 100%, Investor or shareholder start diverting their maximum sum, Government policies, Market conditions not favorable, persistent labour strike for higher wages and bonus. No funds for salaries and purchase of raw material and no willingness from any financial Institution for any assistance. Even BIFR drop the consideration for its revival.

3.33 Third Step: Sickness Analysis

Sickness Analysis – There may be internal and external reasons or it may be combination of both the factors.

Every turnaround cases has been in-depth analyzed for their following internal and as well as external sickness:

Internal Causes:

1. Poor Management
2. Financial Indiscipline
3. Lack of market driven approach
4. High Cost
5. Over expansion/Big Projects
6. Over trading/Adverse Product Demand

7. Technical/Product failure
8. Labour trouble
9. Others reasons, if any

External Causes:

1. Lack of resources – Raw material/Skill Manpower
2. Government & Statutory obligations
3. Environmental/Climate factors
4. Other reasons – if any

3.34 Fourth Step:

Among all the cases, what were the most common areas, which helped them in turnaround process:

- Focus areas: In this portion of study efforts are been taken to evaluate the focus areas / approach adopted by the management for turnaround looking in to:
    - The Customer approach
    - The Financial Restructuring
    - The Processes
    - Man Power Restructuring
    - Any other- if any

- Vision Statement: Vision is blueprint of any organization for its turnaround; it is a path-map on which company trails out its battle. It is worth to analytically study the Vision adopted by the visionary leaders of this turnaround institutions.

- Major constituent of Turnaround Strategies: There are basically four main constituents on which, any Turnaround battle is fought. We have analyzed in respective company (of the selected cases), which were the main thrust instruments of turnaround strategy, on which management banked upon the most –

- People
- Product
- Profits
- Customer

- Style of leadership: Depending upon the situations/Internal and External Environment, management adopts different leadership style. For making the study more useful, We have categorized the leadership in following manner-
  - Authorative
  - Consultative
  - Democratic
- Turnaround Strategies adopted: There is never a single formula to win for all the turnaround cases, different strategies are adopted in different situations and in different circumstances and in different industries; but here we have broadly classified different activities in following four aspects-
  - Marketing Aspect
  - Financial Aspect
  - Technical Aspects
  - Financial aspect

3.4 DATA SOURCES:

- Secondary Data: Cases drawn from journals, books, Websites and research papers. These are the major source of conducting this research study.
- By observation: Collection of information by way of investigation, through questionnaire and by own observation. The information pertains to what is currently happening by either mailing structured questionnaire, taking interview through personal meetings/telephonic with turnaround leaders or

gathering data in accordance to the questionnaire format from various sources so as to get the proper report in scientific manner.

3.5 Sampling Plan:

- Sample Unit: Successful turnaround visionary leaders /entrepreneurs and turnaround consultant approach, their actions and observations are recorded.
- Sample Size: About 10 successful turnaround cases representing different segment such as MNC's, Pvt. Sector and Small Scale Industries, Samples will be undertaken across the country.
- Sampling Procedure: By observation method or through E-Mail, hence questionnaire will be specific, Point wise in relation to the subject.

3.6 Analysis of Survey Result

Properly tabulated data with an adequate rating as per the defined scale are analyzed to confirm the most common reason of sickness and strategies mix for turnaround statistical techniques to present the quantitative observations.

3.7 Expected contribution of the Study:

Basic requirement for any turnaround is the change of mindset, with the fast pace of change at market place, Companies are also suppose to response in well co-ordinate manner. It requires drastic changes in company's thinking process and its approach towards problem solving.

The cases undertaken for the research are conducive to current situation; It is analytical study and practical approach as how to achieve successful turnarounds. Industrial sickness is causing anxiety and lot of funds getting blocked. Whether it is Employer, Employee, Investor or Government, Economy as a whole is adversely affected. Retrenchment of services, not only dampen the spirit of human life; but it also brings lot many other problems.

Theft, Law And order problems, illegal trafficking etc. Mr. Jawahar Lal Nehru, India's firs Prime Minister rightly said that Industries are the temples of Modern India.

It is not only important for any nation to call upon more foreign investors or to call upon more entrepreneurs to put on more industries, It is also equally important to provide education, consultancy and support to existing units so that they may not get sick with emerging competition or with up gradation of technologies. If one side we think for putting up more industries and on other side our public funds are getting dead, Industries should work as national wealth creator rather than destroyer.

This research taken here is an effort to awaken the spirits and mind set of the yesterday's entrepreneurs/Mangers to combat the competition war .The examples of prominent cases are highlighted to evaluate the basic common problems of sickness and the effective strategies to turnaround.

We have tried with our this research paper to evoke new dimensions for the mindset, Our in-depth survey will help the industries, Institutions and nation to believe for the need of the change of mindset of all the employees and faculties of the organization to adopt to the demands of the new environment and perform to best of their abilities.

3.8 Limitations of this Study:

There cannot be any single formula for turning around the sick unit, Every industry have different type of internal and external problems.

The causes of sickness may vary from industry to industry, trade to trade and may also be different on the basis of Geographically, Climatic and on environment point of view. Availability of skilled and unskilled manpower, Law of the land and Government policies are some of the other aspects, Which is not in control of any manager /any industrialist.

Thus to conclude any single strategy. Which will be worth for turnaround, in all circumstances and for all the industries, is not possible; However we have tried to evolve here the basic common route of strategies taken in Indian perspective by all the industries (the cases taken for the research) for their successful turnaround.

We hope that in spite of the limitations narrated above, The study undertaken will be of immense useful for the practicing manager and industrialist to help them evolving right paths and strategies for their units with some alteration or modalities of changes in Strategy undertaken best suited to their internal and external problems.

Another limitation, which we foresee, will be the scarcity of time with our visionary leaders and consultants, to spare themselves for our interview and E-mail questioning response. It may also be possible that companies will not like to divulge their internal weakness or information; but all the cases taken here are from the best known companies, for which all data are available through journals, through company website and through internet.

There may be chances that the said companies for the sake of their business image may give misleading information or may not at all share the data or may not like to fulfill the questionnaire designed, then researcher with his acumen, experience and availability of information, has fulfilled the requirements of research.

4.1 TELCO TURNAROUND

TELCO, The TATA Group Company is now known as TATA MOTORS, It is one of the giant industry producing trucks, Light commercial vehicles and passenger cars.

In first ever in 57 years of its operations, Company reported a net loss of some Rs.500 Crores.

TELCO is Rs.8164 Crores group company, when made a jaw dropping, record-making Rs.500 Crores loss (In financial year 2000-01), It bought mixed responses. For consumers and admirers, it was feeling of disbelief. From analysts, it brought in sharp criticism and for the company it was a time for deep introspection.

Stage of sickness:

According to Mr. Ravikant, Executive Director, Commercial Vehicles Business Unit, TELCO The Rs. 500 Crores loss is a combination of operating loss and one time charges, So the actual operating loss amount to around Rs.270 Crores, Which can mainly be attributed to drop in volumes of mainly the heavy and medium commercial vehicles.

Other officials of the company say that the company hit by the recession in the industry and there was a general economic showdown, where increase in fuel prices did not lead to a commensurate increase in freight rates. Rationalization of Sales Tax structure has also increased the cost of truck.

Telco had consistent record of profit with highest market share in heavy commercial vehicle. Telco name meant professionalism, it stood for quality, high ethics and respectable employer-employee relationship; but decline in the sales of passenger Car section and as well as commercial vehicles reflected the downtrend and loss in year 2000-01.

Since these losses were reported first in 57 years and as there was no past history of losses. Symptoms of sickness and declining Sales, Erosion of profits, loosing market share and operating losses, these all indications are of **initial symptoms** of sickness.

Sickness Analysis:

The entire viability of TATA Motor's business model was in question and Ratan's (Chairman TATA Group) dream passenger car project was criticized. Business decision of launching Passenger Car –Indica and thus its project with Rs.1700 Crores investment raises lot of criticism and question on decision-making.

Internal Reasons:

Though one can not point out the reasons of internal sickness with a an authority; but due to downturn of commercial vehicles coincided with an investment of Rs.1700 Crores on Indica project, The company had hit rock-bottom, started to find ways to revive.

It is also true that if the commercial vehicle boom continued, No one ever thought of putting out the ways and means of evaluating strategies of turnaround.

High Cost: Mr. Ravikant, Executive Director of the commercial Vehicle business unit has rightly said "When you know you are going to be in a down turn phase with predictable degree of certainty, you need to think carefully what the organization should be. One thing therefore that comes clearly to mind is that you've got to be very lean to be able to take care of the leaner times."

High Inventory: Inventory levels were of 75 days of Sales

High Outstanding: Receivables were close to 90 days

Investment in non-core business: Major investments were blocked due to joint ventures with Mercedez-Benz, Bridgestone, Asahi-Glass even IBM.

#High Interest Debts: Company was operating with high debts of around Rs.3400 Crores at March 2001, the weighted average cost of debt used to be around 12%.

#Unutilized Capacity: With downturn, Capacity was unutilized. Breakeven level for commercial vehicles was of 60% of capacity, while of passenger car it was 75%.

High Manpower: Tata Engineering had a peak employee count of 37000.

High Capital investments: Total Capital employed were tune to Rs. 7206 Crores.

Absence of Customer-Oriented approach: From its inception, Company did not find much of the competitors as demand for the product were more than the supplies; but with emerging competition and foreign investors and new entrepreneurs entering, Customers are aware of choices.

From last many years company did not have much varied range for the consumers to choose upon the models. Relationship with direct customer and financers were also missing.

External Reason:

- Down turn in the economy and the market for commercial vehicles shrank about 40 percent.
- Company has been massively hit by the recession in the industry, as there was general economic slowdown, on other side increase in fuel prices did not lead to commensurate increase in freight rates.
- Equalization of Sales tax, it almost doubled the cost of acquisition of a truck.
- Government introduced new emission norms; Which Company could not recover the cost of emission compliance by switching Euro-0 to Euro-1 norms.

For the purpose of analysis, we have earmarked Internal and External reasons with 100 points each and to have further micro introspection we have asked Tata Motors Corporate office to give different points for various factors of Internal reasons as well for external reasons on the basis of the sickness reported/observed, their reply to our queries is as follows:

Internal Reasons		**Total 100 Points**
1.	Poor Management	
2.	Financial Indiscipline	
3.	Lack of Market Driven Approach	50
4.	High Cost	50
5.	Over Expansion/Big Projects	
6.	Over Trading/Adverse Product Demand	
7.	Technical/Product Failure	
8.	Labor Trouble	
9.	Lower Profitability	
10.	Manpower Turnover	
11.	High Interest Debt	
12.	Cost and Time Overrun	

External Reasons		**Total 100 Points**
1.	Lack of Resources – Raw Material/Manpower	-
2.	Government & Statutory Obligations	
3.	Environmental/Climatic Factors	
4.	Global Competition	100
5.	Recession in the industry/trade concerned	
6.	Economic Reforms/ Liberalization	

The Turnaround Strategy:

Focus Areas:

Company chalked out a blue print attaching various areas that need focus of attention, Five –pronged turnaround strategy planned out to take TELCO out of the woods.

1. Cost Management
2. Financial Restructuring
3. Organizational Renovation
4. Product Realignment
5. A new marketing thrust

1. **Cost Management:**

   1. In order to make up the loss due to drop in volumes, The Company proposes major cost reduction drive so that breakeven point is achieved at a much lower rate.

   2. Company has set a very aggressive cost reduction target covering three main areas:

      I. Direct Material Cost:

      It was achieved by means of vendor Rationalization programme that involved price negotiations, Value Engineering, better supply-chain management and e-sourcing to a level of world class automobile companies have reached.

      - Since materials accounted for a bulk of a company's expenses, getting the initiative on track was crucial, it started with Ravikant. Tata Engineering–Executive Director (Commercial Vehicle Division), assembling a team of 23 young achievers (average age 30) in April 2000 And giving them three days to come up with ideas on how to reduce direct material cost by 10% a year for 2000-2001 and 2001-2002.

- Atul P Rennavikar, Sr. Manager (e-procurement, materials pricing committee) was one of the young, picked for the exercise. They burnt plenty of midnight oil and (after 3 days); they were ready with ideas and proposals. Mr. Ravikant liked the group's ideas enough to give the go-ahead for a pilot cost-reduction project.
- The team comprising engineers, managers and shop floor workers was pared down to eight members for the pilot project, which essentially involved exploring ways to minimize Tata Engineering's costs and vehicle parts supplied by vendors from across the country.
- The team leaders started with three major models, one each from the light commercial vehicle and passenger car families. This made sense because the cost reduction possibilities identified with these could be applied to a whole lot of variants in the three vehicle categories.
- For each model category, team made, study down to the last nut and bolt. This helped them their understanding of these vehicles and then they compared them with some benchmark vehicles, of their own and with the competitors.
- Study was followed by analyses of various kinds: Zero based costing (building the cost of the products from scratch, from the value of the components that go into its making), Purchase rate analysis, and rate –to-weight study and value-for –money scrutiny.
- Value-Chain-Analysis revealed the scope for reducing incremental taxation .In the automobile industry, Value additions go through different stages and there is taxation at every stage. Integrating some of these value additions at the suppliers reduced taxation.
- Approaches to reduce Direct Material Cost:
    I. Value Engineering- the system of identifying alternative materials, designs. Technologies process was reinforced.

II. SWOT (Strengths, Weakness, Opportunities, Threats) analysis of vendors-The team worked out the strategy to maximize Tata Engineering's equation with vendors by tracking the relationship between its bargaining power and its purchasing value.

III. The single source advantage –moving from multiple vendors to a single vendor.

IV. Reducing imports --by indigenizing wherever possible.

V. Suppliers –looking for alternate suppliers if regular vendors could not or would not reduce costs.

VI. E-procurement-The reverse auction process, where vendors bid online to supply requirements.

- Total 16 Cross-Functional teams went to work on nibbling away at a total figure about 35 years old. The value teams were organized around the aggregates: Engine, gearbox, axle etc. The commodity teams considered things such as electrical parts, tyres air conditioners, seats, plastic pieces etc.
- Direct Material costs went down by about Rs. 200 Crores in 2000-01 and by Rs.168 Crores the following year.

II. <u>Variable Conversion Costs:</u>

- The company reduced power consumption across various operations and achieved a unity-buying factor, or optimum utilization at its Pune plant to qualify for benefits from the Maharashtra State Electricity board. It also secured Sales tax gains by purchasing power generated by windmills set up near Satara (Maharashtra) by at private company.
- Polycarbonates sheets were used at roof of top floor, this allowed for the utilization of natural light when possible.

- Further savings in variable conversion cost were recorded in fuel usage. Estimated Saving every year: Rs.85 Lakhs.
- TELCO got rebate of Rs. 31 Lakhs by maintaining desired unit factor saving of Rs. 4.5 Crores through the purchase of wind power sales tax benefit of Rs. 9.5 Crores from using wind energy.

III. Fixed Cost:

- Tata Engineering had a [peak employee count of 3700 in 1998;today the number has shrunk to 22000.Over a two year period (2001-2002), The company shed over 6100 people.
- There was some restructuring that accompanied the VSS scheme, with people being retained and shifted to other functions of the employees who took the VRS package around 1000 were managers and rest blue-collar workers.

2. Financial Restructuring:

- Tata Motors went on to identifying non-core investments as well as assets and either sold or hived them off, realized funds and prepaid its expensive debts. Over three years it divested from big-ticket JV, s with MERCEDEZ-Benz, Bridgestone, and Asahi Glass and even with IBM.

  Selling some of its investments was the route the company took to bring a figure that at one point read Rs.7000 Crores down to Rs.4300 Crores, Improving the Quality of this balance sheet was another.

- Tata Motors prepaid around Rs.750 Crores worth of high interest debt over the two years. Company's debt over the last two years. Company's debt has reduced to around Rs.1700 Crores as at March 2003, from around Rs.3400 Crores at

March 2001, on account of higher cash accruals (Over Rs.500 Crores in 2002-03), lower capital expenditure and better working capital management.

- The weighted average cost of debt, which used to be around 12% or so has come down to 5-5.5 %. This was partly on account of an interest rate reduction, Strong cash flows, and the actions initiated to reduce Working Capital and asset base .By selling the non-core business, Company got almost Rs.900 Crores in the last 3-4 years.

- Tata Motors operating margins improved from 4% two years ago to 11.6% in 2002-03.

- 25% of the total cost reduction of Rs.950 Crores came down from lowering of interest cost. In addition, Finance played a direct role of reducing another 10%, on account of cost reduction through a supplier bill-discounting scheme.

- Tata motors brought inventory levels down from a peak of
Of 75 days of sales to around 35 days of sales, receivables are
Down from close to 90 days to around 16 days.

- The cash to credit ratio used to be 25:75 in 1998-99, which was changed to 70% cash and 30% credit. Working Capital Cycle has fallen from 111 days to nil.

3. Organizational Renovation:

- Right sizing by bringing down manpower by 11,500 over the last three years.

- Company concentrated both on asset and business restructuring besides cost cutting.

- Marketing activity pepped up in the commercial Vehicle line of business like reconditioning, providing transport solution and spares will be focused upon to reduce the cyclicality of the business.

4. **Product Realignment:**

It was plan to achieve higher volumes by targeting both new product and aggressive marketing. In the automobile business, No Company can survive without continually refreshing its product portfolio.

- In last years, Company launched about a dozen products –the 207DI Pick-Up in the sub-four tonne category, this was the segment were company was not strong enough.
- The Ex series of trucks with new bodies and cabs were launched.
- In Passenger Car segment 'C' indigo was introduced.
- Series of Sumos and limited edition of the Safari Petrol version was put forth in the market.
- In the very first month the Indigo went straight to the top as the best seller in its 'C' class segment while 'Indica' continues to do very well.
- Tata Motors forged a relationship with MG Rover of the UK to produce 'City Rover', which is basically an upgraded Indica with high-powered engine supplied by Rover and with some improvements.

5. **A New Marketing Thrust:**

Interlinking the functions and involving Customers, Dealers, Financers and manufacturers at the same time restructured marketing.

- As against the earlier arrangement of depending only on the dealer network for marketing of products, the company under the new arrangement plans to come closer to direct customers while taking both the dealers and financers into relationship as allies for marketing.

- In the passenger car and utility vehicle segment, the company plans to tap new markets like semi urban and rural market.

- Additional thrust was put on the institutional sales.

- New versions of Sumo and Indica-Rover were also planned.

- Exports were up; Tata Motors forged a relationship with MG Rover of UK, Which gave foundation both for volumes and presence in the overseas markets. Tata has also tied up with Khodro of Iran for passenger cars with a potential off take of around 20,000 vehicles per year.

- Tata Motors started exploring the South African market under the taxi recapitalization programme. The project aims to replace 1,20,000 of the country's 16 seater buses by 2006.

- The company also helped set up a bus assembly plant in Senegal with a capacity of 1000 buses a year.

- There is also bus body building plant in Ukraine, where the Tata buses are being made, and an assembly unit in Malaysia and Bangladesh. Thailand having emerged as the largest manufacturer of pickup trucks in the Asian region and the second largest market in the world.

- There is also bus body building plant in Ukraine, where the Tata buses are being made, and an assembly unit in Malaysia and Bangladesh, Thailand having emerged as the largest manufacture of pickup trucks in the Asian region and the second largest market in the world.

For adopting any turnaround strategies, it is pre-requisite to work on focus approach and thus here we will evaluate in this particular case, what are the core strategies and on the basis of the thrust put into each of the areas, Tata Motors official Mr. Anand Sathey when asked to put forth his rating, he gave different scale rating to various focus areas. The range of rating is from 1 to 10 (1 stands for lower and 10 for high thrust):

Focus Areas for Turnaround Strategies:		
1.	The Customer Approach	6
2.	The Financial Restructuring	7
3.	The Process	10
4.	Man Power Restructuring	5
5.	Proper Checks	-
6.	Cost Reductions	-
7.	Change in process/technology	-
8.	Global Perspective	-

ANALYSIS OF VISION STATEMENT OF THE COMPANY: -

Vision is a road map of what is going to happen. It is a mental picture of the future. It foresees where the company is leading and where it wants to be avoiding the problems, which could befall in future.

Tata Leaders, whether Mr. Ratan Tata or Mr. Ravi Kant, Executive Director, for all of them TELCO (TATA MOTORS) was dream project; but company has been massively hit by the recession in the industry.

Vision and Mission Statement of TATA MOTORS is appropriately worded
"LEADERSHIP WITH TRUST"

Basically for turning around following two points were the vision points:

1. Cost Reduction
2. Team Approach

The TATA Group – A business built on a foundation of Trust and Ethics.
J.R.D. Tata Says "No Success or achievement in material terms is worthwhile unless it serves the needs or interests of the country and its people and is achieved by fair and honest means".

'MISSION '

To proactively participate in reshaping, the country's economic growth a holistic approach towards environmental problems.

To strengthen the TATA brand to create lasting relationships with the customers, by working closely with business partners to provide superior value for money, over the life cycle.

To create a seamless organization that incubates and promotes innovation, excellence and TATA core values.

Mr. R. Gopalkrishnan, Tata Engineering Director say that 'The Turnaround strategy aimed at revenue growth, product improvement and de-risking the revenue model. This led to organizational transformation, balance sheet restructuring, reducing operation cost and an enhanced product range.

If we analyze Vision and Mission statement, it is evident that main thrust is on

a. Trust (that may be of shareholders, Investors, Employees, Suppliers and of Customer).
b. Country's Economic Growth.
c. Holistic approach towards environmental problems.
d. Relationship with customer and provide them value for money.
e. Promote innovations, excellence and retain TATA Core Values.

Leadership Style of Turn around Manager / Leader

Person leadership quality is judged only in odd circumstances and at the time of uncertainty. It provides a cohesive force, which holds the group intact and develops a spirit of co-operation. Leadership style is the result of leader's philosophy, personality, experience and value systems.

"Essentially the work of turnaround in any company is done by the people in the company because they are the people who really understand the details of the business", says a top executive of TELCO – Mr. R. Gopala Krishna.

Here leadership adopted for the Turnaround of TELCO was of the style of 'Participative Leadership', which favoured decision making by the group, sharing of power by allowing the group to make decisions and to let decisions emerge from the group, Authorities were decentralized.

For TELCO turnaround, the silver lining was the 'people' who believed that the cost reduction can not be achieved in the company, which already hit rock – bottom started to find ways to revive it.

The senior management traveled and addressed 2,000 managers in 3 – 4 months. They also told the workers that a turnaround was possible, which was in their hands.

It started with Mr. Ravi Kant, Tata Engineering's Executive Director (Commercial Vehicle Division) assembling a team of 23 young achievers (Average age of 30) in April, 2000 giving them three days to come up with ideas to reduce direct material costs by 10% a year for 2000 – 01 and 2001 – 02.

Mr. Atul P. Renavikar, currently the Senior Manager (e - procurement materials pricing committee), was one of the young guns picked-up for the exercises, burnt plenty of midnight oil. After three days they were ready with ideas and proposals with road map.

The team comprising engineers, managers and shop floor workers, was paired down to eight members for the pilot project, which essentially involved exploring ways to minimize Tat Engineering's cost on vehicles parts

Once the pilot project was completed the initiative in reducing direct material cost was spread across the company. A total of 16 cross-functional teams went to work on nibbling away at a total figure of about Rs. 4000 Crores. A leader who was typically about 35 years old headed each team.

It is also hereby important to note that Voluntary Separation Scheme (VSS) whereby 6100 people were shed over, this decision was also taken with mutual discussion with participatory approach " we did a tremendous amount of work in explaining why this was necessary" says Prakash M. Telang, Senior Vice President (Manufacturing). "Our people also saw the trouble we were in fewer shifts on the shop floor, less vehicles going out of the gates, the slow down was obvious to everyone.

With an overall review of leadership style, it is evident that goals are set with mutual discussion and once road map is clear the execution part is taken by the group whereby work related decisions are taken by the subordinates. Group approach is adopted in supervision and control. Feeling of work and importance is inculcated. Thus the **leadership style adopted was of 'Consultative'** in nature.

Ranking of major constituents of Turnover Strategies: Tata Motors officials have ranked following four constituents as per their preference from 1 to 4 whereby 1 Stand for better and 4 for worst ranking

	Rank
People*	3
Product	1
Profits	4
Customer	2

* Here people denotes company's own manpower

Approach adopted for the process of Turnaround: -

Media Report by Financial Express – May 29, 2003 with the heading 'Two Strong' I's say that the recovery in passenger cars and resurgence of 'Indica' and 'Indigo' has been a driving force.

Report says that Higher Volumes and cost efficiency have made the turnaround possible. Mr. Gopal Krishnan. Executive Director, Tata Sons was making a presentation on the Tata Engineering Turnaround at the annual day of C.I.I. in Pune, where he said 'the turnaround strategy aimed at revenue growth, product improvement and de-risking the revenue model. This led to organization transformation, balance sheet restructuring, reducing operation cost and enhanced product range under the economic down trend, increase of fuel prices. The sale of passenger and commercial vehicles both effected.

To eliminate the losses, only two alternatives left: -

1. Increase volumes so that fixed cost can be uniformly absorbed to make the product cost lesser and market competitive.
2. Cost reductions at each and every process.

Each case has different type of sickness and accordingly we have divided these turnaround strategies primarily in four blocks:

1. Marketing/Customer approach
2. Financial aspect/Financial Restructuring
3. Technical Aspects/The Process
4. H.R. Aspects/Manpower Restructuring

There are different elements of particular block of strategy, To have fair view we sent our questionnaire to Tata motors, they deputed one of their Executive Mr. Anand Sathey, A.G.M. to provide us gathered information and he gave following rating (in scale of 1 to 5), here 5 denominates more thrust and 1 denotes least push for respective approach towards turnaround implemented:

Marketing Aspect/ Customer Approach		
1.	Efforts to sell proper product-mix	4
2.	Evolving customer/dealer oriented scheme	4
3.	Searching for unexplored high return & high growth markets	3
4.	Inventory Control through logistic management	5
5.	Launching new product satisfying needs of customer	5
6.	Reduction of marketing expenses	5
7.	Modification in dealer incentive schemes	2
8.	Appointment of distributors	2
9.	Disposal of slow moving/Dead Stock	4
10.	Recovery of disputed/old over dues	3
11.	Billing based on creditworthiness	2
12.	Periodic cash projection/monitoring	3
13.	Rationalizing pricing policies	2

Financial Aspect/ Financial Restructuring		
1.	Cost Reductions	5
2.	Disposal of non-performing Assets	3
3.	Revenue Generation	4
4.	Inventory Control	5

5.	Expedite Recovery	3
6.	Deferred Expenditure	2
7.	Curtail Capital Expenditure	2
8.	Explore to find possibilities for finance generation: ▪ On less Interest ▪ For long term	 2 2
9.	Expedite Cash Flow: ▪ Restructuring of Debts ▪ Settlement with creditors	 3 3
10.	Budget Control	4

Technical Aspect/ The Process		
1.	Reduction in manufacturing cost	5
2.	Purchase control	5
3.	Implementing industrial engineering techniques: ▪ Better material handling equipments ▪ Work & motion study for proper job allocation	 5 5
4.	Providing new innovative & technologically superior products.	5
5.	By achieving efficiency in manufacturing	5
6.	By increasing labor productivity	5
7.	Proper maintenance of plant and machinery	4

H.R. Aspects/Manpower Restructuring:		
1.	Change of management	4
2.	Downsizing Staff	1
3.	Training and upgrading the skills	3
4.	Resolving the issues relating to centralization and organizational conflicts	2
5.	Concept of Profit-Centre introduction, with prescribed decision making powers.	3
6.	Implementation of ▪ Two way communication ▪ Participative approach	 5 5
7.	Punishment and Reward Policies	3
8.	Promoting Corporate culture to change the mind set	4

4.2 CROMPTON GREAVES TURNAROUND

With the opening up of economy, there are always chances that Indian companies which haven't read the writing on the wall quickly enough will find themselves rendered irrelevant in market place, irrespective of the sectors in which they operate.

It also happened with the company like Crompton Greaves (CG), which was an Indian operation from last sixty-eight years. In fact, the first unit of electricity was generated on a "Crompton Dynamo" at Calcutta in 1899. A leader since 1937, Crompton Greaves is a large electric engineering company. It was British owned company and was known earlier as Crompton Parkinson Works (India) Ltd., producing ceiling fans and small electric motors in Worli District of Bombay, over the next 60 years it diversified into a broad range of electrical products, adding transformers, electric motors and switchgears.

Marketing of Crompton products were carried out through the Greaves Cotton Company. This relationship got more strengthens in next 60 years after the inception in year 1937. In the year 1947, Crompton Parkinson (India) was taken over by the Thapar Group (by Lala Karamchand Thapar, an eminent industrialist). 26% equity stake in Crompton Parkinson (India) was acquired by Greaves Cotton in 1948. In 1966 the production company and the marketing company were combined into a single entity. By 1933 Thaper's share holding in the company was 33%. Howker-Siddley stake was about 16%, while remaining half of the company share was then held by institutions and private shareholders.

Crompton Greaves core businesses are structured into four business groups: -

1. Power Systems
2. Industrial Systems
3. Consumer Products
4. Digital Segment

Company operations consist of 22 manufacturing divisions, which are spread across in Gujarat, Maharashtra, Goa and Madhya Pradesh.

CGL has network of 4,000 Dealers and 23 Regional offices in India. Apart from this company exports its products to more than 60 countries worldwide.

Indian economy liberalization accelerated after 1991, particularly in relation to external trade and an opening up towards foreign investments and technology. Crompton Greaves also effected by this radical change, the competitive climate which prevailed until the early 1980's had led CGL into a low growth, low profitability. Though installation of new management in 1980's, reinvigorated growth and profitability, but by 1990's performance had begun to deteriorate again.

CGL suffered a full off in sales and a marked decline in profits in the first half of the 1980's. Company profits before tax averaged only 1.7% between 1983 and 1987 (compared to 6.1 percent in the preceding four years) and had declined to 0.9% in 1984 May.

CGL's performance began to improve by 1989 – 90; but sales and profits dipped again in the early 1990's.

The trend of losses started from 1990's onwards and by 2001 – 02 the accumulated losses were tuned to Rs.39 crore which got reduced to 13 crores in year 2002 - 03.

STAGE OF SICKNESS

All was not so well with Crompton Greaves Limited. It was evident through Annual General Meeting held on 10th August, 2000, whereby shareholders disenchantment and investor disinterest was apparent because of following facts: -

a) A Mammoth loss of Rs.1.47 Billion.

b) No dividend for the year

c) Languishing share price

d) Deterioration in other financial parameters such as debt equity ratio and interest cover ratio.

e) Non-provisioning of certain Income tax and Excise Duty demand, which has been pointed out in the Auditor's report.

f) Investment in Swank premises in World despite the company being in dire state.

g) Postponements of the much hyped restructuring exercise, which entailed a vertical split into 3 companies.

h) The money from the Bahrain – Sky cell deal taking more time than anticipated and that too the deal was struck at a price below market expectations.

If we measure sickness of Compton Greaves Ltd., it is observed that one hand sale is declined, profits eroded and company product lost market share. On other hand industry losses kept continued for years, skipping of dividends started making worried to the investors.

Thus considering all the above situation of the company, the sickness of Crompton Graves Ltd. termed as **'Incipient Sickness'**

SICKNESS ANALYSIS

In this section, we would analyze the reason of sickness, which confronted the giant organization like Crompton Greaves to look forward for its turnaround.

INTERNAL REASONS

1. **Over Diversification**

Crompton Greaves over diversified in response to FERA and MRTP regulators and its product range was broad for a company of such size. The products offer were in competitive arena, company used to operate in sellers market; but the products recently added require market driven approach where company's marketing skills were weak.

2. **High Cost**

- High Personnel Cost

  Bombay plants were overstaffed coupled with relatively high wages, cost of personnel loss from 12 % of sales in 1981 – 92 to 17% in 1984 – 85.

- High Project / Land Cost

  _Most of the plants of Crompton Greaves were located in Bombay, at sites in Worli and Kaujur. While this gave the company the benefit of the local industrial and social infrastructure. It also burdened with high land / project cost.

- Recession

  Low cost producers in East Asia and particularly from China producing products directly competitive with CGL's own portfolio. Company's sales and profits dipped again in the early 1990's.

- Lack of Market Driven Approach

  With emerging competition from Indian and foreign low-producer company's, CGL could not provide customers with improved quality and delivery. CGL experience to face this radical change was lacking. Knowledge of the new competitive challenges to operate in buyer's market was not there.

- Technical Weakness

  In reality the products like power electronic drivers for induction motors, there were doubts whether CGL will be able to maintain their independence in the future. CGL failed to reach the quality and innovation levels of the preferred global supplier.

  R&D expenditure was low and was limited to the basic engineering of the product whose design was stable. The manufacture and design of induction motors were on the verge of very significant changes and when it transpires, it would require major investments in R&D at the stage when market will be more competitive in future.

3. **Poor Management**

- Inventory Management

  With regard to inventory management, CGL's performance was moderate. The distance of the plant from Bombay, the poor road infrastructure and the underdevelopment of it supplier base meant that raw material stocks were difficult to reduce. However, Higher Cost Stocks, which were directly under management control – were relatively high.

  As a consequence of these high levels of WIP stocks, the time taken for material to pass through the plant, were relatively long. Similarly, lead time (time taken to satisfy orders) was also slow.

  'Defect Rates' at the Goa plant were extremely high. Both CGL its largest and most demanding customer agreed that few of the defects arose within the plant itself.

- Individualistic Approach

  Managing Director Mr. Nohria Single handedly suggesting and promoting organizational change. In fact, there is the danger of this individualistic approach. It is for this reason it was interpreted that organizational changes in Crompton Greaves did not lead to sustained productivity increases. It was due to the fact that all impetus for change came from an individual. There is hardly any evidence available that action imitated for turnaround has any conviction at lower managerial levels or at the shop floor level.

4. **Labour Problem**

Plant location of CGL in Bombay puts the company in labour problem as it was at the centre of trade union militancy. The company's main site at Kanjur was just a few kilometers from Godrej plant, which in 1972 was the launching pad for the rise to power of Dutta Samant, the most militant union leader of that period. Violent union conflicts erupted in this part of Bombay in the late 1970's and two workers were murdered at the Kanjur site in 1980.

Dutta Samant established a new pattern of collective bargaining. This concentrated on improving wages and demanding major increase for workers.

5. **Overstaffing**

At CGL, the strategic business units not only had President, but also Vice Presidents, Group General Managers, Senior General Managers and Deputy General Managers. This proliferation of titles did not represent a lengthen of command chain; for instance, a Manager might gain a 'promotion' but still do the same job, such status distinctions might undermine team-based management and this indicates the difficulties faced by company wishing to cut hierarchy.

CFO of Crompton Greaves has enumerated the percentage of sickness in following manner:

(1) Sickness Analysis

		% of sickness
I	1. Poor Management	
N	2. Financial Indiscipline	70%
T	3. Lack of Market driven approach	
E	4. High Cost	30%
R	5. Over Expansions/Big Projects	
N	6. Over Trading/Adverse Product Demand	
A	7. Technical / Product failure	
L	8. Labour Trouble	
	9. Lower profitability/margins	
CAUSES	10.	

EXTERNAL REASONS

1. **Pro-Employee Government Regulations**

Industrial relations in Maharashtra were low on trust. Workers had strong employment stability rights as well as rights to union representation. Relations between employers and employees in the organized sector are regulated by a series of laws which designed in part to prevent labour conflict, on the assumption that labour was un-organized and unable to protect its interests in the face of powerful employers. CGL was attempting to turnaround; but the stability of employment, long established working practices and a new union blocked the impetus for change. The lack of an exit policy gives workers some security.

2. Economic Reforms and Liberalization

The first reform to the system of economic control took place in the period 1981 – 1987, affecting both industry policy and trade policy. Licensing restrictions were relaxed and in 1985 a system of 'broad-banding' was introduced which freed up firms to shift product mixes and switch capacity to related items. In additions, controls on large companies and foreign corporations were released.

Major policy changes came only with liberalization programme, initiated in 1991. In the course of 1990's, tariff levels were reduced significantly, quantitative restrictions on imports were largely abandoned, foreign direct investment freed up, exchange controls simplified, the industrial licensing system abolished, reservations of economic activities for the state reduced its scope and restriction on large companies release.

CGL performance also got affected by the radical change put forth by liberalization, there was pertinent threat from Chinese low cost fans, CGL's was operating in sellers market till 1980's. Sudden opening up global competition lead to the company into a low growth, low profitability. CGL was not in a position to take advantage of the new opportunities, which were opening up for business as the relaxation of industrial licensing freed up the barriers.

CGL also suffered from major weakness it had over diversified in response to the FERA and MRTP regulations and its product range was broad for company's size.

CFO Mr. Madhv explained the External Reason for the sickness as 'Depressed Market especially in Power Sector' and he gave following percentage to the various factors of external sickness.

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	
	2. Government & Statutory Obligations	
	3. Environmental / Climate factors	
	4. Global Competition	
	5. Market Recession	100%

THE TURNAROUND STRATEGY

Turnaround process of CGL has major impact when Mr. K.K. Nohria became Managing Director in 1985 after two years spent as Executive Vice President. When Mr. Nohria took over, CGL was in a poor condition.

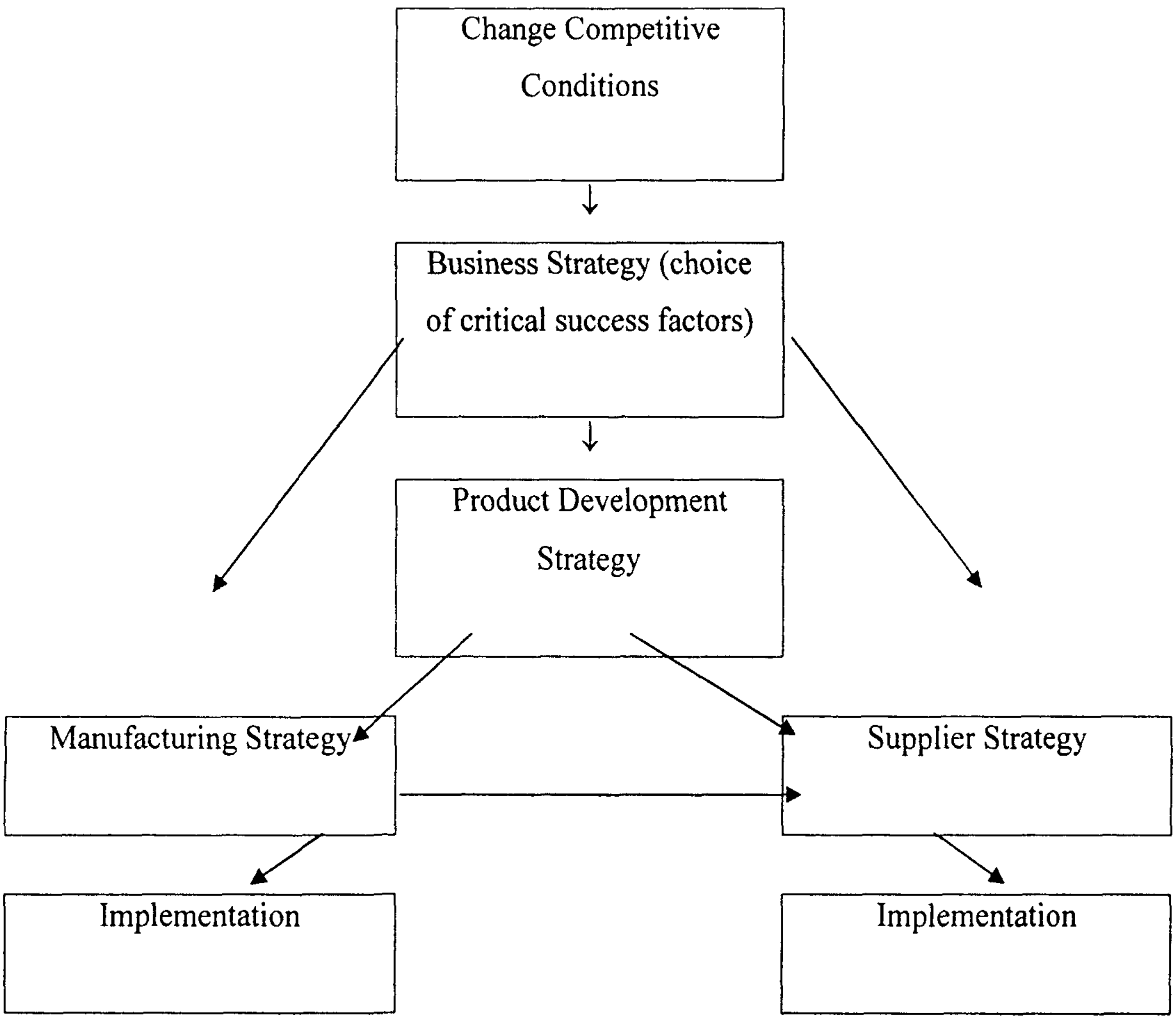
Mr. K.K. Nohria, set up following strategic terms with the aim of turning around CGL's operations: -

i) To consolidate and upgrade the core businesses.

ii) Expand into new high growth areas in the electronic field.

iii) To accelerate the process of moving production away from Bombay.

iv) To achieve this with the existing labour force and by enhancing quality and reducing cost.



PROCESS OF RESTRUCTURING

Manpower Restructuring

The key element of company transformation lying at the heart of Mr. K.K. Nohria's strategy, was people 'KKN wanted Crompton's 900 people working for the company and not just in the company'.

In 1991, the company set out a seven-year programme to become a world-class company by 1998. It defined the attributes of a world class company in the following terms (In relation to Manpower): -

- The hallmark of a world-class company is its people and leaders. The leaders play a critical role – the role of bringing change, providing direction and guiding its people to excellence.

- A world-class company attracts, retains and motivates staff. It involves them in improvement management, trains them, and recognizes their achievements.

Mr. Noharia set a goal to increase CGL productivity with annual sales per employee targeted to rise from $ 20,000 to $ 50,000.
The company's vision 1998 document contained short statement on goals and programmes, followed by statement on how the company should be run. And by creating an environment which encourages team efforts and where.

- Each individual's contribution is recognized and valued.
- Each individual enjoys his work and has an urge to excel; and
- Each individual gives his best to achieve the shared vision.

Total Employees Involvement

This programme was an attempt to transform labour management relationship. Under this programme two most common initiatives were made (a) Quality Circle (b) Individual Kaizen activities.

Education and Training

CGL tried to impart plant wide training programme aimed at upgrading worker's skills or inculcating new methods to work. Management saw the benefits of training as means of changing attitudes.

Managerial Restructuring

With the objectives (i) Decisions have to be taken quickly (ii) Managers should able to control the factory. Management is structured so that fewer managers are needed, members of layers of management in a plant may be reduced and thus it should improve communications and speed of response and delegate authority down to those who are involved in solving the problems.

Process / Technical Restructuring

Under process restructuring, basically three steps were taken: -

(i) Just-in-time control of inventories and new procedures towards production flow.
(ii) The implementations of total quality control
(iii) The introduction of mechanisms to ensure a process of continuous improvement.

(i) Just-in-time (JIT)

This involves the production of right quantity with the right quality at the precise moment it is required.

For effective manufacturing, all three types of inventories – incoming materials and components, work-in-progress (WIP) and finished goods – need to be reduced.

Reduction of inventories have following advantages: -

- Inventories involve cost (opportunity cost), cost of space, labour cost to equip and maintain the store.

- Storing of product for long term, losses its value, as it can be damaged and outdated.

- Because of high inventories available, they hide the problems of machine breakdown, poor quality etc.

CGL explicitly followed the principle of JIT in all the three plants of CGL. Implementation of this technique helped in reduction of inventories: -

- Incoming material / WIP inventory which was used to be about 120 days in 1986 / 87 in industrial motor plant got reduced to about 75 days in 1995 / 96. Similarly in circuit breakers plant it got reduced from 210 days (in 1991 / 92) to 90 days, while in fan division inventory got to almost too negligible status in 1995 / 96.

(ii) Total Quality Management

TQM has basically three aspects to look into: -

- Workers can become actively involved in checking the quality of own work. As a result, the member of dedicated inspectors is reduced significantly and the quality department became more oriented towards establishing quality audits, norms and procedures rather than checking quality itself.

- TQM places emphasis on producing right-first-time, 'zero defect production', management puts much grater emphasis on tracing quality problems back to their source and correcting the factors which give rise to poor quality.

- Design for manufacture or 'design for assembly' was adopted to facilitate production. This helps in reducing cost, provide easiness / convenience in assembly and less chances of labour mistakes.

TQM also emphasizes customer orientation in which quality is defined for meeting customer's need. This is what CGL also follows and that's why following slogan is painted on CGL's plant building walls.

"Quality is what the customer and not the product returns to the factory'.

All quality related activities from designing to after-sales-service, should be determined by the customer's priorities.

(iii) Continuous Improvement

It has two approaches: -

- Technological improvement was seen largely as being within the domain of technical workers, usually grouped together in research and development laboratories.

- Comprising a series of leaps in capabilities, metaphorically seen as climbing a steep staircase of learning.

CGL introduced a series of initiatives aimed at improving performance in the key areas of productivity, quality and speed of response to customers.

In 1980's the company began to be more aggressive, developing multiple sources for parts and pushing for lower prices. In 1993 CGL began to realize that this response had created increasingly adverse relations. Moreover, the ruthless pursuit of low prices had driven away the competent suppliers who invariably had other customers whom they could serve. The policy was thus working against the firm's internal restructuring and a new shift in supplier strategy was a logical extension of the work done.

CGL wanted to have suppliers who were committed so that they could deliver low-cost, high quality products to meet agreed schedules. CGL adopted 'Obligation Contractual Relations' with suppliers, which involved following three elements: -

(i) Competence trust - the expectation that parts would be defect free, and not require inspection.

(ii) Emphasis on Quality System – meant that the procedure for allocating orders moved away from price and towards the proven capabilities of established suppliers.

(iii) Establishing Quality System with suppliers – required greatly increased communications with the technical support from the customer, and the suppliers would have to invest in their relationship with the customer.

CGL did not wish to have suppliers highly depended on it, since the corporate policy was that no supplier should sell more than 40% of its output to CGL.

Financial Re-structuring

1. In the last couple of years Crompton Greaves sold off its non-core business to pay off its debts. Now debts, as proportion of shareholder's funds, stand reduced at two times, as against 2.25 in the last year.

2. Reduction in interest cost improved the bottom line and cash flows. The improved profits and cash flow have reduced accumulated losses.

3. The company closed down three Divisions, Capacitors Division, Informatics Division and Industrial Electronics Division.

4. Cost reduction process initiated, shifting plant from Bombay to Goa offered clear advantage: Wage costs in Goa were only approximately 25% of those in Bombay and labour productivity was higher. Besides those tax concessions were made available for seven years.

5. In industrial Motor Division at Ahmedanagar, specific techniques of production / industrial engineering were adopted to increase productivity around the theme of waste elimination and upgrading of equipment. Thus it resulted ultimately in reduction on cost of operations.

The Customer Approach

1. In moulded case circuit breakers divisions of CGL, it had a problem, despite adequate production capacity; customer service performance was poor, with an average response time of around eight weeks.

   The changes in the organization of white-collar work alone produced a substantial reduction in customer response time. Total response time was reduced from 57 to 34 days. The number of operations involved in meeting customer orders was halved from 100 to 51. Over period of 18 months, the time taken to meet customer's orders was more than halved from 57 to 24 days.

2. In 1993/4 and 1994-05 the Industrial Motor Plant adopted a strategy of increasing market share by reducing prices and sacrificing short-term profitability. Thus, product prices were lowered by 2.5% in 1993, despite an increase in input prices of 8 – 9 %. The consequences was that unit volume grew very significantly by

41% in those two years, market share also rose from 18.9% in 1990 to 28% in 1995 and touched 30% in 1996.

3. Steps were taken at CGL Fan Plant to arrest lead-time, defect rates, large inventories and higher cost of operations. This all had positive impact on the total operations of the plant. Revenue grew significantly after the 1990 strategic refocusing. In the past 1990/91 product mix were changed and there were impact of inflation, which resulted in increase in unit price of fan and demand picked up for Crompton Brand. Market share of Crompton attained 27% in 1995/6 from 14% in 1989/90 and became the third largest producer in fan industry.

When it is been asked to rank the Customer Approach, The Financial Restructuring, The Process, Man Power Restructuring, Crompton Graves gave following evaluation on the rating scale of 10, whereby 1 stand for low and 10 for higher focus.:

	Scale Rating
(a) The Customer Approach	6
(b) The Financial restructuring	10
(c) The Processes	8
(d) Man Power Restructuring	10

VISION & MISSION OF THE COMPANY

In 1988 CGL made a commitment to achieve '2000 by 2000' that is, a turnover of Rs.20,000 million by the year 2000, a compound growth in nominal terms of 18% per annum; but by 1996/7 CGL exceeded Rs.15,000 million turnover and with ratio of growth target was suppose to be exceeded by year 2000. Hence, vision was upgraded and extensively communicated to CGL labour force.

Vision Statement

To create value by providing integrated solutions and superior knowledge-based products and services in the domain of generation, transmission, distribution and utilization of electrical energy.

To become the Company of choice for utilities, industry and households in the global market by leveraging technology and productivity through a highly empowered and engaged team.

Mission

To achieve Crompton Greaves a status of world-class company by March 1998, which will ensure: -

- Customer satisfaction and preference.
- Profitable growth.
- Perpetuity
- Stake holder's satisfaction and pride.
- Fulfillment of social obligations.

Though continuous of process focused on: -

- Total Quality.
- Resource Productivity.

- Cost Effectiveness

And by creating an environment which encourages team effort and: -

- Each individual's contribution is recognized and valued.
- Each individual's enjoys his work and has an urge to excel.
- Each individual gives his best to achieve the shared vision.

To implement this vision, initiatives were focused on promoting new procedures and forms of organization. Thus the Corporate Management set targets, also persuaded management of individual divisions to take responsibility, develop the monitoring system and devise and implement corrective action.

All managers were held responsible for their commitments on five key measures of their performance: -

(i) Profit before tax.
(ii) Revenues and revenue growth.
(iii) Cash flow.
(iv) Manpower and
(v) Capital expenditure.
(vi)

Ranking of major constituents of Turnaround Strategies

Crompton initiatives for turnaround strategy ranked People, Product, Profits and Customer in following manner:

1 Stand for better and 4 for worst rating

	Rank
People	**2**
Product	4
Profits	1
Customer	3

STYLE OF LEADERSHIP

Turnaround process started at CGL, after Mr. K.K. Noharia became Managing Director in 1985 after a two-year spell as Executive Vice President. Mr. Noharia wanted Crompton's 9000 people working for the company and not just by the company.

Communication Style

He developed better communication between management and labour. He used to meet wide range of managers and encouraged lower level management to meet more regularly with workers.

Setting Goals

In 1991 under the leadership of Mr. Noharia, the company set out a seven-year programme to become a world-class company by 1998.

Crompton Greaves did not lead to sustained productivity. It was due to the fact that all impetus for change comes from an individual. The commitment level and thrust for turnaround was missing at lower managerial levels.

Considering the above facts, Crompton Greaves conveys their leadership to **'Authorative'.**

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

Crompton Greaves declared profit before tax – Rs.101.60 crore, while profit after tax is Rs.62.10 crore for the Financial Year result ending on June 30, 2005.

Against 619 crore turnover in year 2003-04, company business in year 2004-05 has improved to Rs.730 crore.

CGL Managing Director has stated that these good results are due to the company's good working, various business activities and because of financial restructuring took place in last four years.

It we go through the company history, it is evident that main thrust put forth by the company was towards HRD. In 1984/5 main focuses was on HRD. The key element of company transformation lying at the heart of M.D. – Mr. K.K. Noharia's strategy, was people. This turnaround was made through: -

- Open house discussions in the groups of 30 – 40 for 10% of labour force; thus cascading these down to all employees.
- Commitment of training to upgrade the skill, exposure to latest techniques and establishment of specific target.

From 1985- 06 onwards emphasis was on quality, productivity, business process re-engineering. From 1994 – 05 thrusts were on supplier development and on technology. In 1996 company adopted MRPZ programme for inventory control by installation and use of computerized management information system.

From 1993 – 04 onward CGL made all efforts to woo customer and to grab higher market share. Customer oriented approach was adopted to get higher business.

It is after 2000 onwards, company started financial restructuring by

- Selling non core business / non-performing assets.
- Reduction in interest cost.
- Shifting of plant in low cost operation areas and whereby tax exemptions were available.
- Reduction in operational cost.

Crompton Greaves CFO provided to various aspect of turnaround strategy in following manner: On rating 1-5 scale, whereby 1 stand for low and 5 stand for high rating:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	3	1. Cost reduction	5
2. Evolving customer/dealer oriented scheme	3	2. Disposal of Non-performing assets.	4
3. Searching for unexplored high return and high growth markets.	3	3. Revenue Generation	3
4. Inventory control through logistic management.	5	4. Inventory Control	5
5. Launching new product satisfying needs of customer.	4	5. Expedite Recovery	5
6. Reduction of marketing expenses.	5	6. Deferred Expenditure	0
7. Modification in Dealer incentive schemes	4	7. Curtail Capital Expenditure	5
8. Appointment of Distributors.	3	8. Explore to find possibilities for finance generation • On less interest • For long term	4
		9. Expedite cost flow	
		• Restructuring of debts	4
		• Settlement with creditors	0
		10. Budget control	5

9. Disposal of slow moving. Dead stock 10. Recovery of Disputed/old over dues. 11. Billing based on creditworthiness. 12. Periodic cash projection / monitoring. 13. Rationalizing pricing policies.	4 5 5 4 0		

Rating 1-5 scale, as per The Quantum of Strategy implemented in turnaround process:

→ 1 stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost 2. Purchase control 3. Implementing industrial engineering techniques • Better material, handling equipments. • Work and motion study for proper job allocation. 4. Providing new, innovative & technically superior	5 4 5 5 3	1. Change of Management 2. Downsizing Staff 3. Training & Upgrading the Skills 4. Resolving the issues relating to centralization, decentralization and organizational conflicts. 5. Concept of Profit Centre introduction, with prescribed decision – making powers. 6. Implementation of	4 5 4 3 4

products.		• Two way communication	2
5. By achieving efficiency in manufacturing	4	• Participative Approach	2
6. Increasing Labour productivity	5	7. Punishment and Reward Policies	4
7. Proper maintenance of Plant and Machinery	4	8. Promoting Corporate Culture to change the mind set	3

4.3 ARVIND MILLS

Arvind Mills Limited is one of a unit of Lalbhai group, which was founded by way back in 1908 by three brothers – Kasturbhai, Narrattombhai and Chimanbhai.

In year 1931, Kasturbabhai Lalbhai group started a venture – ARVIND MILLS. Over the decades it built up into one of the most respected Business Houses. Organization has presence in Textiles, Ready to wear, Agrochemicals and Air conditioners and in TELCOM Industry. Now Arvind Mills Limited is the flagship company of Rs.20 billion (US$ 550 million) of the Lalbhai group.

- Between 1987 and 1997, Arvind put up 110 billion meters of Denim capacity, becoming the world third largest player.

- From 1993 to year 1994, Company was on continuous path of growth, its turnover increased from 286.88 crores to Rs.863.15 crores and profit increased from Rs.41.37 crores in year 1992 – 1993 to Rs.127.40 crores in year 1996 – 1997.

- Year 1996 was one of the best years; it could make 10 different styles of denim in a month.

- In early ninety's Arvind Mills expanded their production base, that scale of operation complied with low cost of products which gave an edge in the global denim business and finally Arvind was selling most of the denim it produced in overseas market. There was no other company in India that could boast of similar achievement.

- Business World – a leading Indian magazine rated Arvind Mills as the most preferred garment company to work in India.

Stage of Sickness

Arvind Mills once the icon of corporate India started loosing close to Rs.1 crore a day in last year of 2000 era. In 1998 – 99, Denim market collapsed, prices touched as low of Rs.78 per meter. Arvind became uncompetitive in the US market.

Arvind Mills had 85 institutional lenders; it had fixed deposits from 30,000 retail investors, who collectively put Rs.22 crores into the company. Of its debentures worth of Rs.100 crores, 85,000 individuals owned 45%. The total loans aggregated to about Rs.2700 crores.

The company, its managers and above all the Lalbhai family had failed; it was now up to the lenders to restructure. Arvind's debt, or else the show were over. Now lenders got aware that Arvind Mills is a sinking ship. In 1999, a consortium of offshore lenders along with ICICI represented Rs.800 Crores of loans, had appointed consultancy firm KSA Technopak to obtain a third party account of the mess at Arvind. By then Mr. Sanjay Lalbhai, M.D. and promoters of the company at its managers were also clear that the only way out was to restructure the massive debt accumulated. In spite of management willingness to reduce the debt burden and make it more transparent. It was not an easy task as there were 85 institutional lenders, 30,000 retail investors and 85,000 individuals from around the globe with staggering debt of Rs.2700 Crores again average sales of say about 1400 Crores and again equity and reserves of about 1000 Crores.

Down turn in denim business sharp increase in fuel cost were some reasons of sickness but at manpower front also the quality of jobs kept falling. In year 1993 company recruited 60 Management Trainees and Engineers in anticipation of future growth, company took people on competitive compensation from premium institutions but things changed almost overnight. Ambitious Executives recruited by Arvind started leaving one by one.

Mr. Jayesh Shah, CEO of Arvind Mills gave an insight, how the world thought of Arvind Manager's then "The Head hunters kept calling, but the quality of jobs kept falling".

Time and cost overran in the projects related to manufacture of shirt and knit fabrics.

Overall view of the situation reveals that Arvind Mills which remained for decades as country's most respected house started loosing due to cost over running, over expansion, loose string of controls, bad market conditions and of high interest burden due to higher debts.

We will turn the company "Arvind Mills" sickness as **'Gravely sick'** because there was decline in sales, losses creeping in Arvind Mills was reeling under the twin pressures of a steep decline in the denim prices and a hefty debt burden. The company posted a net loss of Rs.500 Crores in 18 months ended September 2001. The stock plumed to an all time low of Rs.4. In this situation the erosion of the net worth is more than 50%. Talented manpower started leaving the organization. Financial Institutions started loosing faith and initiated the steps to recover their dues.

Sickness Analysis

Company could not anticipate the fall, they remained hopeful for six months to realize what was happening.

Internal Reasons

1. Man Power Turnover

As the position got declining, qualified, experience and ambitious executives recruited by Arvind started leaving one by one. Among them Mr. Vikram Rao, Head of Shirting business, joined the Aditya Birla Group. Mr. Arun Pandey, Head of Knits, left for Kinetic Honda, Mr. Pallav Chandra, and Arvind Chief Designer joined the Aditya Birla

Group and Mr. S. Padmanabhan, Head of Ruff and Tuff joined Raymond's and thus quality of jobs kept falling.

2. Aggressive Approach and Loose Control

On one hand recruitment of Ambitious Executive lead to aggressive style of working on the other hand owner Mr. Sanjay detached himself from the management of the company. He saw himself more in the role of a Strategist than a Manager. Mr. Sanjay says "I distanced myself between 1996 and 1998; therefore, the problems of managing what was in any case, an aggressive strategy was compounded by my distancing myself."

3. Hard Pressed to Service Debts

Arvind was hard pressed to service the huge debt it had on its books, that was Rs.2700 crores.

4. Over Expenditure

Success had also spoilt Arvind with constant hurrahs from the stock markets, the media and industry, it took its success for granted and felt it could do no wrong. Shah for example admits that the company overspent on the Santej project by almost 25% and there was a time over run too "we were too lavish; our justification was, as Arvind we deserved a campus where even the toilets had to be of five star qualities".

5. Time and Cost, Over runs in the new Projects

There had been significant cost and time over runs in the projects related to manufacture of shirt and knit fabrics. The projects were mostly financed by debts. The commercial productions were delayed by over a year. Increased financing charges due to delay in the project completion, pre-operative expenses due to longer period of trial production, translations loans on dollar debt due to the depreciation of the Indian rupee, all contributed to the cost over runs.

When Arvind Mills's executives were asked to put their views about the various reasons of internal reasons and mark in terms of percentage, they defined it as follows:

		% of sickness
I	1. Poor Management	20
N	2. Financial Indiscipline	10
T	3. Lack of Market driven approach	
E	4. High Cost	20
R	5. Over Expansions/Big Projects	25
N	6. Over Trading/Adverse Product Demand	
A	7. Technical / Product failure	
L	8. Labour Trouble	
	9. Lower profitability/margins	
CAUSES	10. Manpower Turnover	15
	11. High Interest Debt	10

External Reasons

In an increasingly volatile environment, where there are no guarantees of stable business, Arvind got into red, partly of its own making and partly consequences of factors over which it had no control. Chief financial Officer Mr. Jayesh Shah says "In theory, Management is expected to foresee events, but in practice, how well managers can pre-empt events is debatable".

1. **Over Expansion**

Arvind Mills, owner Mr. Sanjay Lalbhai set to make a big impression in the global arena with his dreams. Anticipating a great demand, he built up huge capacities. Being dependent on one product "Denim" it had a high level of concentration risk. That is all its eggs were in one basket (even an Rs.1 per meter fall in denim prices, would result Rs.10 crores to Company bottom line). Denim being a commodity, which driven by force fashion, demand supply imbalances etc. over which Arvind had no control.

Over 20 year's new capacity has come up, all over the globe, including in China. The global denim market collapsed. Arvind Mills could not anticipate the fall, they remained hopeful for six months to realize what was happening. Arvind got trapped in huge debt it had on its books.

2. **Downturn in the Denim Business**

Global denim capacities nearly doubled from 1.9 billion meters in 1992 to 4.00 billion meters. Also in late 1990's partly due to shift in fashion to soft fabrics, such as Chinoy and Gabardine. The changed supply and demand structure in the industry worldwide intensified price competition. Arvind Mills's sales realization per meter fell 22% in rupees terms, from a high Rs.93 Financial Year March, 1997 to Rs.73 in Financial Year March, 2000.

3. **Short increase in fuel cost**

Despite global pressure and ambitions, Arvind Mills had no clue about the implications of the North Atlantic free trade agreement (NAFTA), fuel expenses were doubled in financial Year, March 2000, from the previous level, as prices of crude oil and naphtha sky – rocketed.

To have in-depth analysis, again Arvind Mills's executives were asked to enumerate the various factors of external reasons as well and put it segmented as per their significance in form of the percentage.

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	25
	2. Government & Statutory Obligations	
	3. Environmental / Climate factors	25
	4. Global Competition	25
	5. Economic Reforms/ Liberalization	25

Turn Around Strategy Adopted

"The assumption of India being clothiers to the world wasn't wrong then, isn't wrong now "saying CFO of the company Mr. Shah.

Managing Director Mr. Sanjay sees the organization inability to anticipate and manage risk as it biggest failure. "Any strategy is always based on assumptions, but things are changing so rapidly today that you have to accept volatility and build that into your strategic plan. Perhaps, we never did enough of that"

Focus Areas: -

(i) Reduction of debt burdens.

(ii) Marketing / Service oriented approach

(iii) Proper control, checks and warnings

(i) Reduction of Debt Burdens

Arvind Mills did not generate adequate operational cash to service its debt during financial year 3/2000 and even over the next 10 years, the company would be able to service only 60% of its loans. The company its managers and above all, the Lalbhai family, had failed. It was now up to the lenders to restructure Arvind's debt or else the show was over.

Steering Committee was formed of onshore and offshore lender's representative under the consultation KSA TECHNOPACK, an Indo-US joint venture specializing in Textile Industry for the purpose; company appointed Jardine Flemming Signature Securities Private Limited (Now chase Manhattan S.F.A. Limited) as a Financial Advisor.

Arvind was left with Rs.2,000 crores of debt that needed recasting. Then based on a 10-year projection that KSA Technopack had made, the company arrived at an Rs.1,200 crores not present value (NPV) of operating cash flows. That means that Rs.800 crores (or 40%) of debt had to be written off. That's why three alternative proposals were made for investors: -

a) Those who wished to exit the company immediately would logically take the biggest write off, 55% of principal. They would also not be paid any interest.

b) Those who wished to exit offer five years would be paid the full principal, and the interest at 4% (Arvind's average cost of borrowings was around 14%). In NPV terms, that meant a 45% hit.

c) Those willing to stick around for 10 years would be repaid the principal and interest at 10%. In NPV terms it meant a 20% hit.

Steering Committee, over the course of 10 months (between March and December, 2000 met five times to negotiate restructuring plans, ultimately it made significant changes to company's initial restructuring proposals in the following ways: -

- Inclusions of three debts buy back scheme.

- Improvement in interest's rates.

- Provision of additional interest and equity warrants.

- Monitoring and control mechanism.

And finally Arvind Mills announced its financial results for the quarter ended 31st march, 2002, it had earned a post tax profit of Rs.10 crores in its first 3 years, revenue grew by 9.2%. Export growth was of 10% with financial restructuring, with strict control and monitoring, the total debt for the company would reduce to approximately by Rs.8150 million.

(ii) **Marketing / Service Oriented Approach**

a) New design samples were made with intention that it will work for the spring / summer collections of 2003, while design cell remain busy working on styles to be show cased in the autumn / winter collections of 2003.

b) Arvind created a new business model for itself – moving away from being just a manufacturer with economics of scale, becoming a service oriented company that's managing multiple relationships with key customers, delivering in time, maintaining quality etc. Looked at the perspective, manufacturing capability at the back end.

c) Arvind tied up with apparel companies and deals directly with their garment makers. Already, labels such as Marks and Spencers, Gap and Saitt source shirtings from Santej.

(iii) **Proper Control, Checks and Warning**

Top management started managing the show, they came to front seat, owner of the company Mr. Sanjay kept a very close watch over all the variable (and volatile) factors that could wreak house-exchange rates, utility costs, prices of cotton etc. He added that his other big learning from this experience is to be "Conservative financially during volatile times".

Arvind Mills have described various focused areas of turn around strategies on the scale of 1 to 10 in following manner:

	Scale Rating
(a) The Customer Approach	4
(b) The Financial restructuring	9
(c) The Processes	-
(d) Man Power Restructuring	-
(e) Proper Checks	6
(f) Cost Reductions	6

VISION OF THE COMPANY

Arvind embodied the post liberalization dream, global in size, global in markets and of course, global in ambition with this intention only Arvind put up 110 million meters of denim capacity becoming the world third largest player but due to sudden and sharp drop in denim prices, un-precedent rises in prices of two of its key inputs names cotton and naptha. The problems were compounded due to delays and escalation in cost of its projects.

Visions to become big global player were shaken up due to sudden increase in price, fall of per meter realization of denim. Hence, mission of the company changed with the time.

Faced with this difficult situation company took certain corrective measures / mission: -

On one hand to improve operating performance and on the other hand to correct the capital structure and cash flow mismatch.

Operational performance, there was renewed focus on various fronts including product development, building long term relationship with key customers, value engineering, improvement in productivity, efficiencies and controlling over-head.

Financial Restructuring, a one time full scale restructuring of all the borrowings was initiated.

With the support and commitment of all its stakeholders – shareholders, lenders, suppliers, customers and employees – Arvind has not only withstood the crises but also achieved a turn around.

Thanks to a strong resurgence in denim prices and a stiff dose of debt restructuring during which it recovered its Rs.1,050 crores (Rs.10.5 billion) debt, Arvind Mills was able to turn the corner, boasting net profits in the next three years. The company's share shot up from Rs.4 in 2001 and is trading at around Rs.80 now translating into returns of 1900 percent.

LEADERSHIP STYLE

In Arvind whatever mission defined whether value engineering, product innovations or debt restructuring, basically leadership, set goals and issue orders after discussing with subordinates.

Here the team of Managers takes major decisions; Lenders leave the routine decisions to be taken by the subordinates. Hence, we turn this to be a leadership as **'Consultative'**.

Ranking of major constituents of turnover strategy: Executives of Arvind mills ranked various constituents on the basis of their importance of turnaround strategy, in following manner

→ 1 Stand for better and 4 for worst ranking

Major Constituent	Rank
People	4
Product	2
Profit	1
Customer	3

APPROACH ADOPTED FOR THE PROCESS OF TURN AROUND

If we have to choose the best of approach, company adopted for turnaround between Marketing, Financial Restructuring, Process and H.R. Aspects. It is evident that financial restructuring played the vital role in turnaround reducing debt burden, which was hilarious job, then the thrust towards product development, building long-term relationship with key customers that is marketing aspects.

Value engineering, improvement in productivity and efficiencies were the part of technical process approach.

H.R. / Personnel had lost impact and that is what only loyal employees helped the company for its turn around.

Arvind Mills provided rating 1-5 scale, as per The Quantum of Strategy implemented in turnaround process: → 1stand for low and 5 stand for high rating

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	4	1. Cost reduction	5
2. Evolving customer/dealer oriented scheme	4	2. Disposal of Non-performing assets.	4
3. Searching for unexplored high return and high growth markets.	4	3. Revenue Generation	3
4. Inventory control through logistic management.	3	4. Inventory Control	3
5. Launching new product satisfying needs of customer.	4	5. Expedite Recovery	3
6. Reduction of marketing expenses.	3	6. Deferred Expenditure	2
7. Modification in Dealer incentive schemes	2	7. Curtail Capital Expenditure	2
8. Appointment of Distributors.	2	8. Explore to find possibilities for finance generation • On less interest • For long term	 5 5
9. Disposal of slow moving. Dead stock	2	9. Expedite cost flow • Restructuring of debts • Settlement with creditors	 5 5
10. Recovery of Disputed/old over dues.	3	10. Budget control	4
11. Billing based on creditworthiness.	3		
12. Periodic cash projection / monitoring.	2		
13. Rationalizing pricing policies.	3		

Rating 1-5 scale, as per The Quantum of Strategy implemented in turnaround process:

→ 1stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost	4	1. Change of Management	4
2. Purchase control	4	2. Downsizing Staff	3
3. Implementing industrial engineering techniques		3. Training & Upgrading the Skills	3
• Better material, handling equipments.	3	4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	3
• Work and motion study for proper job allocation.	3	5. Concept of Profit Centre introduction, with prescribed decision – making powers.	3
4. Providing new, innovative & technically superior products.	3	6. Implementation of	
5. By achieving efficiency in manufacturing	3	• Two way communication	4
6. Increasing Labour productivity	3	• Participative Approach	4
7. Proper maintenance of Plant and Machinery	3	7. Punishment and Reward Policies	3
		8. Promoting Corporate Culture to change the mind set	3

4.4 TURNAROUND: STEEL AUTHORITY OF INDIA (SAIL)

In Indian industry if cases of turnarounds are to be referred one of the best examples of turnaround is of Steel Authority of India (SAIL).

SAIL is country's largest steel manufacturer with an installed capacity of 12 million tones, which accounts for more than one third of the country's total production.

17000 crore giant conglomerate reported loss of Rs.1707 crore in 2001-2002. It was referred to the Board for Industrial and Financial Corporation (BIFR) on 18th November 2002.

Stage of sickness

As per guidelines of Sick Industrial Companies (Special Provision) Act, 1985, the cases of sick Industries have to file a report to BIFR, whereby it is witnessed that more than 50 per cent of the peak net worth of the industry is eroded over the last four preceding years.

Industry suffered because of its inability to repay the interest burden of servicing loan raised for funding its ambitious Rs. 12,000 crore modernization drive, the company had to live with a bloated workforce and had rough outcome of the worst downturns in the industry. The loss reported for the fourth consecutive year did nothing to change the perception of investors. Recessions in the steel industry and low realization attributed its impact on the bottom line of the SAIL.

Defective distribution, lack of marketing services, combined by Government policies to allow steel imports on less duties were some of the other factors for losses.

As per industry standards, Manpower productivity was lowest of SAIL, 1,85,000 employees producing merely 9 million tones of steel and that too at rising costs.

Considering the above factors, SAIL term the symptoms as **'Gravely sick'**

SICKNESS ANALYSIS

On 24th September 2002, their Chairman Mr. Arvind Pande in his address to 30th AGM of SAIL said "the turnaround plan developed by us three years ago was essential a path to a prosperous future. For many companies who have succumbed under market pressures, this kind of corrective action is inevitable. Erosion of our net worth by half does not imply that sickness is imminent".

INTERNAL REASON

Interest burden – SAIL debt burden as on May 2002 stood at about Rs.14000 crore. The loans which were taken since 1995 – 96 were high cost debts, bearing interest rates of 19 – 20 percent to fund its massive modernization programmes.

- **High Man Power** – SAIL had around 2,00,000 employees till the mid 1990, its manpower cost averaged 22 percent of turnover.
- **High Energy Cost** – fuel expensive bill was high due to use of feed stock coal. SAIL up till now was largest importer of cooking coal and one of the largest consumers of coal.
- **Lack of Vision** - in designing modernization – modernization has been Sporadic and uneven. Rs. 5000 crores have been spent on the Rourkela plant alone. While down stream facilities have been modernized with the installation of hot strip mill / continuous casting facilities, raw materials handling have not been modernized. Comprehensive modernization programme has resulted in investment, which has not yielded Commensurate improvements in productivity and quality.
- **Defective Distribution channel** - Steel was first shipped to stockyards in various parts of the country before being sent on to the buyers, which added to

the transportation cost. Under the freight equalization policy, SAIL absorbed the additional cost. A multi tiered system of distribution has led to delays in delivery and higher costs. SAIL plants were situated at far distance from Industrial belt in Western India; Private sector suppliers located closer to this industrial belt have a distinct advantage over SAIL in terms of cost as well as delivery schedules.

SAIL has provided following data enumerating the % age factors of various internal reasons:

		% of sickness
I	1. Poor Management	
N	2. Financial Indiscipline	
T	3. Lack of Market driven approach	
E	4. High Cost	
R	5. Over Expansions/Big Projects	60%
N	6. Over Trading/Adverse Product Demand	20%
A	7. Technical / Product failure	
L	8. Labour Trouble	
CAUSES	9. Lower profitability/margins	20%

EXTERNAL REASONS

- **High Anti – Dumping Duties** - US and other European countries slapped high anti-dumping duties on Indian steel It was also pointed by the World Trade Organization (WTO) that duties imposed by the U.S. is not justified though company officials persuaded through Indian Government this case with U.S./European countries; but till that time export got affected.

- **Projection proved wrong** - Demand projections made during the earlier part of the century were rather optimistic and the capacity addition was made based on the projections. However, these projections have been proved wrong.

- **Low Industrial Growth** - Industrial growth rate have around 7 percent, a much lower level than estimated resulting in an over all fall in steel consumption. This is mainly because the Government, which was the prime provider of infrastructure, has retreated from the Sector in the post – liberalization, phase expecting the private sector to step into the field.

- **Private investments** - Private investments were made in the sectors like power & telecommunications, these private entrepreneurs relied on equipment sourced from abroad and domestic steel-creators have no part of the pie.

- **Import preference for purchases of steel** - The predominant consumer, the automobile industry prefers to source steel from abroad for reasons of quality or other considerations, Maruti Udyog limited, the market leader in the passenger car sector, imports its requirement of steel from Japan, so do most other manufacturers this has created a near crisis situation in the flat products segment.

- **Sluggish construction activity** - Constructions activity, which accounts for the largest segment of steel consumption (it consumes nearly fifth of all steel produced in the country) has been sluggish in the last three years not only in India but in the entire South Asian region. Gross domestic capital formation in the construction field has been much lower than was projected.

- **Import duties were brought down** - Steel imports under the open general license category were allowed and the duties were brought down from 65 per cent a few years ago to 20 and 30 percent now. Steel producers from the common wealth of independent states (CIS) and South Korea have exported flat products to India at prices which no Indian producer can match, leave aside SAIL with its enormous wage bills, interest burden and over heads.

- **Recession combined with over capacity** - The World Bank not only encouraged the private sector to set up these huge capacities but also even canvassed to find funding for them. One hand there was unplanned and irresponsible capacity additions in the private sector and on the other hand SAIL failed to revamp its marketing set-up and lacked marketing approach so essential to succeed in a competitive environment.

Over capacity by private sector at one front and on the other front sluggish demand forced SAIL to feel the impact of the mismatch most.

- **The sluggish demand aggravated due to some other facts like**:
  The continuing withdrawal of the Government from infrastructure development task resulted in a serious impact on SAIL because till recently the Government has bought 60 percent of its steel production.

  Railways suspended orders for rails made at SAIL's Bhilai Plant, which it believed, did not meet the requirements. SAIL not only lost business; but it also had to invest in new testing equipments. The railways have been buying around 1.5 million tones of rails from SAIL annually.

- **Losses and Less Attention** - Since SAIL core competence lies in the field of mild steel making the huge capital funds invested in other non – core assets like power plants houses to employees not yielding adequate returns. These non – core business became uneconomical units, shops and these facilities have become redundant as such Modernization subsidies in social infrastructure got again big hole in SAIL's pocket.

SAIL Executive gave following categorization for External Reasons:

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	
	2. Government & Statutory Obligations	10%
	3. Environmental / Climate factors	10%
	4. Global Competition	80%

TURNAROUND STRATEGY

For any turnaround, management intention should be there,

It is evident by the speech of Mr. Arvind Pande, Chairman on 24th September 2002 at AGM:

"Erosion of our network by half does not imply that sickness is imminent. On the contrary after having taken correction action much in advance through our turnaround plan we are well on the path to recovery.

Peering into the future, what do we see? One thing is certain that it will be far more complex than anything in the past. As far as the steel industry is concerned, short upturn and prolonged downturns will require cost and quality conscious player to survive in an industry, which is already too crowded.

Right sizing and relent less cost cutting will continue as a critical Agenda for our future. Completion of our restructuring programme becoming a focused business entity will facilitate generation of wealth".

FOCUS AREAS :

To transform SAIL into a trimmer, cost – conscious and vibrant leader of Indian steel industry, the measures could be broadly classified under the following focus areas-

1. Business restructuring

2. Divestment of non- core assets

3. Intensive cost reduction and check on capital expenditure

4. Greater market – orientation

5. Right sizing of manpower

1. BUSINESS RESTRUCTURING

SAILS debt burden as on May 2002 stood at about Rs.14000 Crores. The loans taken since 1995-96 were high cost debts bearing interest rates of 19-20 percent.

The main thrust of the turn around plan centered about restoring financial foundation; restructuring the organization, reinforcing the marketing initiatives and regaining cost leadership while re-defining business performance.

SAIL initiated a cost cutting exercise accomplishing operational efficiency, instituted austerity measures enabling it to save nearly Rs.1,500 crore between 2000 and 2003. Simultaneously there has been a reduction in borrowings to the tune of Rs.1,050 crore. Its interest and finance charges came down by Rs.257 crore in year 2002-2003.

2. DIVESTMENT OF NON–CORE ASSETS

SAIL reportedly hired Mc Kinsey & Co to advise it on a restructuring package for a fee of Rs.8 Crores even as its losses mounted. It is learnt that the crux of the Mc Kinsey recommendations was that SAIL confined itself to its core competence namely steel making and hived off peripheral and ancillary activities.

It was thought that non-core assets, such as power plants could run more effectively in association with strategic partners that have competence in those areas. Plan was also to sell of idle assets such as houses to employees or ex employees to release blocked capital.

SAIL partially divested the captive power plant at Rourkela, Durgapur and Bhilai, raising Rs.1061 crore and making capital gains of Rs.777 Crores. The company also generated Rs.316 Crores from the sale and lease of houses in the steel township.

3. INTENSIVE COST REDUCTION

The cost reduction measures started in 1997 – 98 helped the company to achieve cumulative saving of Rs.3500 crores and reduction in variable cost too.

The plant wise saving were over Rs.850 crores at the Bhilai and Rourkela plants, around Rs.554 crore at Durgapur. Purchase cost reduction initiatives also helped certain procurement costs. E- Procurement through reverse auctions tried on experimental basis helped the company, brought down the cost of calcium carbide, wire ropes and cables. The combined result of all its initiatives had been a reduction in variable costs by over 5 percent than the last four years.

In an operational efficiency front, SAIL's energy consumption rate, which used to be as high as 10 Gcal per tonne of crude steel in the early 1990s, had come down to a competitive level of 7.5 Gcal. In broad terms, every 1 G cal reduction saved over Rs.550 per tonne of crude steel.

SAIL today produces steel at Rs.1,000 per tonne less than it was doing a decade ago. This has been mainly achieved through optimization of coke brand, use of superior technology practice'' like coal dust injection and lessening the dependence on coal supplied by coal India. SAIL is planning to partly replace its present feedstock coal with natural gas. By doing this, the company, which is the largest importer of cooking coal and one of the largest consumers of coal, may cut its Rs.3800 crore fuel expense bill.

In year 2002 – 03 SAIL saved around Rs.433 crore through a reduction in inventory of semi and finished product.

4. GREATER MARKET ORIENTATION

Mr. Arvind Pande, Chairman SAIL said "we are well aware that no company can be purposeful without an ear to market. Over the last few years, I am happy we have reoriented our activities in response to market dynamics. Increasingly our closeness to the market will be an important factor in our success. Lastly but equally significant and an absolute must in any future scenario, is acquiring learning and adaptive capabilities of which we have shown some inclination.''

Marketing Division Re-organized – Till the late 1990's the job of SAIL's central marketing organization was basically to sell what the plants produced. This system worked when demand outstripped supply in the pre control era a control regime created demand even for low quality steel; however, when the steel sector was deregulated, SAIL could no longer force its products on customers resulting in high inventory.

In the altered scheme of things to plants were to produce what was saleable and they had to adhere by the demand forecast for various products categories. Complete synergy between the production and marketing functions had been established through a detailed system of advance planning and inbuilt flexibility, which prevents unwanted production.

Product segmentation / key account management - SAIL has decided to service its high value customers in a special manner, 80 percent of SAIL's business is provided by just 20 percent of customers. Earlier all customers were treated alike there by putting high value customers value to inconvenience at times. Now these customers get priority service and it made a lot of difference in customer loyalty.

Bifurcation of sales and warehousing functions - Separation of marketing and warehousing functions, the marketing structure has shifted from multifunctional set up to specialized and focused.

5. RIGHT SIZING MAN POWER

SAIL had a work force of 1,74,736 lakhs of which 18,249 are in the executive cadre. Its wage bill is in the region of Rs.2,381 crores for 1998-99. Report say that some managers who had long tenures, converted their charges to personal dooms and enjoyed political patronage.

SAIL manpower cost averaged 22 percent of turnover, while their competition in other steel industry had man power cost up to 6 – 7 % of turnover.

Staff strength had been cut down by 31,916 to 1,37,496. Although this figure is higher than 1,21,000 which was envisaged as per the MOU with the Union Government in March 2000. It was achieved without any labour unrest and further as per plan until year 2005, it is planned to reduce manpower to below 1,00,000 count.

<u>Change in the orientation of the workforce</u> - This is being achieved through an innovative communication and contact programme involving everyone from the top most management to the shop floor employee.

If the plant was to turnaround, employee motivation and industrial harmony held the key. People did not respect their own jobs, and there was a barrier between the plant management and the workers.

Effective two-way communication was reinforced; they were involved in decision-making and its implementation. It started self-belonging feeling with the organization.

Operations manager/head of plants started holding regular meeting on the shop floor; they had been able to instill a sense of discipline, which had been missing among its workforce. That was not an easy task as there were over 100 trade unions in the campus. Today SAIL produces more steel with less manpower and without losing a single day of productivity in labor related problems.

When Mr. Ram Mohan, GM. (Personnel) of SAIL being asked to rank the focus area of turnaround strategies on scale rating of 1 to 10, he gave following judgment:

	Scale Rating
(a) The Customer Approach	8
(b) The Financial restructuring	8
(c) The Processes	
(d) Man Power Restructuring	8
(e) Cut down in cost of Production	8

VISION OF THE COMPANY

Vision of SAIL turnaround is clearly evident in Mr. Arvind Pande, chairman speech on 24th September 2002 during Annual Meeting –

- Dynamism of leadership – which transcends limitations with an ability to anticipate emergency patterns and prepare for them well in advance. Mr. Pande was in view that 'turnaround plan fulfilled this important need.

- Closer to our core competencies – Vitality will be missing for a company that does not rapidly accumulate core competencies in reorganizing ourselves – into specialized product groups, spinning off non core areas like power plants and real estate and hooking our marketing skills.

- Closeness to the market – no company can be purposeful, without an ear the market; over the last few years SAIL have reoriented activities in response to the market dynamics.

- Closeness to the market – it will be an important factor to the success.

- Learning and adaptive capabilities – it is equally significant and an absolute for which SAIL has shown inclination towards upgrading their employee's skill through learning.

STYLE OF LEADERSHIP

Mr. V.S. Jain took over as chairman of the Rs.16000 crore steel giant SAIL, after the retirement of Mr. Arvind Pande.

After incurring losses for four successive years, Steel Authority of India Ltd (SAIL) got its chairman Mr. Jain and his team was confident that in spite of 1,700 crore loss in last financial year, the turnaround will start.

56-year-old Mr. Jain had distinguished career in the Public Sector. He had acquired a reputations for prudent and cautions management.
By training and temperament he is an accountant.

He joined SAIL as a director (finance) in 1994 and has personally initiated to most of the key financial decision that are intrinsic to the turnaround of the company.

Mr. Jain put forth the guideline that during Financial Year, productivity should be enhanced by 10 percent, which he was hopeful to translate into Rs.1000 crore.

He said pointing out that the corporations has pruned its work force by 40,000 in the last four years "I don't see any difficulty in reducing our manpower by another 40,000 in the next four years from 1.42 lakhs now. He said that he would truly make the organization trimmer and stronger.

Mr. Jain's approach clearly implies his managerial ability to set goals and its involvement of team.

Asking the units to gear up, Jain said "all we need is to stick to the targets which we have prepared for each unit after due deliberations."

With 100 unions they're in plants and the fact that SAIL have a far greater number of plants of variable capabilities. Turnaround was not an easy task.

Change in the mind set among the employees were administered through an innovative communications and contact programme involving everyone from the topmost management to the shop floor employee, Feeling of ownership was inculcated in them.

Considering all this aspects SAIL termed the leadership style as **'Democratic'**.

Ranking of major constituents of Turnover Strategies: SAIL has ranked major constituents of their strategy from 1 to 4 on the basis of their importance, whereby 1 Stand for better and 4 for worst ranking:

	Rank
People	2
Product	4
Profits	3
Customer	1

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND :

Mr. Arvind Pande, Chairman, Steel Authority of India said in AGM meeting on 24th September 2002 at New Delhi.

"I give below a snapshot of key developments, which I am confident will stand us on good future:

1) Intensive cost reduction.
2) Downsizing manpower.
3) Debt burden reduction.
4) Synergy between the productions and marketing function.
5) Reduction of energy consumption, upgrading the product quality and introducing new steels.

Questionnaire was submitted to Steel Authority of India for evaluating The Strategies for turnaround on various factors for each of the functional areas of Marketing, Financial, Technical and Personnel aspects, SAIL provided following data:

→ 1stand for low and 5 stand for high rating:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	5	1. Cost reduction	5
2. Evolving customer/dealer oriented scheme	3	2. Disposal of Non-performing assets.	5
3. Searching for unexplored high return and high growth markets.	3	3. Revenue Generation	4
4. Inventory control through logistic management.	4	4. Inventory Control	4
5. Launching new product satisfying needs of customer.	1	5. Expedite Recovery	4
6. Reduction of marketing expenses.	3	6. Deferred Expenditure	4
7. Modification in Dealer incentive schemes	2	7. Curtail Capital Expenditure	3
8. Appointment of Distributors.	2	8. Explore to find possibilities for finance generation	
9. Disposal of slow moving. Dead stock	4	• On less interest	4
10. Recovery of Disputed/old over dues.	3	• For long term	4
11. Billing based on creditworthiness.	3	9. Expedite cost flow	
12. Periodic cash projection / monitoring.	4	• Restructuring of debts	4
13. Rationalizing pricing policies.	4	• Settlement with creditors	4
		10. Budget control	5

→ 1stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost	5	1. Change of Management	0
2. Purchase control	4	2. Downsizing Staff	5
3. Implementing industrial engineering techniques		3. Training & Upgrading the Skills	4
• Better material, handling equipments.	3	4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	4
• Work and motion study for proper job allocation.	2	5. Concept of Profit Centre introduction, with prescribed decision – making powers.	3
4. Providing new, innovative & technically superior products.	2	6. Implementation of	
		• Two way communication	2
5. By achieving efficiency in manufacturing	3	• Participative Approach	2
6. Increasing Labour productivity	4	7. Punishment and Reward Policies	3
7. Proper maintenance of Plant and Machinery	3	8. Promoting Corporate Culture to change the mind set	2

V.S. Jain who took over as chairman after the retirement of Mr. Arvind Pande reports "This (turnaround will be made possible by improving the productivity in critical parameters. We hope to save up to Rs.1000 crore in year." Jain said that the company was also actively presuming the cost cutting measures in a bid to improve its bottom-line.

4.5 Turnaround of Gujarat Alkalies And Chemicals Limited

Gujarat Alkalies and Chemical, promoted by Gujarat Industrial Investment Corporation (GIIC) in 1973, commenced manufacturing operations in 1976 with Caustic Soda and derivatives of chlorine. The Government of Gujarat, along with GIIC, Gujarat State Investments and other Corporate, promoted by the Government of Gujarat currently hold 35.7 % of the paid up equity capital of the company.

In order to ensure regular and assured power supply for its power intensive operations, the company co-promoted Gujarat Industries Co (GIPCC), from which 50% if its requirement derived on an assured basis at lower cost.

Gujarat Alkalies and Chemicals Ltd. (GACL) scripted a turnaround in fiscal year 2002-2003, after being continuously in the red for the previous four years.

STAGE OF SICKNESS

GACL's performance in the last two years (year 2000-2001 & 2001-2002) had been poor on account of

- Over capacity in the Industry
- Cheap imports
- falling realization
- rising input costs
- shrink in world wide demand

The company reported significantly higher loss

Year 1999-2000	:	15.61 crores
Year 2000-2001	:	72.19 crores
Year 2001-2002	:	40.78 crores

The capacity expansion at Dahej, undertaken at the peak industry time, financed predominantly by debt raised concern on the management, quality, rescheduling of rupee and foreign currency loans borrowed for the expansion project from banks and financial institutions, rollover of debenture installment payment did not generate confidence in the management quality.

- There was 22.2 % decline in exports to Rs. 309.8 million in financial year 2000.
- Sharp decline in other income to Rs. 112.6 million in financial year 2000 compared to Rs. 443.8 million in the previous year.
- Operating margins declined to 16.6 % from 18% in financial year 2000

The Company's net loss increased to 721.9 million mainly on account of higher interest and depreciation charges.

Return on Capital employed declined from 5% to 4% in financial year 2000 on account of lower operating profits.

Debt equity ratio increased from 1.4 times to 2.3 times on account of significant increase in borrowings. Total borrowings increase sharply from Rs. 6379.5 million in financial year 1997 to Rs. 9537 million in financial years 2000.

From a cash profit of Rs. 1021 million in financial year 1997, the company ended with a cash loss of 12.2 million in financial year 2000.

Due to paucity of funds and losses GACL management decided to delay the payment schedule to debenture holders, the redemption installments of 14.5% NCDs (series'1') of Rs.450 million issued by the company in 1995 by private placement with various Banks and corporate have been rescheduled with consent of the holders of the NCD's. The disbursement had been scheduled to be paid in seven half yearly installation.

Since losses were reported for constant four years, sales declined, profit eroded. There were cash losses, payment to investors got delayed. Hence GACL termed this sickness as **'Incipient sicknesses'**.

SICKNESS ANALYSIS :

Corporate sickness is widespread in India and in many other market economies and may increase because of 'higher competition' due to result of globalization.

GACL is a forward-looking company, set up in the year 1973, 30 years is a long time. To test the character of any organization, be it recession, inflation or increased competition.

INTERNAL REASONS

1. Poor Management

When there was a shrink in worldwide demand and when large overcapacity adversely affected the international prices of Caustic Sods. That time GACL management decision to expand capacity at Dahej, financed predominantly by debt raised concern on the management quality.

Rescheduling of rupee foreign currency loans borrowed for this expansion project from banks and financial institutions and rollover of debenture installment payment does not generate confidence in the management quality.

2. Financial Indiscipline

The company net loss increased to Rs.721 million mainly on account of higher interest. Interest cost jumped by 48.1% to Rs.1261 million.

Despite increase in interest, expenditure also rose to Rs.1423.57 million in year 2000-01 from Rs.1261.23 million in 1999 – 2000.

3. **High Cost /Debt**

Higher interest increase resulted in sharp decline in profitability of company. Total borrowings increased sharply from Rs.6379 million in Financial Year 1997 to Rs.9537 million in Financial Year 2000. Moreover there was sharp increase in the raw material costs, high power and fuel charges.

4. **Over Expansion / Projects**

Company losses increase due to the impact of the expansion of caustic soda project and power plant at Dahej. To finance this project, company had to bear additional interest cost and high depreciation reflected in balance sheet.

When trade was passing through low demand and over capacity. This project of expansion and new project resulted to the more losses.

5. **Over Trading / Adverse Demand**

There has been a shrink in worldwide demand and prices decline due to overcapacity and lower consumption of such products. Lower demand from paper and other consuming sectors and large overcapacity adversely affected the international prices of caustic soda. Consequently the entire industry witnessed recessionary conditions and many players shut down to reduce operating losses.

Mr. P. N. Parikh, General Manger of GACL has putforth his opinion and gave %age to various factors of Internal Causes , which are been enumerated in a table, down below:

		% of sickness
I	1. Poor Management	-
N	2. Financial Indiscipline	-
T	3. Lack of Market driven approach	-
E	4. High Cost	20%
R	5. Over Expansions/Big Projects	20%
N	6. Over Trading/Adverse Product Demand	-
A	7. Technical / Product failure	-
L	8. Labour Trouble	-
	9. Lower profitability/margins	15%
CAUSES	10. High Interest Debt	30%
	11. Cost & Time Over run of projects	15%

EXTERNAL REASONS

1. **Government and Statutory Obligations**

With steep reduction in duties, Indian players witnessed large-scale import dumping, particularly during times of global downtrend in prices.

2. **Environmental / Climate Factors**

An environmental concern on chlorine usage harmful to the ozone layer has resulted in lower capacity additions. Prices in this industry are volatile due to the commodity nature of the business. Global trade in caustic soda undertook to dispose the surplus. This is because chlorine is corrosive in nature and its trading had geographical limitations.

The % ages of various factors of external factors described by GACL are as follows:

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	-
	2. Government & Statutory Obligations	-
	3. Environmental / Climate factors	-
	4. Global Competition	50%
	5. Increased Production/(Recession)	50%

FOCUS AREAS FOR THE TURN AROUND STRATEGIES

I. FINANCIAL RESTRUCTURING

1. Cost Control

Cost effective natural gas was substituted as fuel in place of Naphtha for captive power plant. The plant load factor was increased and surplus power was supplied to state grid. This has helped in achieving economics of operations.

2. Power is the major input for production of caustic soda and constitutes about 65% - 70% of the cost of production, the company along with other corporations like M/s. GSFC, Petrofiles Co-operative Ltd., and Gujarat Electricity Board promoted a gas based power unit in Vadodra under the name of Gujarat Electricity Board, promoted a gas based power unit in Vadodra under the name of Gujarat Industrial Power Company Ltd., (GIPCL) during the year 1985. As a promoter of GIPCL. The company gets low power, as the plant is gas based.

3. Since production of caustic soda is highly power intensive, in order to reduce power cost and to eliminate mercury pollution, the company during the year 1999 converted one of its Cell Houses producing Caustic Soda from Mercury Cell Technology to environment friendly Membrane Cell Technology.

4. Gujarat Alkalies and Chemicals had tied up with M/s. NIKO and GSPC that will transport and supply gas from Hazira to Dahej through a 130 km pipeline, after it got into operation, company's power cost reduced significantly.

5. Changed the method of Accounting: The company changed the method of accounting for modvat credit on capital goods in the current year by treating this item as a Deferred Revenue Reserve.

   Accordingly an amount of Rs.126 million relating to modvat credit on capital goods was treated as capital receipt and shown under the head Differed Revenue Reserve in Financial Year 2000.

6. Debt Re-structuring

   - Total borrowings decline by Rs.456.8 million to Rs.9537 million mainly on account of conversion of 14% non-convertible debentures amounting to Rs.609.4 million in Financial Year 2000.

   - Redemption of NCD's will now be in seven half yearly installments commencing from 31st December 2001 and ending on 31st December 2004 as against the original schedule of redemption in three annual installments commencing from 7th July 2001.

- At the request of the company, IDBI, IFCI and HDFC have given the package of restructuring their debt portfolio, which includes reduction in the rate of interest, revision of repayment, installments, conversion of foreign currency loan into rupee term loan and waiver of liquidation damages. Company also requested ICICI, Central Bank of India, State Bank of India, ANZ Bank and BHF Bank, Germany for similar restructuring package.

II PRODUCTION / TECHNOLOGY

- Caustic soda lye production increased by 6%.

- Caustic Soda Plant at Dahej is operating more than 100% capacity.

- Caustic Soda Flake and Caustic Soda shown increase of 18%.

- Marginally higher production of Caustic Potash Lye.

- The production of chloromethane (CCM) has gone up to 25, 914 MT in 2000 – 2001 from 23,490 MT in the previous year 1999 – 2000.

- Methane Recovery Plant for higher recovery of Methane from Natural Gas.

- The production of Hydrogen Peroxide has gone up during
the year 2000 – 2001, which is all time highest production. The company has increased production capacity.

- The Company is one of the two manufacturers of Sodium Cyanide in the country. The production of Sodium Cyanide has gone up to 20800 MT in comparison to previous year production of 18,910 MT in 2000 – 01.

III MARKETING DEVELOPMENT

- Domestic customer is assured of prompt delivery of quality products at their doorsteps through well-established network of dealers and consignment stockiest with aggressive, intensified efforts. Overseas customers are serviced directly or through agents.

- Company diversified into value added products like Sodium Cyanide, Chloromethane, Hydrogen Peroxide, Potassium Carbonate, and Phosphoric Acid etc. These value added products provide dual benefit to the organization by hedging against cyclical fluctuations in the Chlor-Alkalie Industry. GACL sells 22 products maintaining its leadership in caustic chlorine industry with 16% market share and has emerged as a major player in the segment of value added products.

IV RESEARCH & DEVELOPMENT

- R & D has been working actively on the development of new applications and markets for existing products. The focused R & D activity has been on picking up the most promising project for commercialization from among the laboratory technologies. The 'Methyl Cellulose' (MC) and 'Hydrogen Propyl Methyl Cellulose ' (HPMC) projects are in the process of commercialization.

- R & D is undertaking projects for cost savings and economics of the plant and development of high valued specialty and perfumery chemicals.

- GACL R & D is also selling in house developed products scales win – 2 to M/s. Gujarat Industries Power Company Ltd., (M/s. GIPCL) for the treatment of cooling water.

GACL has given scale rating to various focus areas of their turnaround strategies on 1 to 10 scales, which are as follows:

→ 1 stand for low and 10 for higher focus

	Scale Rating
(1) The Customer Approach	7
(2) The Financial restructuring	7
(3) The Processes	6
(4) Man Power Restructuring	3
(5) Cost Reduction	8
(6) Change over from Naptha to gas	8

VISION AND MISSION OF THE COMPANY

Be it recession, inflation, increased competition or changing Governments, GACL have lived it all, and all the turbulences have made the company a stronger and a progressive company.

GACL is committed to utmost customer satisfaction, which is the driving force for progress adhering to international standards with no laxity in any sphere.

To gain international credibility, GACL had obtained quality system certificate under IS/ISO9001: 2000, ISO 14001: 1996 and IS 18001: 2000.

VISION

"To continue to be identified and recognized as a dynamic, modern and eco friendly chemical company with enduring ethics and values.".

MISSION

To manage our business responsibly and sensitively, in order to address the needs for our customers and stake holders.

To strive for the continuous improvement in performance, measuring results, precisely ensuring GACL's growth and profitability through innovations.

To demand from others and ourselves, the highest ethical standards, to ensure products and processes to be of the highest quality.

Ranking of major constituents of turnover strategy:

GACL has ranked the key factors (1 to 4) as per their importance of being major constituent of the turnaround strategy implemented by them:

	Rank
People	3
Product	4
Profits	1
Customer	2

STYLE OF LEADERSHIP

World-class technology and self-reliance are baseless without brains that work orderly to produce high quality chemicals; people are GACL's real assets whom they nurture and harness to get the very best of them.

GACL Leaders convictions are: -

- People make the organization.
- A sense of belonging is a must for dedication and loyalty.
- Employees give their best when the company cares for them.

Ethical and transparent operations have contributed to a very great extent in bringing a turnaround at GACL. Excellent Labour relationship helped the company to achieve high manpower productivity i.e. turnover per employee Rs.8.1 million per annum. This is also a result of a thin and lean workforce (132 employees), which is led by the professional management.

For interdepartmental communication and co-ordination between Manufacturing Units, Administrative Departments and Marketing Department, company has adopted IT as the major tool for decision making. Apart from DOT network GACL have very stable and dependable communication network of VSAT.

Considering all the above facts GACL described its Leadership style of as **'Consultative'**.

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

Gujarat Alkalies and Chemicals Ltd., (GACL) scripted a turn around in the fiscal year 2000 – 2001, after being continuously in the red for the previous four years, has gone for a corporate debt restructuring package for its Rs.765.68 crore debt portfolio. This comes even as the company with accumulated losses at Rs.160 crore, reduced its overall debt position by Rs.141 crore in the last fiscal. GACL posted a net profit of Rs.28.04 crore on net sales of Rs.923.59 crore in 2002 – 03 as against a net loss of Rs.40.78 core on sales of Rs.819.56 crore in 2001 – 02.

For turn around, besides debt restructuring the other major factor was R & D and technology. To provide high value product and with the zest to invent, the mercurial nature of the chemical industry demands continuous invention and innovation. GACL have a well-equipped R & D centre, recognized by the Department of Science and Technology.

Government of India, working on new and safer process / technologies, value added products and import substitutes, GACL has also adapted to the age of information technology for fast and uninterruptible information exchange.

Third approach adopted was market driven. It is GACL unshakable desire to deliver quality products to customer's means that GACL products are well accepted, both in India and the world over. Company endeavor was to provide prompt delivery, assurance for quality products at customer's doorstep. GACL has range of 22 products with 16% market share.

Gujarat Alkalies and Chemicals Limited evaluated all the factors involved in various aspect of the turnaround strategy adopted by them. They have given the scale rating from 1 to 5 to their actions, in following manner:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	5	1. Cost reduction	5
2. Evolving customer/dealer oriented scheme	4	2. Disposal of Non-performing assets.	1
3. Searching for unexplored high return and high growth markets.	3	3. Revenue Generation	3
4. Inventory control through logistic management.	5	4. Inventory Control	5
5. Launching new product satisfying needs of customer.	3	5. Expedite Recovery	5
6. Reduction of marketing expenses.	3	6. Deferred Expenditure	3
7. Modification in Dealer incentive schemes	3	7. Curtail Capital Expenditure	3
		8. Explore to find possibilities for finance generation	
		• On less interest	5
		• For long term	5
		9. Expedite cost flow	
		• Restructuring of debts	5

8. Appointment of Distributors. 9. Disposal of slow moving. Dead stock 10. Recovery of Disputed/old over dues. 11. Billing based on creditworthiness. 12. Periodic cash projection / monitoring. 13. Rationalizing pricing policies.	2 3 5 5 5 4	• Settlement with creditors 10. Budget control	5 5

Rating 1-5 scale, as per The Quantum of Strategy implemented in turnaround process: →

1 stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	**Rating 1-5**	**H.R. ASPECTS / MANPOWER RESTRUCTURING**	**Rating 1-5**
1. Reduction in Manufacturing cost	5	1. Change of Management	0
2. Purchase control	5	2. Downsizing Staff	1
3. Implementing industrial engineering techniques		3. Training & Upgrading the Skills	3
• Better material, handling equipments.	0	4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	4
• Work and motion study for proper job allocation.	0	5. Concept of Profit Centre introduction, with prescribed decision – making powers.	2
4. Providing new, innovative & technically superior products.	0	6. Implementation of	
		• Two way communication	3
5. By achieving efficiency in manufacturing	5	• Participative Approach	3
6. Increasing Labour		7. Punishment and Reward	3

productivity	4	Policies	
7. Proper maintenance of Plant and Machinery	4	8. Promoting Corporate Culture to change the mind set	2

4.6 GILLETTES RERUN

The real story of India Inc is told by hundreds of companies that have turned the corner in the last three years and rewarded shareholders with returns that they never expected.

Gillette India Ltd (formerly Indian shaving products Ltd) is a 75% subsidiary of GILLETTE Co, USA, the global leader in shaving systems; Gillette consolidates its Indian operations in the year 2000 by merging all existing business in India under a single fold.

1) Wilkinson Sword India Ltd and
2) Duracell India Ltd

Were merged with India shaving products Ltd, the listed entity and the company was renamed as

GILLETTE INDIA LTD.

Gillette India has a wider portfolio comprising of

1) Core business of Shaving products (sold under Gillette 7' o clock and Wilkinson brands)
2) Battery and flash light business
   (Duracell and Geep)
3) Oral care products (Oral b)

% Age turnover contribution by each product segment (as per 2001 turnover)

Shaving products: 53%
Batteries: 33%
Torches and lamps: 06%
Tooth brush: 05%
Others: 03%

Gillette India Limited posted Rs. 27.79 crores net loss on 4%, lower sales revenue at Rs. 517 crores for 12 months ended December 2001.

STAGE OF SICKNESS

Company attributed the loss last year to a one – time cost of Rs. 60.64 crores incurred on the closure of the Duracell Plant at Manesar.

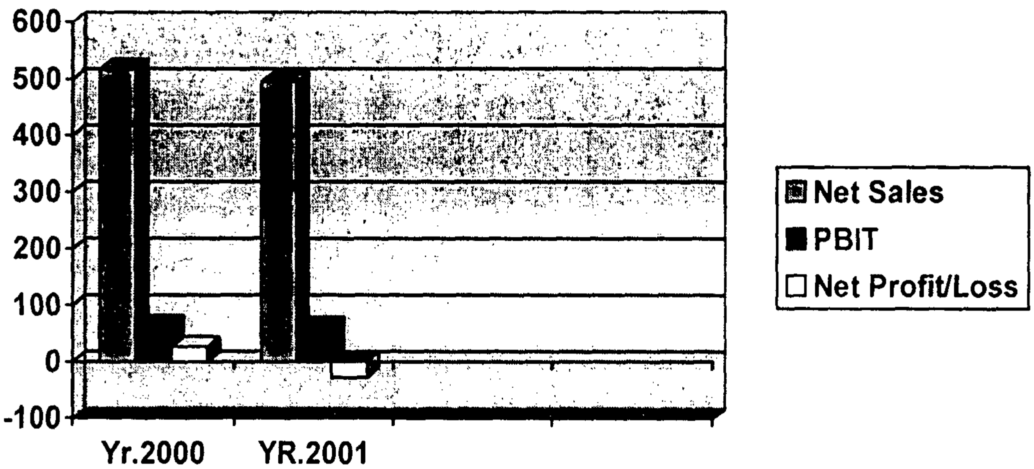
The battery business, which contributes a significant 32.5% of turnover, is a low growth, low margin business, and Duracell Battery sales dropped by 4%.

Net sales for 2001 were down 4% to Rs. 495 crores, while the net bottom line went red.

Operating profit while positive, has dipped slightly.

While analyzing the facts, it is observed that declining sales, erosion of profit, loosing market share is the stage of **'Initial Symptoms'** of industrial sickness.

SICKNESS ANALYSIS:



Year-end figures for 12 months ended December 2001 revealed that sale was down from Rs. 517 crores to Rs. 495 crores, while the last profit of Rs. 26 crores down to losses of Rs. 28 crores.

INTERNAL REASONS

1. Lack of market driven approach

Shaving products business in India is dominated by Malhotras, with a strong presence at the lower end of the market while Gillette products prices were too high, the consumer tradition bound, and the distribution system sparse.

GIL is operating in a stubbornly conservative market; just 3 % of blades sold in India, as they are selling cartridge type blades.

Progress has been slow, Gillette remaining restricted to the market top-end. GIL faces high volume rivals at every turn: Malhotras in blades, Eveready in batteries and Colgate Palmolive in toothbrushes.

It is clear that GILLETTE cannot play the volume game in any of its categories in India.

2. Adverse Demand-Low Growth

The dry cell segment has been witnessing low growth rate. The shift to alkaline segment has also showed down after a strong growth witnessed in the initial years. Exports also slow down in demand in most product categories. Toothbrush sales got declined by 39%.

The battery business, which contributed a significant 32.5% turnover, is a low growth, low margin business and would continue to dampen growth rates.

3. Lower profitability

Gillette's product mix changed significantly in 2000-post merger of Duracell and Wilkinson sword Ltd. The changed product mix has also resulted in lower profitability as the merging business consisted mainly of batteries, popular edge blades and shaving products.

In spite of 38% growth recovered in business, operating profit registered a 38% decline in 2001 to Rs. 138 million.

Operating margin has taken a hit during the last two years. In 2000 a change in product mix post merger resulted in OPM declining from 19.2% to mere 9.5%. A large part of the merging business (Wilkinson blades and Geep batteries) consisted of brand in the lower price range where margins are lower. Also the battery business is in relatively lower margin business.

Analysis point of view, Gillette internal factors were given the percentage on the basis of their significance, following outcome arrived from Gillette point of view :

		% of sickness
I	1. Poor Management	0
N	2. Financial Indiscipline	0
T	3. Lack of Market driven approach	40
E	4. High Cost	0
R	5. Over Expansions/Big Projects	0
N	6. Over Trading/Adverse Product Demand	30
A	7. Technical / Product failure	0
L	8. Labour Trouble	0
	9. Lower profitability/margins	30
CAUSES	10.	

EXTERNAL REASONS

1. **Government statutory obligations**

Customs duty increase on steel and depreciation of rupee led to significant increase in cost, almost 50% of raw material is imported.

2. **Global market condition**

Improved efficiencies at Duracell plants world wide, coupled with highly competitive global market conditions, made it no longer cost as effective to export from Duracell India plant. Maintaining production for the Indian market was not viable and placed sever financial constraints on the company.

On front of external causes following analysis been drawn:

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	
	2. Government & Statutory Obligations	50
	3. Environmental / Climate factors	
	4. Global Competition	50

THE TURNAROUND STARATEGY

The focus areas for turnaround of GILLETEE were: -

(i) Asset Management
(ii) Cost Reduction
(iii) Marketing Support
(iv) Financial – Restructuring

(I) **Asset Management**

The sales of battery cells accounted for 10.5 percent of the Company's turnover in fiscal year 1998. The alkaline battery segment is growing market but: -

a) It is much smaller compared to dry cell batteries.

b) The dry cell segment has been witnessing low growth rates. The shift to alkaline segment has also slowed down after a strong growth witnessed in the initial years.

c) In 2001, Gillette India embarked on a 'review' of its operations and decided to shut down its Duracell unit taking one time profit of Rs.60.6 crores.

In January 2003, GILLETTE INDIA sold its battery business to the Thaana Walla Group of Companies. GILLETTE INDIA, M.D. Mr. Zubair Ahmed said "Our focus is on building the strength of our Duracell Alkaline battery business where we remain the number one in world. Maintaining production of Zinc batteries in India does not support this strategic direction". By selling Geep's batteries unit, the cash flow generated was invested in grooming products business.

d) The company discontinued manufacture of Duracell batteries in India and would source alkaline batteries from Duracell worldwide facilities.

e) The company attempted to free working capital from unproductive development and achieved a 61% reduction in working capital. Working capital requirement, which used to be in tune of Rs.137 crores in 2000, dropped to Rs.54 crores in 2001?

(ii) **Cost Reduction**

Various measures adopted to reduce cost of operations: -

a) Maintaining production of Duracell for the Indian market was not viable and placed severs financial constraints on the company. After considering all options, a VRS was offered and accepted by all the employees at the plant. In view of these developments, it was decided to cease production at the plant. It saved operation cost in unproductive business.

b) Operational expenditure were brought down from the level of Rs.472 crores in year 2000 to Rs.449 crores in year 2001.

c) Inventories, which were traded from 65 – 70 days in year 2000, brought to the level of 30 – 35 days in year 2001.

(iii) **Market Support**

a) Distribution has been widened; new markets have been entered and mid market brands have been acquired in the quest for volumes. The idea was to deploy a dual brand strategy at least two price segments in every product category. So Gillette got itself Wilkinson (apart from 01' faithful 7 'O clock), Duracell got Geep and Oral – B grabbed Prudent toothpaste.

b) To leverage on its existing distribution network, the company has entered into a sales and distribution arrangement for a selected range of Parker and Luxor writing instruments.

c) The company has also ventured into the famine personal care segment with the launch of world-renowned GILLETTE Season Excel for women. In 1998, the company expanded its portfolio for women with the launch of SATIN ready shave gel.

d) The liberalization of the import policy has found the launch of few of shaving products such as shave foams, gels, after shave splashes and conditioners as well as deodorants under the GILLETTE brand name. Gillette's strategy in India has been to constantly upgrade the consumer from lower end products to premium products. By pricing its after shaves at Rs.250 for a 100-ml. bottle, GILLEETE is already putting the grey market out of business.

e) Emphasis is being placed on gaining trials through low priced packs and throws in sampling exercises (example: Rs.5 gel in sachet, Rs.50 foam can and single unit blade packs of sensor). Achieving flexibility in pricing is somewhat difficult without cutting into margins. The trick, say sources, is to price its razor competitively. Once the customer is hooked into shaving system, the company then makes its margins on the cartridges.

f) GILLETTE – is ensuring that the brand of its latest range 'Pacific Light' taps into synergy and expects this range of introduction Gillette's contribution of toiletries to the entire ISPC grooming business to leap forward from 20% to 40% in the next two years. As Gillette's sees it a large chunk of Pacific Light users are likely to belong to SEC A, aged 18 – 45. The focus is, therefore, on Urban markets, with an emphasis on the top 23 towns in the initial phase. Gradually it will tunnel down the population strata, once adoption rates in key markets began to saturate. As a result, Pacific Light will be available in just 55,000 outlets compared to the Rs.3 lakhs outlet coverage that other GILLETTE products achieve.

(iv) **<u>Financial Restructuring</u>**

a) Interest cost declined from Rs.172 million in December 2000 to Rs.138 million in December 2001.

b) The immediate benefit from merger has come through the tax protection offered by the accumulated losses of the merging companies.

c) The parent company infused Rs.850 million through a capital grant to help in meeting debt and interest commitments.

d) GILLETTE INDIA claims to have closed 2002 as a zero debt company, it will fetch future savings.

Gillette India focus areas for the turnaround strategies were measured (in consultation of Mr. Zubair Ahmed office, M.D. Gillette) on scale rating from 1 to 10, the following representation arrived:

	Scale Rating
(a) The Customer Approach	9
(b) The Financial restructuring	8
(c) The Processes	6
(d) Man Power Restructuring	5
(e) Any other (if any)	4

VISION OF THE COMPANY

GILLETTE Company USA founded in 1901, is the world leader in shaving products and has been instrumental in all the major technological advances in the field of blades and razors. The company has a presence in six major segments. 1. Blades, 2. Razors, 3. Toiletries, 4. Braun Products, 5. Oral – B Products and 6. Duracell Products. Besides shaving systems, GILLETTE also holds the number one position worldwide in selected female grooming products, such as wet shaving products and hair epilating devices. In addition, the company is the world leader in alkaline batteries; toothbrushes and oral care appliances.

The stationary products business was globally divested in 1999. Manufacturing operations are conducted at 51 facilities in 20 countries, and products are distributed in over 2000 countries and territories around the world.

GILLETTE India's operation of turnaround is similar to $ 9 billion GILLETTE, based in Boston, US which embarked on a similar exercise globally under its new Chief Mr. James M. Kilts.

Gillett's Mission is quite simple "The Gillette Company's vision is to build total brand value by innovating to deliver consumer value and customer leadership faster, better and more completely than our competition."

This vision is supported by two fundamental Principals that provide the foundations for all the activities: -

1. Organizational Excellence
2. Core Values

GILLETTE also gives five ways that they feel they can actually achieve their vision. In general they speak of

- Driving cost down without sacrificing quality.
- Building the strength of the company.
- Improving the information available

MISSION

GILLETTE does a great job explaining individual goals for each of the categories of products they provide blades / razors, oral care, Duracell, Braun and personal care. GILLETTE also comprehends that they must also focus on the individual categories of their products to allow them to maximize the expectations in growth the profit for each. Another great thing about these individual goals is that they are specific to each category.

One of the main goals listed by the company is to "Building shareholders value through sustained profitable growth". Another goal would be to maintain their global leadership.

GILLETTE offers a list of future goals that they have within their financial parts. One main goal is to increase their net growth sales by 3 – 5%. Another measurable goal is that GILLETTE wants to decrease their inventory on hand by approximately 22%. A final major goal is that by 2006 they want to increase their return on invested capital to 32% an increase of 4% from 2003.

Ranking of major constituents of Turnover Strategies

→ 1 Stand for better and 4 for worst ranking

	Rank
People	4
Product	2
Profits	3
Customer	1

STYLE OF LEADERSHIP

In any sick industry, role of leadership is very crucial, at one end he remains lonely as at the time of crises, there is hardly any one to put him helping hand and on other hand he / she is supposed to lead a team to the visionary goal and change their mind set for the new changed challenging Scenario.

Scenario in GILLETTEE INDIA was bit different. Here Mr. Zubair Ahmed; Managing Director GILLETTE INDIA got all the help financial support and expertise from the parent GILLETTE group based in Boston, US, which embarked on a similar exercise globally under its new Chief Mr. James M. Kilts.

Individuals at GILLETTE find challenges at every job function along with in depth training and resources to help them succeed. Leader at Gillette will focus on each and every department at every level to ensure that everyone is working at their optimum level of performance. They understand that every employee has a part in the process and without them Gillette would not be where they are.

There is a special section labeled diversity. It gives an extreme amount of information about how Gillette supports diversity, offers opportunities and quote from some current employees. It is this confidence that show all employees or even as outsider that Gillette cares for their workers.

Gillette focuses on the fact that they are large team, must communicate and work together to achieve this vision.

As per the questionnaire got filled up by Mr. Zubair Ahmad office, Leadership style of Gillette India is termed as **'Democratic"**.

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

For the process of Turnaround, the entire value-chain has been squeezed for efficiency, with costs ripped out, the sales force streamlined and inventories halved all within just one year. Working Capital requirement crashed to Rs. 54 crores.

Whether it is Marketing, Finance , Human Resource or Technical Department, every department tried to contribute their best for turnaround; but when each of the action taken by these faculties are rated by Mr. Zubzir Ahmad (M. D.) office on scale rating from 1 to 5, following picture arrived:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	4	1. Cost reduction	4
2. Evolving customer/dealer oriented scheme	5	2. Disposal of Non-performing assets.	5
3. Searching for unexplored high return and high growth markets.	4	3. Revenue Generation	4
4. Inventory control through logistic management.	4	4. Inventory Control	4
5. Launching new product satisfying needs of customer.	4	5. Expedite Recovery	3
6. Reduction of marketing expenses.	2	6. Deferred Expenditure	2
7. Modification in Dealer incentive schemes	2	7. Curtail Capital Expenditure	1
8. Appointment of Distributors.	2	8. Explore to find possibilities for finance generation	
9. Disposal of slow moving. Dead stock	4	• On less interest	3
10. Recovery of Disputed/old over dues.	3	• For long term	4
11. Billing based on creditworthiness.	3	9. Expedite cost flow	
12. Periodic cash projection / monitoring.	3	• Restructuring of debts	2
13. Rationalizing pricing policies.	4	• Settlement with creditors	2
		10. Budget control	2

Rating 1-5 scale, as per The Quantum of Strategy implemented in turnaround process:

→1 stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost	2	1. Change of Management	
2. Purchase control	2	2. Downsizing Staff	5
3. Implementing industrial engineering techniques		3. Training & Upgrading the Skills	4
• Better material, handling equipments.	2	4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	2
• Work and motion study for proper job allocation.	2	5. Concept of Profit Centre introduction, with prescribed decision – making powers.	3
4. Providing new, innovative & technically superior products.	5	6. Implementation of	
		• Two way communication	4
5. By achieving efficiency in manufacturing	2	• Participative Approach	4
6. Increasing Labour productivity	4	7. Punishment and Reward Policies	2
7. Proper maintenance of Plant and Machinery	3	8. Promoting Corporate Culture to change the mind set	3

4.7 REVIVAL OF DENA BANK

The family of Devkaran Nanjee under the name Devkarn Nanjee Banking Company Ltd founded Dena Bank on 26th May 1938.

It became Public Ltd. Co. in December 1939 and later the name was changed to Dena Bank Ltd.

In July 1969, Dena Bank Ltd., along with 13 other major banks was nationalized and is now a Public Sector Bank contributed under the Banking Companies (Acquisition and Transfer of Undertakings) Act 1970.

Dena Bank had a consistent profitable business performance; but it recorded loss of Rs.266.13 crores in year 2000-01. Mr. Anil Gopal Joshi took the string of control in hand and had taken on the challenges facing the bank and successfully stared the bank on track, within the year bank posted profits.

Later on rein of Dena Bank was taken over by Dr. Anil Khandelwal, Chairman and Managing Director. Dr. Khandelwal a keen and practical banker, with a successful career graph at the Bank of Baroda, has catapulted the bank into modern financial institution. Dena Bank has transformed rapidly ever since Dr. Khandelwal took over the mantle.

Dena Bank showed a loss of Rs.266.13 crores in Financial Year 2000-2001.

STAGE OF SICKNESS

The bank had in the past accumulated losses aggregating Rs.132.29 crores against its paid-up capital during the Financial Year 1995-96. The bank further incurred a loss of Rs.266.13 crores during the year 2000-01 and as on March 2000-01 and as on March 31, 2004 accumulated losses of the bank were Rs.217.29 cores, which have been adjusted against Revenue Reserves as on 30.9.2004.

1. Non Performing Assets

As on March 31, 2004 the net NPA's of the bank stood at Rs.384.35 crores i.e. 9.40% of its net advances. In the event of non-recovery of these assets, the bank profitability might effect.

2. Outstanding Litigations against the Bank

As on September 30, 2004 there were 309 cores including writ petitions filed by employees / ex-employees, suits / writs by customers, disputed tax liabilities and consumer cases with aggregate claim of Rs.141.24 cores, for which no provisions have been made. Out of these there are 13 cases where the claim amount is Rs.1 crore and above aggregating to Rs.111.69 crores.

3. Tax Disputes

As on March 31, certain proceedings related to Income Tax and Interest Tax matters is pending before the Income Tax Authorities. The net amount of disputed tax in respect of these proceedings is Rs.220.68 cores.

4. Contingent Liabilities

As on September 30, 2004, the bank had contingent liabilities aggregating Rs.5357.30 cores, comprising Rs.129.68 cores as claims not acknowledged as debt by the bank Rs.2845.62 cores as liabilities on account of outstanding, Rs.2845.62 cores as liability on account of outstanding Forward Exchange Contracts, Rs.1307 cores as Guarantees given on behalf of constituents, Rs.1062.52 croes as Acceptance, Endorsements and other obligations Rs.12.48 croes as other items.

5. Net Asset Value per Share

The net asset value per share of the bank has shown a declining trend from Rs.29.35 in Financial Tear 1994 – 2000 to Rs.23.58 in Financial Year 2003-2004.

Considering all the above facts, the sickness of the Dena Bank can be termed as **'Incipient Sickness'.**

SICKNESS ANALYSIS

Dena Bank has a large presence in the economically vibrant Western Belt of the Country. It has a network of 1127 branches spread over 21 States and Union Territories with consistent profitable business shown net loss of Rs.266.13 crores in year 2000-2001.

The case of Dena Bank is useful for the study. To get the clear introspection of the sickness, we will analyze it on two perspective i.e. Internal and External reasons.

INTERNAL REASONS

1. Poor Management

   RBI conducts annual inspection of the bank based on the audited accounts. The Annual Inspection Report of the Reserve Bank of India (2004) has identified certain weakness in the system, operational irregularities and other deficiencies in internal controls.

2. Financial Indiscipline

   a) NPA's at Rs.884.35 crores.
   b) Accumulated losses of Rs.136.29 crores.
   c) Outstanding of Rs.141.24 crores stucked up in litigations.

d) Disputed Tax of Rs.220.68 cores.

All the above stucked up fund are indication of financial indiscipline.

3. Lack of Market Driven Approach

a) Bank operations are concentrated to limited Geographical areas of western region (comprising of Gujarat, Maharashtra, Goa, Dadar Nagar Haveli and Damn Diu).

b) Advances of the bank to the specific borrower and industry specific. This behaviour of bank had hindderance in tapping big potential market and affected the overall asset quality of the bank.

c) With the emergence of more competitions with the entry of new foreign player, Bank efforts were missing to enhance customer satisfaction by upgrading skills, systems and technology to meet the challenges.

4. High Cost

Doubtful loans account for about 70 percent of the total bad loans. Provisions for bad loans could as such remain high in the next two year, constraining profit growth. Dena Bank also needs to provide for the increase in the cost of wage bill following the agreement with Trade Unions.

Dena Bank's spreads too are under pressure. Spreads (the difference between the rate at which funds are borrowed and that at which they are lent) declined for Dena Bank in Financial Year 2004. Dena Bank's spreads were below 3 percent when stronger banks enjoyed spreads in excess of that figure.

Dena Bank internal causes were segmented by the top team of officials, Mr. Dhananjay A.G.M (IRC) has put forth it in percentage form as per their significance, it gave following representation:

		% of sickness
I	1. Poor Management	0
N	2. Financial Indiscipline	0
T	3. Lack of Market driven approach	0
E	4. High Cost	40
R	5. Over Expansions/Big Projects	0
N	6. Over Trading/Adverse Product Demand	0
A	7. Technical / Product failure	0
L	8. Labour Trouble	0
	9. Lower profitability/margins	0
CAUSES	10. NPA Provisioning (Rs. 158.29 Cr)	60

EXTERNAL REASONS

1. Regulatory Restrictions

There is number of restrictions as per the Nationalization Act 1949 (Amended), which impeded flexibility of the Bank's operations.

2. Sensitivity to the Economy / Competition

The Bank's performance is highly correlated to the performance of the economy and the financial markets. Competition in the financial sector has increased with the entry of new players and is likely to increase further as a result of further deregulation in the financial sector. With emerging competition Bank faces competition both in raising resources and in deploying them.

In a same fashion as internal causes were rated, the external reasons of sickness portrays following:

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	
	2. Government & Statutory Obligations	50
	3. Environmental / Climate factors	50
	4. Global Competition	

FOCUS AREAS FOR THE TURNAROUND STRATEGIES

Dena Bank which recorded a loss of over Rs.250 crores during 2000-01, has come up with a time-bounded strategy to revive the bank. They focused basically on following areas:-

1) A Strong Capital Base with Quality Assets.
2) Customer Centric Approach.
3) Best HRD Practices.

When focus areas for the Turnaround Strategies were scaled down on rating of 1 to 10, following depictions were made:

	Scale Rating
(a) The Customer Approach	9
(b) The Financial restructuring	8
(c) The Processes	8
(d) Man Power Restructuring	8
(e) Cost Reduction	8
(f) Recovery of NPA	9
(g) Profit from treasury	9

A Strong Capital Base with Quality Assets

a) **Non Performing Assets**

The Bank took several steps to reduce the non-performing assets through aggressive recovery drives combined with improved risk management practices.

Debt Recovery Tribunal was set up for faster settlement of recovery litigation.

With the above steps initiated, Assets quality recorded a significant improvement with a steep fall in Gross NPA from 14.82% in March 2004 to 9.67% in March 2005 and Net NPA from 9.40% in March 2004 to 5.3% in March 2005. Slippage of Rs.195 cores (42%). Non-performing assets were in tune of Rs.495 cores in Year 2003-04 which got declined to Rs.264 crore during 2004-05.

b) **Net Asset Value**

The Net Asset Value per share of the bank has shown a declining trend from Rs.29.35 in Financial Year 1999 – 2000 to Rs.23.58 in Financial Year 2003-04.

The decline in net asset value is due to net loss posted by the bank during Financial Year 2000-01 mainly on account of making provisions in line with the RBI guidelines and VRS expenses.

The Bank took various corrective steps to improve its profitability like reduction in costs and levels of NPA increase in non-interest income.

The Bank turned around within one year and posted Net Profit of Rs.11.36 cores during 2001-02. The Bank's net profit increased from Rs.11.36 cores (2001-02) to Rs.114.19 (2002-03) and further to Rs.230.50 crores in 2003-04.

Net worth of the Bank posted a short rise to Rs.727 crores from Rs.496 crores and plough back of profits to reserves of Rs.61 crores. The Net Asset Value per share improved from 13.21 in March 2003 to Rs.23.58 in March 2004 and to Rs.27.03 in September 2004.

2. Customer Centric Approach

In an exclusive interview with Business Barons, Dena Bank Chairman and Managing Director Dr. Anil K. Khandelwal emphasis the importance of Customer Centric Approach that will go a long way in reforming the Indian Banking Industry.

Says Mr. M.V. Nair, Executive Director at Dena Bank "The Bank has placed great emphasis to delight its customers with personalized services, easy documentation and assured delivery".

a) <u>Customer Care / Service</u>

Today the customer has many choices. He / She is the one who is driving the agenda of banking. He has wide range of quality services, a basket of products and variety of delivery channels.

To give dedicated attention and a sharper focus to the retail segment, the bank introduced a unique concept known as 'Finmart'. This provides the customer modern ambience, technology, simplified process and smart staff to deliver. Total about 40 Finmarts are planned around the country. Through this dedicated and focused marketing efforts bank planned aggressively to peruse it retail-banking strategy.

b) Fast / Efficient / Technologically Upgraded System

- Around 92% of Dena Bank's business is generated through computerized branches.

- Dena Bank has set up its own network, Dena Net, using 324 leased lines, connecting 462 branches (50 percent of computerized branches) and 34 offices spread over 100 centers.

- A total 135 ATM's have been installed by Dena Bank across the length and breadth of the country. All ATM's are connected through the Dena Net. The bank has tied up with Corporation Bank the Cash

- The bank has already rolled out mobile banking called 'M-Banking' in which the customer can view the last three transactions on his mobile phones. It has also introduced Bill Pay – a free bill payment solution, where the customer can pay their utility bill at the banking counter or its drop in boxes.

- Dena Bank has tied up with Timesmoney.com for overseas remittance. With this overseas customers can transact through the internet and the bank will deliver the cash or draft in India. Bank has also planned to introduce a multi-city cheque facility and also internet banking.

c) Range of Products made available to suit every market segment:-

- The bank identified retail lending as key growth area to maintain its growth trend in advances and augment income. The bank has entered into MOU with Oriental Insurance Co. Ltd., and Kotak Mahindra Old Mutual Life Insurance Co. for generation of income from insurance business.

- For fresh business, the bank concentration is on advances, housing, and consumer and education loans.

- Bank continued to focus in agriculture lending through its large network in rural and semi urban areas. This priority sector advances constituted 42.46% of net bank credit. Bank also introduced Credit Card in rural India known as 'Dena Krishi Sakh Patra' (DKSP).

- The bank launched in June 2002 a new product 'Dena Laghu Udhyami Credit Card" for the benefit of small businessman and others.

- With over 50% of the portfolio comprising of corporate and mid-corporate business, this segment forms a sizable part of the banks portfolio.

3. Best HRD Practices

For any turnaround, change of mindset of employee is mandatory. Chairman and Managing Director infused a vibrant new work culture in the bank. He believes a bank's strength is not only in its size; but how smartly it can be put to use. He says, "I want to create a really smart strong and service savvy medium sized bank".

- In preparation, it has totally revamped its human resources with its staff adopting the new work culture and serving customer with smile.

- Realizing that banking in a knowledge based industry, Dena Bank recruited 70 IT Officers and is also recruiting 100 Managers and Charted Accountants. It has recently employed economists, law graduates, human resource Professors and Agricultural officers.

- The bank present key management team consists of highly successful bankers, apart from a top bankers, M.D. Dr. Khandelwal is also an expert in human resources. While Executive Director Mr. Nair has been instrumental in introducing cash management products and setting of a successful marketing team in his carrier at Corporation Bank.

- As a strategy to bring more talented people into bank's folio Dr. Khandelwal has appointed few experts as consultants in key areas. Mr. K.R. Ramamurthy, Ex-Chairman of Central Bank is advising the bank as Credit risk management, while for implementing core–banking the bank is availing of a advise of Prof. Krishnamurthy of the Indian Institute of Science and Mr. V.G. Subramanian, former General Manager (IT) Bank of Baroda.

- The staff strength of the bank stood at 10210 and the productivity per employee increased to Rs.3.13 crores as on 31st March 2005 as against Rs.2.74 crore on 31st March 2004.

- The bank laid special emphasis in developing core skills as well in acquiring new skills. The talents gaps been identified and these are bridged through skill development programme and acquiring fresh talent.

- HRS introduced a large number of senior level executives took Voluntarily Retirement. The scheme drew response from 30% of the banks workforce including 20 Regional Managers and 4 General Managers.

VISION AND MISSION OF THE BANK

To reply to the question 'Having taken over the Leadership of Dena Bank', what is your broad strategy and vision for the bank? Chairman and Managing Director Dr. Anil K. Khandelwal said "My vision of Dena Bank is to position the bank in Indian Market as a smart and strong mid-signed bank, with its larger presence in the economically Vibrant Western Belt of the country the bank will focus more particularly on retail and SME segments. Also since the banks technology platform is sound and robust, we will reach out to the customer through an array of IT – driving products and multiple delivery channels, bringing greater convenience and access points to the customer".

The Bank will strive to be a 'financially strong' and 'competitive' Bank with main focus towards providing personalized services to its customers with the optimum use of technology. The key objective shall be to provide "Value Maximization" to all its stakeholders. In the changing environments, the ethos of the Bank would now be more of "Self Governance". Desirous of charting its future growth path to properly position itself as mid-sized profit making and dividend paying Banking company, committed to high standards of customer services.

Note: The term Self Governance means that in a situation of changing environment, the bank will initiate steps on its own to meet the challenges posed by the changing environment.

Ranking of major constituent of Turnover Strategies.

→ 1 Stand for better and 4 for worst ranking

	Rank
People	3
Product	4
Profits	2
Customer	1

STYLE OF LEADERSHIP

It is the leader with vision and confidence can trail out the sinking ship out of red. In financial year 2000-01 the bank was in red, having posted a loss of Rs.266 crore. Then at that time Mr. Anil Gopal Joshi, Chairman and Managing Director had taken on the challenges facing the bank and successfully steered the bank back on track, within the year bank posted profits.

Dr. Khandelwal took over the charge of CMD from Mr. Joshi. Officials working at the bank agree that Dena Bank has transformed rapidly ever since Dr. Khandelwal took string of charge under his control.

For each and every segment whether retail, agriculture, senior citizens, women empowerment, housing or education loans, goals were set.

Bank was generating 8% of its income from retail products, while competitors were enjoying the market share of 20%. Dr. Khandelwal with Mr. M.V. Nair, Executive Director planned very clear initiatives on the retail front through the language of FINMART, similarly for other segments clear defined goals were set by the leader.

Here the style of leader was such that they took major decisions and leave the routine decisions to be taken by the subordinates.

If we study control system adopted by Dena Bank leaders, it is found that it tends to be flexible and goal oriented.

The bank had set up for monitoring mechanism to track the industries. Borrowing companies and the companies with above Rs.1 crore of borrowing were studied by Executive Director, while accounts with over Rs.5 crore of borrowings were monitored by the CMD himself.

Though the leaders on one side mooted an idea of VRS, on other side they introduced incentives for rewarding performing employee as per the norms permissible by the Indian Banks Association and RBI.

Dena Bank has termed their leadership style as 'Democratic'.

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

Here our purpose to study the bank initiatives- ranking for turnaround among four constituents: People, Product, Profits and Customer.

If we go through an exclusive interview with Business Barons, Dena Bank Chairman and Managing Director Dr. Anil Khandelwal emphasized the importance of a customer centric approach that will go a long way.

On Human Resource (People) front, company sought bright young talent from Public Sector Banks, recruited best of the talents, expertise and professionals from outside, so that banks culture can be transformed to compete with emerging competition.

Dena Bank rated their action strategies on scale rating of 1 to 5 whereby 1stand for low and 5 stand for high rating:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	4	1. Cost reduction	4
2. Evolving customer/dealer oriented scheme		2. Disposal of Non-performing assets.	5
3. Searching for unexplored high return and high growth markets.	3	3. Revenue Generation	5
4. Inventory control through logiotic management.		4. Inventory Control	
5. Launching new product satisfying needs of customer.		5. Expedite Recovery	5
6. Reduction of marketing expenses.		6. Deferred Expenditure	
7. Modification in Dealer incentive schemes		7. Curtail Capital Expenditure	1
8. Appointment of Distributors.		8. Explore to find possibilities for finance generation	
9. Disposal of slow moving. Dead stock		• On less interest	3
10. Recovery of Disputed/old over dues.		• For long term	3
11. Billing based on creditworthiness.	4	9. Expedite cost flow	
12. Periodic cash projection / monitoring.	2	• Restructuring of debts	4
13. Rationalizing pricing policies.	3	• Settlement with creditors	4
		10. Budget control	4

→ 1stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost		1. Change of Management	4
2. Purchase control		2. Downsizing Staff	4
3. Implementing industrial engineering techniques • Better material, handling equipments. • Work and motion study for proper job allocation.		3. Training & Upgrading the Skills	4
		4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	3
		5. Concept of Profit Centre introduction, with prescribed decision – making powers.	3
4. Providing new, innovative & technically superior products.	5	6. Implementation of • Two way communication • Participative Approach	 4 5
5. By achieving efficiency in manufacturing		7. Punishment and Reward Policies	4
6. Increasing Labour productivity	4	8. Promoting Corporate Culture to change the mind set	4
7. Proper maintenance of Plant and Machinery			

4.8 TURNING AROUND A BUSINESS THERMAX

Thermax, an engineering company specializing in energy and environment solution, started 37 years ago by Mr. A.S. Bathena and Mr. Rohintan Aga and was called 'Wanson India' because it had collaboration with Belgian Company called Wanson.

A decade later company name got changed to Thermax. Till that Time Company entered into business of water treatment and chemical business, besides its existing business of boilers.

In 1995 Thermax became Public Limited Company; but in 1996 Mr. Rohinton passed away and Mrs. Annu Aga was declared the Managing Director. Mrs. Aga joined Thermax 15 years ago and preceding 1996 for 5 years was leading the HR function.

After 1995 company spread themselves diversified into unrelated areas, which eroded capital, inability to manage their business diligently coupled with the economic downturn in the capital goods industry, catalyzed the downslide.

Success often sows the seeds of a downfall, when level of decline was observed there was a need for radical change, but company was on denial mode and thus performance continued to decline and in the year 1999 – 2000 for the first time in Thermax history it made an operational loss. Company turns a blind eye on internal affairs and kept blaming external factors.

STAGE OF SICKNESS

Company employee cost was higher than the industry standard, shareholders started blaming management for such affairs of downfall, and senior officers lost faith in leadership. Raw material constituted the largest cost component 57% of the total sales. Market conditions were stagnant, company sales turnover declined. Company showed an operational loss for two years. Thermax posted a loss of 13.2 crore in financial years 2001. Fall in demand from the manufacturing sector slow down Thermax's growth in the energy equipment business.

Considering all the above factors Thermax termed the sickness as **'Initial Symptoms'**.

SICKNESS ANALYSIS

The company like Thermax, which had successful track record of 30 years and to be known for the practices and famous for strong entrepreneurial culture, it was not easy for them to ascertain the reason of losses.

Ms. Annu Aga, Chairperson of Thermax rightly said 'If we are not careful, success often sows the seeds of a downfall".

INTERNAL REASONS

Mrs. Annu Aga added up "One of the typical mistakes we made was to turn a blind eye to our internal affairs. We kept on blaming external factors for the decline in our performance".

1. **High Cost**

    Employee cost was 16% of the turnover which was above the industry standard. Thermax continued to carry a large number of under performers and management did not look at manpower productivity.

    Raw Material constituted the largest costs component of the company (57% of the total sales in financial year 2001).

    Legal & Professional charges in financial year 2002 at Rs.12.95 crore have shown a jump of 156% over the last year's outgo of Rs.5.06 crore.

The company provided Rs.8.98 crore for bad debts and doubtful debts in financial year 2001 when compared to only Rs.3.63 crore provided in financial year 2000.

Interest on debt was in tune of Rs.3.7 crore in financial year 2001 again Rs.3.3 crore in financial years 2000. Total debt burden was of Rs.38.6 crore in financial year 2000.

2. **Poor Management**

Thermax did not look at manpower productivity. People got lulled into complacency with no idea of return on capital. It had been wrongly interpreted that Thermax values did not allow asking people to leave the company. It was wrong assumption that Thermax is a people oriented company and thus it resulted in accumulation of large number of under performers. This was happening primarily in non-core business that was adding to bottom-line and eroded profits.

In a competitive business, companies tend to be more demanding of their people in terms of performance and congruence with ideology. Management had their own cobwebs and confusions. They had their own comfort zone. At the time when action was needed, top executives kept discussing and paralyzing themselves with inaction. This is been admitted by Chairperson Thermax Ms. Annu Aga :

"It is sad but true that in our case the immediate trigger for change did not came from our concern of the future or our detiorating performance. The trigger was when I received an anonymous letter from shareholder blaming me for my inaction. I realized that in the past I was indulgent and patient with poor performance deluding myself that we would come out of it eventually".

3. **<u>Over Diversification</u>**

Success often sows the seeds of a downfall. In the second half of the last decade Thermax spread themselves through diversification into unrelated areas that eroded capital and dissipated top management time.

Company diversified in non-core activities namely transmitters, electronic components, systems and software, bottled water, lease financing, fans and painting systems. These were a drain on management time and capital.

Thermax Corporate office has given following %age to various cause of internal and external sickness:

		% of sickness
I	1. Poor Management	20%
N	2. Financial Indiscipline	
T	3. Lack of Market driven approach	
E	4. High Cost	20%
R	5. Over Expansions/Big Projects	20%
N	6. Over Trading/Adverse Product Demand	
A	7. Technical / Product failure	
L	8. Labour Trouble	
CAUSES	9. Lower profitability/margins	30%

<u>EXTERNAL REASONS</u>

External causes like Resources availability, Government rule & policies, Environmental factors and global factors too affect the performance. Thermax describe these factors as below:

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	
	2. Government & Statutory Obligations	
	3. Environmental / Climate factors	90%
	4. Global Competition	10%

THE TURNAROUND STRATEGY

As the Thermax performance start declining, people got lulled into complacency, started blaming external circumstances they failed to recognize that something is wrong within. Thermax management was out of depth, they hired outside consultant called 'Boston Consulting Group' to do a thorough diagnosis of the company.

Following are the recommended focused areas by Boston Consulting on which Thermax has initiated various turnaround measures to shore up its top-line and bottom-line:-

1. Divest Non Core Business.
2. Cost Control.
3. Restructuring Human Resources.
4. Market Driven Approach.

1. Divest Non Core Business

In line with the recommendations given by the Boston consulting Group, Thermax restructured its business with focus on back-end integration. The company exited from the non-core activities namely transmitters, electronic components, systems and software, bottled water, lease financing, fans and painting systems.

The painting systems business has been sold to Soham Engineering, previously a vendor for Thermax Surface Coating. The company also got out of the bottling business by selling Thermax Culligan Water Technologies Ltd., to Coca-cola for Rs.3 crore. Mr. Kulkarni, Managing Director says, "one of the observations of Boston Consulting Group was that each of our divisions was operating like silos and not making use of the group synergy that we had".

Thermax decided to concentrate on their Core Energy and Environment business. The focus was for better organizational efficiency and improving the performance of the core units by concentrating to improve the productivity of their resources.

2. **Cost Control**

To improve Thermax bottom-line on sustained basis, the company chalked out plans to bring down its

a. Material cost.
b. Employee cost.
c. Manufacturing cost.

a. **Material Cost**

Raw material constitutes the largest costs (57% of the total sales in financial year 2001). The company focused on better supply chain management to bring down the cost substantially.

b. **Employee Cost**

Employee cost was 16% of the turnover which was above the industry standard. In order to cut excess flab, the company offered VRS at both managerial and shop floor workers level. At managerial level 250 employees opted for VRS while at shop floor nearly 200 employees accepted the offer. VRS coasted Rs. 17 – 18 crores to the company, which expected to be written off over three year's period.

c. **Manufacturing Cost**

Drastic reductions were made on overall expenses. Thermax actively worked towards improving operational efficiencies. Steps were initiated to integrate the manufacturing of energy business to reduce cost.

3. **Restructuring Human Resources**

Boston Consulting Group conducted a belief audit among the seniors, 34 seniors executives were interviewed. The audit revealed that most seniors had lost faith in the leadership at the top and were concerned about the future of Thermax.

Tough decisions were opted Managing Director resigned. Board appointed Joint Managing director, Mr. Prakash Kulkarni as the New Managing Director.

Entire Board was reconstituted. The reconstituted board had independent Directors, three family members and one Executive Member – Managing Director.

With implementations of VRS, Managers level employees were reduced from 1350 Nos. to 110 Nos. while shop floor employees of 900 Nos. strength got reduced to 700 Nos.

4. **Market Driven Approach**

- Customer focus and care – Thermax adopted a practice of solution provider rather than only equipment sellers. They understood the customer's problem and offered them a solution.

- Optimized sourcing and channel service - Thermax equipment had life of 15–20 years company laid strong focus on service business which contributed nearly Rs.30 crores . Company planned for revenue growth in service industry to nearly Rs.100 crore in next two–three years.

- Revamping dealer network – The company chalked plans to leverage its strong and extensive 220 dealer's network. It is been decided that dealers will be single source service destination for all the company business divisions.

- Identified few growth drivers – Few new products were identified electricity generation through waste heat, agro waste and biomass were identified as growth product in future.

- Exports for future growth – Company posted higher growth in exports. The company intends to emerge as an international player and not just restrict to being an exporter in the sector. The company already had two overseas subsidiaries namely HE Engineering, UK and Thermax Inc., USA. In addition to its presence in South America, North America and Europe the Company expects to enhance its geographical reach to include reviving market like South East Asia.

Mr. Deepak Thakur, Company executive of Thermax described Focus areas of

→ 1 stand for low and 10 for higher focus

Scale Rating

(a) The Customer Approach	7
(b) The Financial restructuring	3
(c) The Processes	8
(d) Man Power Restructuring	6

ANALYSIS OF VISION STATEMENT OF THE COMPANY

In a reply to Mr. R. Venkatraman and Prajakta Pradhan (of India Infoline) question of what is your vision for the company? Where do you see your company five years from now? Mr. Prakash Kulkarni, M.D. Thermax Ltd., said:

"The company is focusing its energies towards three strategic imperatives:-

i) Customer delight.
ii) Sustained quality – both product / services.
iii) Process and cost leadership. "

Integrated roadmaps towards these goals are already been conventionalized and implemented.

Thermax is gearing up for a transformation phase and has a plan to double its turnover and triple profits by 2008.

The company is also considering the possibility of making China a base for an assembly of its products for global markets on a long term. Thermax aggressively making all efforts for development and providing integrated solutions such as CHPC (Combined Heating, Power & Cooling). They are focused on creating a global respected organization offering sustainable solutions in energy and environment.

Vision Statement

"To be globally respected, high performance organization, offering sustainable solutions in energy and environment."

LEADERSHIP STYLE OF TURNAROUND MANAGER / LEADER

Change in inevitable and people and organizations need to change. Thermax reconstituted the entire board after the audit, whereby it was revealed that most seniors had lost faith in the leadership at the top. Among the newly elected 4 board members, only one was Executive member and that was Mr. Prakash Kulkarni.

Mr. Prakash Kulkarni was working earlier as Joint Managing Director and he was promoted recently as Managing Director. Under Mr. Kulkarni visionary leadership Thermax return to its profitable path. Mr. Prakash Kulkarni, Managing Director of Thermax Limited is a Mechanical Engineer by qualification and an alumnus of Harvard Business School. He has been associated with the company for over 28 years. Mr. Kulkarani implemented far-reaching changes in the strategic direction of the company and leader for turning the company around in span of two years.

Thermax is considered as 'Democratic Organization'. The employees of Thermax were emotionally attached with the organization. At Thermax open forums were there were business heads constantly talking and interacting with every employee. There were proper assessment tool to gauge employee satisfaction. There were transparent processes for performance appraisal.

When it was asked from Mr., Kulkarni, M.D. that "How will the transformations be managed?", He replied "There is no clear picture yet, and how much of it will evolve as we go along but these will clearly be an emphasis on communication and consensus building, not only we ask people to follow the outline thinking but also try and inspire them".

Thermax define their style of leadership as '**Consultative**' by nature.

Ranking as per being major constituent of Turnaround Strategy:

→ 1 Stand for better and 4 for worst ranking

	Rank
People	1
Product	2
Profits	4
Customer	3

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

Mrs. Annu Aga in her article 'Leadership lessons for young Managers' stated that 'Individual comfort was wrongly given higher priority than the organization survival and well being."

VRS scheme implemented, Board of Directors was reconstituted and M.D. got changed company took hard look at their manpower profiles and productivity.

Another strategic step taken by Thermax to engineer the turnaround was 'To weed out non-core activities'. These were a drain on management time. It eroded capital and profit too. We term it as financial restructuring as these activities were either closed, hived off or sold out.

Third strategic decision was of customer care and focus, under this approach company optimized sourcing and channel services. Life span of Thermax equipment is of 15 – 20 years there was good scope for service earning.

Company worked more as solution provider than equipment seller, Thermax gave their customer everything from equipment to comprehensive service, operation and maintenance contract with guarantees. This has enabled them to come closer to the customer.

Thermax put on their rating on 1 to 10 scales for various aspects they adopted for turnaround strategies, which are mentioned below:

→ 1 stand for low and 5 stand for high rating

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	3	1. Cost reduction	5
2. Evolving customer/dealer oriented scheme	3	2. Disposal of Non-performing assets.	5
3. Searching for unexplored high return and high growth markets.	1	3. Revenue Generation	4
4. Inventory control through logistic management.	4	4. Inventory Control	4
5. Launching new product satisfying needs of customer.	2	5. Expedite Recovery	5
6. Reduction of marketing expenses.	3	6. Deferred Expenditure	4
7. Modification in Dealer incentive schemes	1	7. Curtail Capital Expenditure	4
8. Appointment of Distributors.		8. Explore to find possibilities for finance generation	
9. Disposal of slow moving. Dead stock	4	• On less interest	1
10. Recovery of Disputed/old over dues.	4	• For long term	1
11. Billing based on creditworthiness.	5	9. Expedite cost flow	
12. Periodic cash projection / monitoring.	4	• Restructuring of debts	1
13. Rationalizing pricing policies.	3	• Settlement with creditors	1
		10. Budget control	4

Rating 1-5 scale requested, as per The Quantum of Strategy implemented in turnaround process:

→ 1 stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost	4	1. Change of Management	5
2. Purchase control	4	2. Downsizing Staff	5
3. Implementing industrial engineering techniques		3. Training & Upgrading the Skills	4
• Better material, handling equipments.	2	4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	4
• Work and motion study for proper job allocation.	2	5. Concept of Profit Centre introduction, with prescribed decision – making powers.	2
4. Providing new, innovative & technically superior products.	3	6. Implementation of	
		• Two way communication	4
5. By achieving efficiency in manufacturing	3	• Participative Approach	4
6. Increasing Labour productivity	4	7. Punishment and Reward Policies	4
7. Proper maintenance of Plant and Machinery	2	8. Promoting Corporate Culture to change the mind set	5

4.9 BUSINESS RESTRUCTURING - PHILIPS INDIA LIMITED

Philips India Limited was established as Philips Electricals Co. (India) Ltd., in 1930 by Philips NV as a wholly owned subsidiary. In September 1956, firm name was changed to PIL and in October 1957, it was converted into a public limited company.

In 1938 PIL commenced lamp manufacturing in Kolkota. In 1948 Radio factory got established. In 1959 electronics components unit at Loni near Pune were set up. In 1963 company began producing electronic measuring equipments at the Kalwa factory in Maharashtra. PIL subsequently ventured into telecommunication equipment manufacturing at a unit in Kolkota.

Foreign Exchange Regulation Act (FERA) forced PIL to bring down the foreign share holding to 40%. In 1980s Philips NV directed PIL to change its name to Pieco Electronics & Electrical, (Pieco). However, Pieco was allowed to sell its products under the 'Philips' brand. In May 1982, Pieco acquired the Kolkota based Electric Light Manufacturing Industries (ELMI) and made it a 100 % subsidiary.

In 1988-89, Pieco recorded pre-tax loss of Rs. 170 million with measures of cost cutting, organizational restructuring and sale of real estate enabled to its profits in the next two years. In 1993, its foreign equity stake was raised to 51% and the name was changed back to PIL.

Philips India Limited (PIL) has following product portfolio

- Audio Systems
- Colour Televisions
- Loud speakers
- Printed circuit boards
- Various kind of lamps
- Electronic components
- Electro-Medical apparatus

Philips

From 1993 onwards PIL was on the road of constant profit till 1999-2000. It was in year 2000-01, again Philips India Limited had announced a large loss of Rs.34.2 crore. In year 2001-02 also company recorded a net loss of 21.10 crore.

STAGE OF SICKNESS:

1. In colour television segment Philips share was 12% in 1996, which got slipped to 7% in 1997. Intense competition and declining market share effected the bottom-line of Philips India Limited.

2. The Stock price crashed through its earlier loss of Rs. 65 to the levels of Rs.50.

3. Philips India had militant trade union, and thus resulted to high wage cost.

4. Business has resulted in considerable volatility in earning growth. Lack of management transparency was evident. There was suspicion; Royal Philips Electronics is raising its stake in Philips India at Rs.30 per share through a preferential allotment when the market price was Rs.160. This didn't reflect the intrinsic value of the Philips India Share.

5. The market for lighting products was sluggish revenue growth were effected and declined owing to pressures as margins resulting from intense price competition. Compact Fluorescent lamps faced intense price competition and price erosion - driven by cheap imports of loss than acceptable quality in compact fluorescent lamps.

6. Company had high employee cost, it had huge work force, especially involved in many diverse/non-care businesses. These were only adding pressure to margins and profitability.

7. Philips announces a loss of Rs.34.2 crore in year 2000-01. In consumer Electronic division, in particular, had experienced a bad year with 36 percent decrease in top line growth.

All the above symptoms of sickness like declining sales, Erosion of profit, losing market share, erosion of profit are indication of **'Initial Symptoms'** of industrial sickness.

SICKNESS ANALYSIS

Even the brightest among corporate world can't claim their profitable performance for years together. Philips India has also 51 percent subsidiary of Netherlands based Philips Electronics. In spite of the best expertise, international work experience could not stop the losses.

In this chapter, we will analyze the Internal as well as External reason of sickness.

INTERNAL REASONS

1. **Poor Management**

There was suspicion that Royal Philips Electronics raised their stake to 51%, when the share prices of the company were at lowest possible. Principal Dutch Company offered a price of share around 30 percent to the market price. This didn't reflect the intrinsic value of the Philips India share. For a company with a turnover of Rs.1,800 crore and a strong presence in the lighting business, a market valuation of Rs.480 crore appears unreasonably low.

Lack of transparency in management plans and high manufacturing cost, low productivity are indication of Poor Management

2. **High Cost**

Return on Capital employed was poor; there were high employee cost with about 6000 employees.

The margins in the manufacturing side tended to decline because of intense competition in the consumer electronics and lighting business. Operating costs were too high. Productivity levels were low and not consumed adequate profitability.

3. **Lack of Market Driven Approach**

New product launching were not enough to satisfy the changing trend of customer habits. Customer was looking for strong brand equity, with best of innovative products with latest technology and with low price.

The biggest stumbling block for Philips seams to be perception that Philips products are too expensive.

In an interview with Sabil Francis of agency fags'. Senior Vice President of consumer Electronics, Philips India said "what I am saying is that the problem is not in the perception that Philips in an expensive brand. What was lacking in our marketing strategy was that we were not being able to reach out to the consumer in the correct manner."

Market Survey revealed that Indian consumers thought

i) That it was an Indian company and
ii) That it was primarily a bulb manufacturer

Philips needed image refurbishment supply chain was not proper company infrastructure was not adequate to the fast supply needed by the customer.

4. **Over Expansion / Big Projects**

During the pre-reforms license Raj, more possession of an industry license meant assured profits. In such a Scenario it didn't cost a company to be highly diversified into several unrelated businesses. Nor did it matter much to the bottom-line.

Philips almost had seven decades in Indian turf. It also had set up six manufacturing units. It had wide business portfolio that includes electronic components, electric lamps, television and video products, public address systems and electronic measuring systems.

With the advent of liberalization, Philips to found the going tough company operating costs was too high, it was not in a position to undertake so many diverse manufacturing activities.

It was observed that lighting equipment manufacturing was not an economical proposition for Philips. Company's television and video system facility at Kolkata was also an un-profitable

Venture. Electronic weighing system and car audio divisions' future was also bleak.

5. **Over Trading / Adverse Product Demand**

Intense competition, cheap imports and dumping of products effected Philips Colour Television business and Compact Fluorescent sales adversely. CTV market share, which was around 12% in 1996, slipped to 7% in year 1997.

The market for lighting products was sluggish. Profitability and revenue growth were affected and declined owing to pressures on margins resulting from intense price competition.

6. **Labour Trouble**

Though Philips India had a militant trade union; but it didn't have any major unrest. Mounting employee cost was a major concern, Development of excess manpower, their retrenchment and to increase employee productivity were the major concern for the management.

Sr. Vice President Mr. Rajeev Karwal has given different percentage to the various factors of internal reasons:

Internal Reasons	**% of sickness**
1. Poor Management	15%
2. Financial Indiscipline	10%
3. Lack of Market driven approach	55%
4. High Cost	10%
5. Over Expansions/Big Projects	-
6. Over Trading/Adverse Product Demand	-
7. Technical / Product failure	-
8. Labour Trouble	5%
9. Lower profitability/margins	5%
10.	

EXTERNAL REASONS

1. Opening up of an economy pave the way for cheap imports and low quality products, which hampered the business growth and manufacturing activities in India. A significant portion of the high technology Compact Fluorescent Lamps

is being imported. Even in the consumer electronics business a significant portion of the raw materials is being imported.

2. To counter the challenges arising from the convergence of technologies in the consumer electronics industry, Philips India badly needs the support of its Dutch parent Royal Philips Electronics.

Company officials were in opinion that as such there were no external reasons which affected any sickness; their endorsement of the reasons stands nil:

External Reasons	% of sickness
1. Lack of resources – Raw Material / Skill man power	Nil
2. Government & Statutory Obligations	Nil
3. Environmental / Climate factors	Nil
4. Global Competition	Nil

FOCUS AREAS FOR THE TURNAROUND STRATEGIES

Many of operational and strategic issues taken up by management for Philips India turnaround reflects the direction the parent, Philips NV, is taking under its new CEO, Cor Boonstra.

(a) Customer Approach
(b) Financial Restructuring
(c) The Process
(d) Manpower Restructuring
(e) Global Perspective

(a) **Customer Approach**

Philips Management's philosophy is to keep a customized consumer centric view at each stage of the value chain. Mr. Karwal, Sr. Vice President, Consumer Electronics Philips India wants company to talk to consumers in the language they understand best. Some of the action initiated by the by management for their endeavor of customer centric approach are as follows :-

i) Television sales pick up when there is a major event. Philips planned out promotions for World Cup, Football matches. They addressed themselves to the football lovers. Built in interactive football game was provided as part of the television set. Besides products had football logo, products were tailored to the needs of football covers.

Mr. Karwal in his statement to the interview with Sabil Francies said, "Other companies are also offering promotions and we do not want Philips consumers to feel that one company is a cold company. In short, promotions can be used as an equalizer; but we use them to provide a superior product – as a value addition and a differentiator - to convert the customer to the Philips brand.

ii) To enhance brand image and to read out to the consumer in the correct manner Philips started "Dare to compare" campaign shops. In these showrooms consumers were to take blind test comparing Philips technology with other brand. As per consumer voting Philips came out tops in terms of technology.

In an interview with Catalyst Mr. Rajeev Karwal, Sr. Vice President, C E Philips and President, consumer electronic and T.V. manufacturers Associations (CETMA) said "The one thing common to all our product categories now is that most of the products are well researched from the

India consumer point of view. Also they are the very latest, at the top end of the Global Philips product line".

Clearly Philips strategy of moving up market, talking technology and launching new technology at appropriate prices has helped us regain our over all market share.

iii) Supply chain was restructured. Company decided to operate from small outfits in each state in order to solve issues related to trade and consumers much faster. Now company had total 19 branches, however, Regional offices were done away with curtailing bureaucracy to some extent.

Depots have been reduced to 38 to 28. The numbers of grouping centre have been reduced from 14 to 1 All India grouping Centre. This brought down companies operational cost and thus Philips could able to control inventory quite aggressively.

iv) Company appointed 'Ombudsman' as guardian to take care of customer interest. It was the only initiative of its kind in the industry. At the time of 'Ombudsman', Philips had 180 complaints and they have all been solved to the consumer's satisfaction. Company did not have any single legal case or consumer forum case file against them.

The company delivered positive cash flow of Rs.628 million in Year 2001, after meeting restructuring charges; a result of good working capital management and judicious mix of cost effective borrowings.

v) Since manufacturing cost was high with low volumes Philips India focused on distribution. A significant portion of the lamps sold by Philips India is outsourced. Company was in no position to undertake so many diverse manufacturing activities. These were only adding pressure to margins and profitability. Philips sold its other non-core business.

Company's television and video systems facility at Kolkata has also been put on sale. This will help company to achieve economics of scale, manufacturing costs will come down the company will also be able to better manage its inventories.

c) **The Process**

i) A key part of Philips strategy is to utilize world-class technologies and capabilities to create products that are specifically suited to the Indian consumer's needs at a price that consumer can afford. Philips has product offerings across all price and performance points; global, aspiration products that cater to the anywhere in the world consumer and high quality, high reliability, high styling products that cater to less affluent sections of society.

ii) Philips India is leveraging for select activities including software and product development and research where Philips has over 1000 seats currently and plans to expand to over 2500 by 2007. Other activities on the anvil are leveraging India for select financial services activities and development of business process software.

iii) To revamp its colour TV sales, Philips main emphasis was on new technology products, innovation. Philips launched new ranges this includes Intergraded Wireless FM Digital Widescreen TV, High Definition Rear Projection TV and Real Flat TV DVD and internet television.

Philips has also introduced television sets in the high-end segment, which has digital inputs. The 29 inch 100 Hz Digital Scan set launched by Philips, claimed to be a third generation product in its range which uses Digital Motion.

Expressing on the road ahead for the company Mr. Ramachandran, Managing Director and CEO said "We have achieved a relatively satisfactory year with our lighting business continuing its strong performance and the turnaround of our Consumer Electronics Division. Philips technology strength our ability to address consumer needs and our efforts over the last few years to improve effectiveness in the value chain has held us in good stead in 2001".

d) **Manpower Restructuring**

i) Philips with a turnover of Rs.2,300 crore turnover across 35 locations, 6000 employees. Philips India has built a completely local team and designed local HR Practices. It h as employed good quality HR people who understand the nuances of the Indian market.

Company has executed a remarkable turnaround it has focused on its core areas of expertise, reduced worth force by 6000 employee (50 percent) while maintaining sales and boosting Philips 'Return on Capital Employed' to among the highest in India.

Philips Indian restructured its Human Resources company undergone major surgery; excess workforce was shed through voluntary retirement schemes. Company gradually reduced its work force from 8945 in 1988 – 89 to 5594 in 1997.

Philips sold its few of its non-core business, which together employee about 1500 people. All this was funded through internal accruals and loans. The cost of the Voluntary Separation Scheme announced during 2000 – 01 was Rs.818 million and it was met through internal generation. The company believed that these restructured measures were essential for the long-term competitiveness of its business.

e) **Global Perspective**

i) India is seen as an important market for Philips and remains a focus area for global management. The entire global board of the Netherlands based Royal Philips Electronics (Philips) recently visited India to review the business and discussed future strategy with the business heads in India. The board and the Indian team have jointly set a 2007 target for Philips India of 1 billion EURO (US$.29 billion) in actively level with exports of goods and services of 250 million EURO (US$ 323.1 million).

ii) Philips India is looking to become global hub in areas of software, R&D, manufacturing and high-end business process outsourcing (BPO). Philips plans to grow exports from India to 300 million EURO (US$ 387.8 million) by 2007 through product exports, software, R&D and BPO activities.

Ranking of key constituent factors:

When Top executives of the organization are being asked to provide Philips Turnover Strategies' they ranked it in following manner:

→ (Scale rating 1 to 10), 1 stand for low and 10 for higher focus

	Scale Rating
(a) The Customer Approach	10
(b) The Financial restructuring	6
(c) The Processes	6
(d) Man Power Restructuring	8
(e) Revamping of Product Line	8

VISION & MISSION

VISION

- Consumer Electronic division to be most profitable division of Philips India.
- Highest turnover of Consumer Product Division.

MISSION

b) **Financial Restructuring**

i) The results of Philips India Limited showed a satisfactory improvement over 2000. Operating profits (after depreciation and interest but before exceptional items) was Rs.387 million as against the operating loss of Rs.38 million in 2000. This is attributable to better price realization, better-cost management and lower interest charges.

Commenting on the performance Mr. R. Ramachandran, Managing Director and CEO stated "In 2001 we focused an improving operational efficiencies and performance through better cost and people management. This enabled us to make visible progress in operational profitability, deliver positive cash flows and improve our overall market share despite difficult market conditions".

Margins improved owing to better efficiencies in purchasing and through localization. Overheads were contained through structural improvement in the overhead cost structure

VALUES

- Delight Customers
- Deliver on Commitments
- Develop Peoples
- Depend on each other

Mr. Rajeev Karwal, Sr. Vice President and Turnaround Leader ranked Customer, Profits, Products and Customer in following manner as per being major constituent of turnover strategy :

	Rank
People	3
Product	2
Profits	4
Customer	1

STRATEGY

- Increase profitability through re-allocation of capital towards opportunities offering higher returns.

- Leverage the Philips brand and core competencies in healthcare, lifestyle and technology to grow in selected categories and geographies.

- Build partnership with key customers both in business-to-business and business to consumer areas.

- Continue to invest in maintaining world-class R&D and leverage our strong intellectual property portfolio.

- Strengthen our leadership competencies

- Drive productivity through business transformation and operational excellence.

STYLE OF LEADERSHIP

Philips restructuring initiatives reflect the direction the parent NV, is taking under its new CEO, Cor Boonstra. Philips prefers growing its senior managers but in Boonstra's case the company was sufficiently impressed with his 20 years at Amiran Food Gaint Sara Lee to take him on board in 1993.

Whether it is at parent company or it is Philips India headquarter, Top Manufacture role was to identify best leaders to put them on the task with clear goal.

Relationships between the managers and subordinates were cordial and friendly, Communication system was completely open. Group approach prevailed, team used to set their own goals and used to keep control of their own.

Innovation techniques, right strategies and launching right product at right time, satisfying the needs of the customer were few of the actions restored by turnaround visionary leader of Philips India Ltd.

Leadership adopted for Philips turnaround adopted was **'Democratic'**.

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

Philips India Financial results shown:-

1) Rs.34.15 Crore losses in December, 2000.
2) Rs.21.10 Crore losses in December, 2001.
3) Rs.104.30 crore profits in December, 2002.

Changes of Philips India have not been radical; but it is significant. Philips India had an advantage of its global expertise, experience and its Dutch parent company affiliation and assistance. To have in-depth introspection, the significance of various actions taken up by Marketing, Finance, HRD and Technical Department, Mr. Rajeev Karwal being asked to rate it on 1 to 5 scale (whereby 1 stand for low and 5 stand for high rating), he gave following impression about the turnaround strategies adopted by Philips India Limited:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	4	1. Cost reduction	5
2. Evolving customer/dealer oriented scheme	4	2. Disposal of Non-performing assets.	4
3. Searching for unexplored high return and high growth markets.	3	3. Revenue Generation	4
4. Inventory control through logistic management.	4	4. Inventory Control	5
5. Launching new product satisfying needs of customer.	5	5. Expedite Recovery	4
6. Reduction of marketing expenses.	3	6. Deferred Expenditure	3
7. Modification in Dealer incentive schemes	4	7. Curtail Capital Expenditure	4
8. Appointment of Distributors.	3	8. Explore to find possibilities for finance generation	
9. Disposal of slow moving. Dead stock	4	• On less interest	5
10. Recovery of Disputed/old over dues.	4	• For long term	4
11. Billing based on creditworthiness.	5	9. Expedite cost flow	
12. Periodic cash projection / monitoring.	5	• Restructuring of debts	
13. Rationalizing pricing policies.	5	• Settlement with creditors	2
		10. Budget control	5

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost	5	1. Change of Management	5
2. Purchase control	5	2. Downsizing Staff	3
3. Implementing industrial engineering techniques		3. Training & Upgrading the Skills	4
• Better material, handling equipments.	3	4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	5
• Work and motion study for proper job allocation.	4	5. Concept of Profit Centre introduction, with prescribed decision – making powers.	5
4. Providing new, innovative & technically superior products.	5	6. Implementation of	
		• Two way communication	5
5. By achieving efficiency in manufacturing	5	• Participative Approach	4
6. Increasing Labour productivity	5	7. Punishment and Reward Policies	5
7. Proper maintenance of Plant and Machinery	3	8. Promoting Corporate Culture to change the mind set	5

4.10 THE TURNAROUND STORY OF SIEMENS

Siemens is one of the largest MNCs operating in India. It is part of Germany based Siemens Group. In India Siemens have 10 companies with combined business revenues of approximately Rs.4000 crores. It employs about 9000 employees.

Siemens Ltd. Has five diverse business segments:-

- Power (Generation, Transmission & Distribution).
- Industry
- Healthcare
- Transportation Systems
- Communication

Siemens Group is involved in India through multiple investments including 10 factories and a nationwide sales and service network. The group views India as a target market for high value added activities in R&D, Software Development, Engineering, Manufacturing and Services in areas such as Telecommunications, Plant Engineering and Automation, Lighting, Automotive and Healthcare.

Till the nineties, Siemens was among the profitable venture in India with emergence of post-liberalization, competition grown and company confronted with stagnating sales and losses.

In 1996 – 97 Siemens India suffered losses of Rs.85 crores, it first time entered in red in more than 100 years of doing business in the country.

STAGE OF SICKNESS

Siemens Engineering to Telecom Company slipped into the red in the mid 1990's. Liberalization optimism gave way to decrease in number of orders, low sales and accumulation of losses, employees cost were higher than the competitors of same trade, debts were on higher side working capital requirement was heavy i.e. Rs.1.4 billion in Financial Year 1997.

Siemens India had back ground of consistent good performance; but it slipped into red in Year 1996-97 and thus Siemens sickness being termed as **'Initial Symptoms'**.

SICKNESS ANALYSIS

'Managing Radical Change' a book written by Ghoshal, Piramal and Bartlett. It is described – "A pervasive disease afflicts Corporate India. It is called satisfactory underperformance; a state in which a company continues to make money but gradually loses its competitive edge as a complacent management fails to ask itself what it is doing to add value. The crises come as it must, and the company suddenly finds itself in a situation where it is fighting for its survival".

Siemens Ltd., Indian operation is also no exception to the above statement. It had consistent good performance record, suddenly dipped into a red. Why? We will analyze all these factors in this segment.

INTERNAL REASONS

1. **High Cost**

   Cost analysis reveals of Higher Cost of operations under different parameters whether it was cost per employee. Interest of working capital / debts or purchasing cost, everything was a higher side. Siemens recorded the highest ratio as Rs.0.19 million, compared with competing companies like ABB and even Public Sector BHEL.

2. **Financial Indiscipline**

- Siemens invested indiscriminately in capital heavy and long gestation businesses such as Telecom and Power. Till 1996 company invested Rs.1,100 crores of which two – third were spend on new ventures and project.

- Borrowing were on higher side, it was 3.5 billion in 1997 and debt equity ration was 2:1

- Investment on working capital was Rs.1.4 billion.

- Lower realization in the products and system businesses.

- Interest Cost as % of sales was as high as 7%.

3. **Lack of Market Driven Approach**

Siemens had different projects like Power, Industry and Communication, for different projects clients have to call upon different departments and different Sales Executives, Co-ordination between the Siemens own department were missing. Approach towards customer was more of buyer seller relation rather than solution provider to provide them Life-Cycle-Support.

4. **Over Expansion / Big Projects**

Like several other in Infrastructure business, Siemens too over extended itself in the initial euphoria after the licensing regime was scrapped, investing indiscriminately in capital heavy and long gestation business such as telecom and power.

Siemens tied up with Essar for a power generation project that never materialized owing to the Financial problems of the partner. Till 1996, Siemens invested Rs.1,100 Crores of which two-thirds were spent on new venture and projects.

5. **Poor Management**

Though company had professional managers to control the operation; but somewhere controls were missing or the systems were not in order.

- There were bad debts, mostly from Government agencies. No stringent steps were taken for recovery. In spite of non-payment of old over dues fresh assignments / projects were entertained.

- As of 1997-98, the company had a network of 20,000 vendors; this complicated the process of checking and ensuring quality and delivery time.

6. **Technical / Product Failure**

There was as such hardly any Technical / Product Failure; but team spirit for the giving their best was missing. Whether it was service, quality or innovation. At all the front efforts were missing to show excellent working and produce best of the products.

Re-defining process, increasing quality awareness and creating continues improvement culture, what was badly missing.

Siemens India been asked to put forth their % age reasoning of internal and external causes for the losses occurred, they categorized it as follows:

		% of sickness
I	1. Poor Management	12
N	2. Financial Indiscipline	20
T	3. Lack of Market driven approach	10
E	4. High Cost	12
R	5. Over Expansions/Big Projects	20
N	6. Over Trading/Adverse Product Demand	20
A	7. Technical / Product failure	6
L	8. Labour Trouble	
	9. Lower profitability/margins	
CAUSES	10.	

EXTERNAL REASONS

1. **Global Environmental Factor**

Till the nineties, Siemens was profitable multinationals in India. After liberalization of economy, global barriers was removed which gave the way to tough competition, Siemens also got confronted with stagnating sales, a decrease in the number of orders and losses.

The impact of the recession in the world economy had a dampening effect on the Indian Economy as well. The depreciation of Rupee against the Euro and the poor monsoons in most parts of India also had negative effect on the economy.

2. **Government and Statutory Obligations**

The Government of India's second generation of reforms, which was intended to provide an impetus, received a setback as home made political and social issues got higher accord over economic agenda.

In the infrastructure area the power generation sector continued to experience flat growth for the 7th consecutive year. The acute power situation remains unresolved.

In the Railway Sector reduced budgetary support, further curtailed investment in rolling stock, modernization and in new projects.

Siemens too had similar trends in Infrastructure business and Power Generation as per the economic guidelines regulated by Government.

		% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power	
	2. Government & Statutory Obligations	50
	3. Environmental / Climate factors	
	4. Global Competition	50

FOCUS AREAS FOR THE TURNAROUND STRATEGY

SIEMENS puts all its emphasis on "four point programme" which provided the base for its remarkable comeback the loss of Rs. 85 crores in 1996-97 was converted to Rs. 865 crores profits in 2001-02.

The four point focused strategy of turnaround is as follow:

1) The Customer
2) The Financials
3) The Processor
4) Human Resources

It brings together a set of management strategies, operational methodologies and technology solutions that continually drive manufacturing in direct response to demand. It thus turns the active supply chain, from sourcing to production to sales, responding to the pull of the market place."

Siemens believes that in India when you address the local market you need to offer products that suit the specific local requirements, Given this, many Siemens products are completed locally designed to suit Indian needs. Global products are also sold in India but only after the necessary modifications.

- Customer to customer" Value chain ranged from business development and acquisition of customers to order execution and life cycle support was provided.
- Recognizing the need to intensify marketing channels, the company introduced the key. Account Management (KAM) Concept and redesigned indirect sales channels.

  In the KAM concept, instead of having one customer approached by people from two or more divisions of the company, Siemens had one Key executive who would be responsible for getting business for all divisions.

- Siemens's overall market and customer focus approach saw it launch numerous innovative products, systems, solution and service. This enabled it to attain an increased market share.

All necessary measures were taken to ensure Siemens executives handled customers properly. The company initiated a mystery caller competition, under which top Siemens executives acting as customers, would call up executives at various centers, sometimes during lunch hours. The most polite respondents were rewarded at a function in Mumbai.

2. **<u>The Financials</u>**

- 15% savings in raw material cost was achieved by strategies, company reduced number of vendors. Siemens improved its inventory management. In 1997-98, the company had a network of 20.000 vendors; they were graded on the basis of several parameters and subsequently reduce 2500 nos by 2001.

- To ensure better cash flows, Siemens reviewed its buyer credit worthiness. It stopped supplies to 10 percent of its customers unless they cleared their dues. They refused mostly government agencies to do any work project for them, unless they clear their old over dues. Gradually within three or four years, the company cleared all its bad debts.

- Siemens sold its un-productive assets, which realized cash and improved the Asset Turnover ratio. Company reviewed its asset and portfolios management to restructure the balance sheet. Company sold off its High investment and low profit business like Telecom, which was hived off to parent company Siemens AG by end -1997. Component Division of the company ceased w.e.f. April 2001; However, the distribution right continued to market the components in India. The next step was selling properties and non-productive assets such as a building in Central Mumbai. Thus investment in Fixed assets dropped from Rs. 34.2 crores in 1997-98 to Rs. 11.9 crores in 2000-01.

- The average cost of debt was reduced from 14.7% to 12.7% in 2 years, As the company able to access funds at lower cost. Debts were repaid from the proceeds of right issue and sale of assets.

- Working capital that remained Rs. 1.4 bn in Financial year 1997 got reduced to Rs. (- 257 mn) in Financial year 1999 because of better inventory and debtor management.

3. **The Processes**

- "Kalwa Quality spirit 2000" programme was implemented at three manufacturing units at Kalwa (in thane district of Maharashtra). Total 1500 people were inducted for this programme. Siemens achieve 89% of its defined goal by redefining processes, increasing quality awareness and creating a continuous improvement culture and has saved Rs. 40 crores.

- Company's Goa plant increased the production by 30% while cost reduction was from 15 to 20 percent. Work force was reduced from 550 workers to 50 workers.

- Increased resource productivity, Introduction of innovative offering shown strong business performance. Factories were running at optimum level.

- Large-scale focus was put on efforts to drive best branches in manufacturing operations, processes and managerial practices and increasing productivity.

- Siemens Key ingredient for turnaround strategy in 'Innovation', Siemens inaugurated its 9th global technology center for innovation in Bangalore.

- Company made heavy investments in several areas, mainly to upgrade factories and increase capacities for software development.

4. **Human Resources**

- At Siemens' cost per employee was higher. It recorded Rs.0.19 million compared with competing companies like AB and Public Sector BHEL.

- VRS Scheme implemented, from 8000 employees in 1996 – 97 the company managed to cuts its workforce to 5,228 employees in 1997 – 98 and 4342 employee in 1999 – 2000.
- By 1997, 85% of the employees in the managerial cadre were changed. The average age profile was brought down from 45 years to 37 years.

- At factory level even with 50% manpower company could able to maintain same level of output and efficiency. Company reorganized its workforce on the basis of employee's ability to handle functions across one or more divisions.

- To obtain better productivity, company arranged training programmes to upgrade people's skill. Siemens launched intensive training programme at both the factory and managerial level. About 300 executives were sent to IIM Bangalore for training programme.

Siemens India turnaround strategies focused areas were rated on scale rating from 1 to 10, whereby 1 stands for low and 10 for higher focus. Following interpretation was evolved:

Scale Rating

(a) The Customer Approach	7
(b) The Financial restructuring	9
(c) The Processes	6
(d) Man Power Restructuring	7
(e) Cost Reduction	6

VISION OF SIEMENS

At AGM meeting at Mumbai December 20, 2004 in Chairman Speech Mr. Deepak S. Parekh said – "The challenge is to ensure that we do not lose sight on our vision and I am rest assured that the five corporate Principles of Siemens AG,

- Encompassing company value.
- Importance of innovation.
- Corporate responsibility.
- Customer satisfaction.
- Empowerment of employees.

will continue to steer us on our journey".

MISSION

Under the same AGM meeting Chairman spoke - "As regards future growth we will concentrate on profitable and sustainable growth which will be driven by the strategies under the "Four – Print programme for profitable growth, which entails creating customer loyalty and satisfaction; optimizing process with a twist on quality; enhancing company value through profitable growth; and building a team of competent and motivated employees".

Ranking of the key factors of turnaround strategies:

Siemens major constituent of turnover strategies been rated on scale of 1 to 4, whereby 1 Stand for better and 4 for worst ranking:

	Rank
People	2
Product	4
Profits	1
Customer	3

STYLE OF LEADERSHIP

Siemens business underwent profound changes during the period of the Chairmanship of Dr. Fradic A. Mehta (1988 to 2004). In the early 1990's he guided the company closely as it made heavy investments to take advantage of the new opportunities presented by the opening of the economy. During this time the company diversified its business portfolio, set up new companies, built new factories, buildings and entered new fast growing assess like IT and Telecom.

Siemens faced hardship and losses during 1996 – 1999 company went through downturn and recession; but under the Dr. Mehta able stewardship the company's Executives Management ably turned the fortunes of the company.

Reminisces Mr. J. Schubert, Managing Director, Siemens Ltd., "for almost 25 years, Dr. Mehta was as true captain who led us from the front through all our difficult and trying times. His knowledge and understanding of the business and environment helped us to take many goods decisions. He has been immense pillar of support of us. His warmth and friendly nature was a very special aspect of his personality.

It is evident with the words of Mr. Schubert, Managing Director that major decisions are taken by the leader. He guides and set goals.

Siemens had open-ended system for communication, control system was flexible. That is why Siemens termed its leadership style as **Consultative**.

APPROACH ADOPTED FOR THE PROCESS OF TURNAROUND

Loss of Rs.723.7 million was reported by Siemens in year 1998. In year 2000 it got converted to profit of Rs.211.1 million. How Siemens got transformed and which were the main factors /constituents among people, product, profits and customer. If we have to rank them in order it is visible that Siemens could sustain turnaround by initiating financial restructuring to get profit, then come people, restructuring by VRS and proper training then the key account identification, action were initiated to woo customer than products were added as per the requirement of booming economy.

Siemens Quantum of Strategy (implemented in turnaround process) being scaled by them on 1 to 5 whereby 1 stands for low and 5 stands for high rating:

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix	4	1. Cost reduction	4
2. Evolving customer/dealer oriented scheme	4	2. Disposal of Non-performing assets.	5
3. Searching for unexplored high return and high growth markets.	4	3. Revenue Generation	4
4. Inventory control through logistic management.	4	4. Inventory Control	4
5. Launching new product	5	5. Expedite Recovery	5
		6. Deferred Expenditure	3
		7. Curtail Capital Expenditure	3
		8. Explore to find possibilities	

satisfying needs of customer.		for finance generation	
		• On less interest	5
		• For long term	5
6. Reduction of marketing expenses.	4	9. Expedite cost flow	
7. Modification in Dealer incentive schemes	3	• Restructuring of debts	4
8. Appointment of Distributors.	3	• Settlement with creditors	4
		10. Budget control	3
9. Disposal of slow moving. Dead stock	2		
10. Recovery of Disputed/old over dues.	5		
11. Billing based on creditworthiness.	5		
12. Periodic cash projection / monitoring.	3		
13. Rationalizing pricing policies.	3		

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost	4	1. Change of Management	2
		2. Downsizing Staff	4
2. Purchase control	4	3. Training & Upgrading the Skills	4
3. Implementing industrial engineering techniques		4. Resolving the issues relating to centralization, decentralization and organizational conflicts.	3
• Better material, handling equipments.	3		
• Work and motion study for proper job allocation.	3	5. Concept of Profit Centre introduction, with prescribed	3

4. Providing new, innovative & technically superior products.	4	decision – making powers.	
5. By achieving efficiency in manufacturing	4	6. Implementation of • Two way communication • Participative Approach	 3 3
6. Increasing Labour productivity	4	7. Punishment and Reward Policies	2
7. Proper maintenance of Plant and Machinery	3	8. Promoting Corporate Culture to change the mind set	4

5 Analysis and Observations

Analysis is an important aspect of this research; we would ascertain different analysis through the graphical presentation of the data gathered through case studies and questionnaires.

We would be analyzing following details through this study:

1. Reasons for industry ailment-Internal Reasons
2. External Reasons for industry sickness
3. Focus areas for the turnaround strategies adopted
4. Major constituent of turnaround strategy
5. Vision Statement adopted by turnaround industries
6. Style of Leadership
7. Marketing aspect of turnaround strategy
8. Turnaround through financial restructuring
9. Technical process adopted for turnaround
10. Human Resource activity undertaken for turnaround

5.1 REASONS FOR INDUSTRY AILMENT – INTERNAL REASONS:

The industries chosen for analysis are one of the best in their respective trade; but their sudden downfall and losses were surprise for all and no one even dreamt of it.

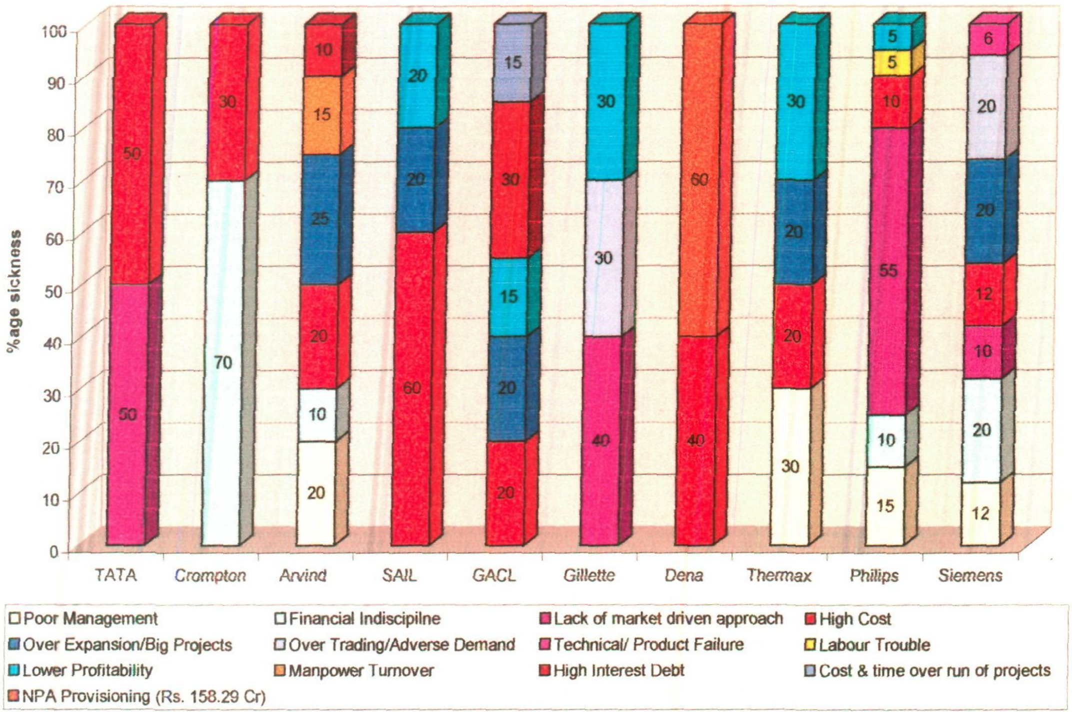
Why companies went into losses in spite of years together constant good performance and especially when they are equipped with best of the machinery, plant and that too supported by best professional management.

With this research paper we have tried to locate the common routes/ symptoms that drag any industry into the losses and adversely effect their profitability and performance.

First we have tried to identify the different ailments of individual industry, we have undertaken for the study. Following are some of the prominent reasons (defined with the percentage of chances), which make any industry sick.

- High Cost
- Lack of market driven approach
- Over Expansion / Big Project
- Financial Indiscipline
- Poor Management
- Lower Profitability

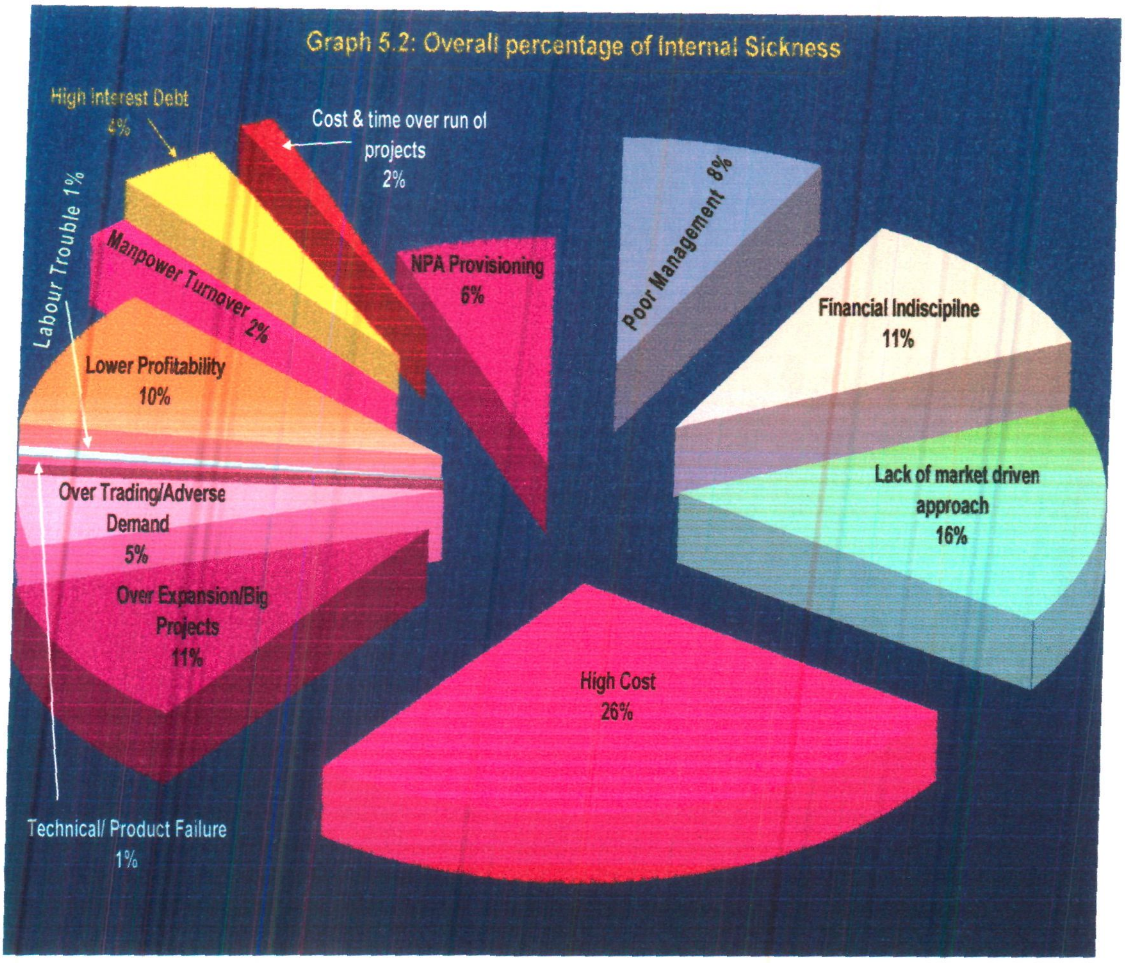
Graph 5.1: Company wise Internal Sickness Analysis



Sickness Analysis-Internal Reasons

These are some of the reasons, which are to be effectively checked, and if industry takes timely actions and effective measures, the sickness could have been appreciably reduced.

With the depiction of following chart, we have tried to highlight the %age reasons of sickness, which are common in all the 10 industries we have undertaken for the study.



26% High Cost: It is evident that most common reason of sickness is due to high cost. It is often observed that when going is good, Industry add up fat through large manpower, large inventory, luxurious offices, free lunches, fleet of vehicles, parties and trip of officials with families for abroad vacations.

Attention towards profit/ cost is hardly there. Executive are not been trained or they are not aware as what ROCE or ROI means; but as going gets tough, market share gets declines. Customer demands more discounts. It ultimately affects the bottom line. Then only management gets awaken to think about cost-cutting exercise.

In fact our new breed of managers should have been trained and been taught that how useful it is to be cost effective from the day one. In era of competition, the organizations that are thin and lean may find easier to trail out and conquer the marketing war.

'High Cost is not mere the product manufacturing cost, It may be high administrative or marketing expense even. It may be because of low productivity, low efficiency or may be because of high inventory or may be because of high interest cost on debts. Cost gets higher even when purchases are not effectively controlled.

High wastage and less attention towards savings are some of the other factors that endanger the symptoms of High Cost.

If costs of operations are least, the organization will be stronger enough to face the eventualities and competition more calmly and peacefully.

16% Lack of Market driven Approach: It is customer only who decides the fate of the company. A single rupee earned by any company comes from customer. Any organization that works to envy them has to face the consequences. It is not only the responsibility of marketing department to keep their market intact or to satisfy the needs of customer. Unless all the faculties of industry whether it is production, Finance, Quality Control or personnel department, all won't focus on market driven approach, there may be chances that company may slip down from track of prosperity.

No matter how professional, superior technocrat or financial sound the company may be; but if they fail to satisfy the customer or fail to provide them value for money, there are all chances to get held up. Here it is been calculated that 16% chances are there for sickness due to the reason of 'Lack of Market-driven-approach'.

11% Financial Indiscipline: Time is a great teacher; it may be that company does not look into the depth about its financials in blooming period. It is in fact human tendency to get accustomed to fancy and easy life in the days of comfort. One think of the exercise of cost Reductions, disposal of non-performing assets, inventory control, curbing expenditures, implementation of budgets at the time going gets tough. Thus our study also observed that Financial Indiscipline signifies 11% reasoning for internal cause of sickness.

10% over Expansion/Big Projects: Among ten companies, there were 5 companies which were hurt by over expansion. It is often found that with the industry or even with the individual too that every one wants to reach a heights where no one has reached. To achieve high esteem, to gain number one position, industry thrive for the largest volumes of production; but at the same time they forget that in same industry, somewhere else in the world or in their own country some one else may also be aspiring to expand the business in same trade with the intention to be in number one position.

It is also because of stage of Product life cycle and because of global competition built up in the recent past these companies finds their position vulnerable to face the losses due to expanded capacities. With the combine ranking of all these companies it is found that over expansion has 11% chances of sickness.

'Decision of expansion' and time when it is to be taken are extremely important factors, once you start your expansion work it is difficult to stop in between.

Sometimes it is also observed that higher motivated or nefarious thinking management remain interested only to plan high expansion, place orders of machinery, plants and materials for their vested interest.

10% Lower Profitability: Mostly it is found that with the intention to woo more and more consumers, Company keep their prices low and forget to control other way of reducing the costs so as to safeguard company's profitability.

Lower profitability also lower down the morale and also effect decision making especially for publicity and for creating brand awareness, for introducing new innovative products to produce quality products and scope for research and development and for modernization and upkeep for plant and machinery. A symptom of lower profitability is like slow poison and it has 10% chances for creating sickness in industry.

8% Poor Management: Some of the basic reasons for company failure are autocratic management, resistance to change, lack of control, over-diversification or it may be because of too much decentralization, Management support for promoting accounting manipulations for their personal self vested interest.

One-man rule, non-participating board, Unbalanced top management team, Lack of managerial depth and poor policy are some of the factors of poor management.

Enterprise may get sick due to mismanagement of one kind or the other – Faulty project planning, Wrong choice of technology or collaborator, diversion of funds, Conflict and infighting between executives and inter-department rivalry, lack of foresightedness, lack of project information and reporting systems and due to siphoning of funds by the owner themselves.

CONCLUSION: 81% of the reasons for the sickness are due to following six facts:

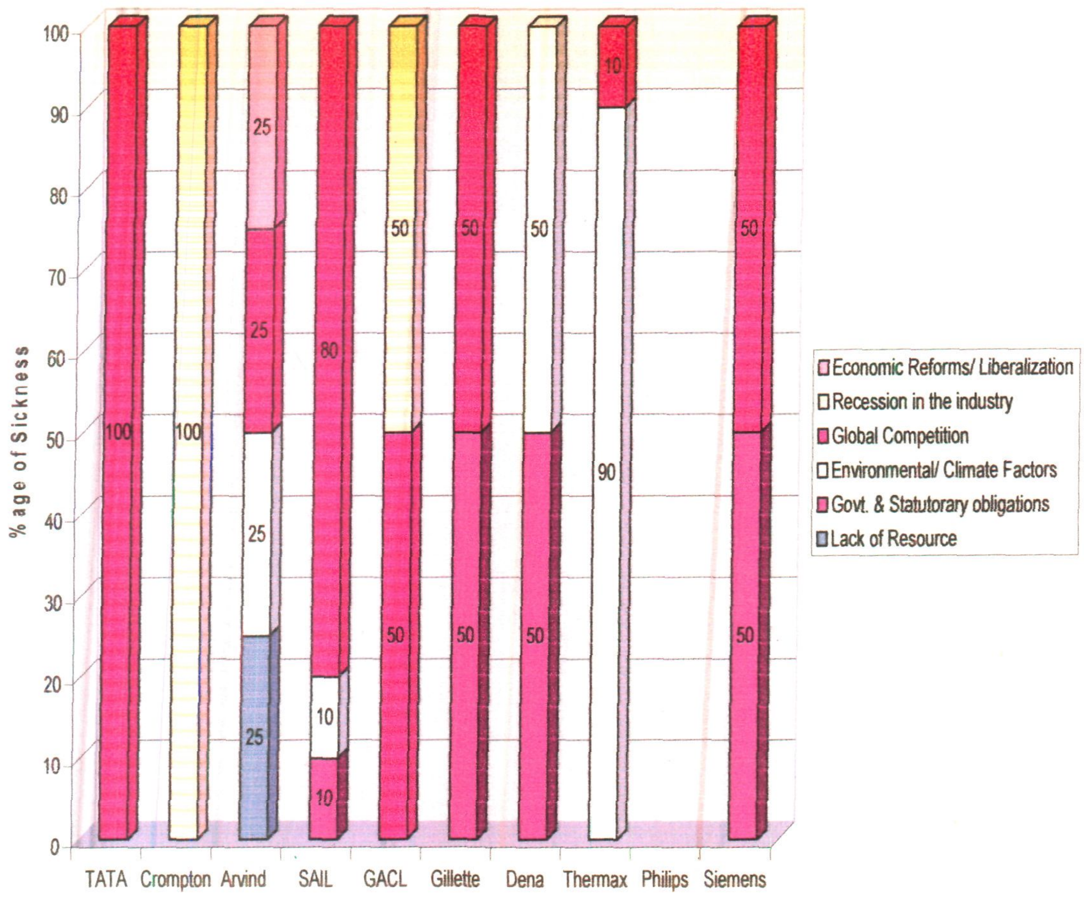
High Cost	26%
Lack of Market Driven Approach	16%
Financial Indiscipline	11%
Over expansion	10%
Lower Profitability	10%
Poor Management	8%
TOTAL	**81**

The other reasons of sickness of 19% are because of:

- NPA Provision 6%
- Over Trading: 5%
- High Interest: 4%
- Manpower Turnover: 1.5%
- Cost & Time Over run of Project: 1.5%
- Labour Trouble: 0.5%
- Technical Failure: 0.5%

5.2 REASONS FOR INDUSTRY AILMENT-EXTERNAL REASONS:

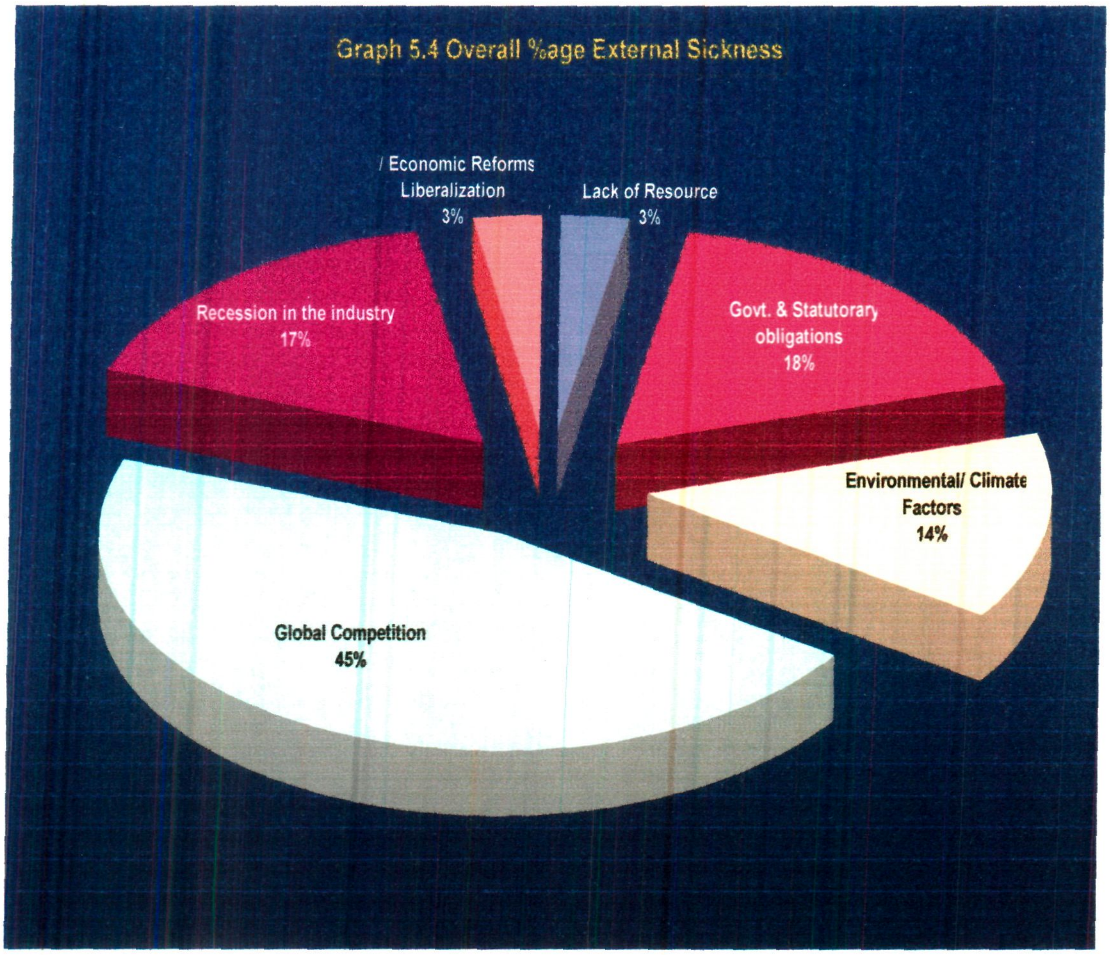
Graph 5.3: Companywise External Sickness Analysis



Each Individual firm of the selected cases when evaluated for the various external reasons of sickness, it was observed that mostly the reason for ailment is due to Global Competition.

External Reasons are beyond management control. It may be due to

- Lack of resources
- Government rules and regulations
- Climatic factors
- Recession in the industry or due to
- Global Competition



We have tried to analyze the fact on the basis of the data gathered from the question raised to various turnaround leaders to rank their external sickness factor mentioned above. We have tried to depict individual industry wise % age of external sickness reasons along with the overall view of common factors of these external factors of sicknesses, which are represented in graphical presentation in next page itself:

Sickness Analysis-External Reasons

45% Global Competition: Indian Government with open heart opened the doors for foreign investment, foreign technology, import of plant and machinery. They made the custom and tax rules easier, Indian economy after having an experience of protection for years together, has to face war from these MNC's, FDI's who have better financial muscle power with better R&D's better technology and superior products.

It is this reason that even the Indian giant industries could not withstand with the competition emerged.

Global competition is the most visible and urgent face of challenge. Corporate India endeavours to revitalize to meet the challenge of new world without boundaries where goods and services will traverse freely and where world-class competition will eliminate the weak and inefficient.

Indian companies are facing following challenges because of global competition:

- Foreign competition meant more and cheaper imports.
- Opportunities to the MNC's to raise and takeover Indian Enterprises.
- Indian companies inability to meet the challenges from MNC's due to their weak economic strength.
- MNC's have advantage of size because their presence in global market.
- The cost of capital for Indian company is much higher than their foreign counterparts.
- Foreign companies have enormous financial muscle power to bear the losses and make Indian companies position vulnerable and then ultimately grab the control of these companies that got sick in process.
- Indian labour laws are quite stringent while on the other hand MNC's are equipped with modern technologies and with lesser labour and employee cost.

It will not be out of context to narrate the quotes of famous personalities of Indian corporate world about Global competencies:

- "Pressures of companies will force Indian companies to shape up or ship out, the government will be forced to cut the cost of governance and put more resources into social infrastructures. Our economy actually is benefited by the entry of global competition. There have been very success stories of MNC's that has done well here as nation, we always need the challenge to rise to the task my inmate belief is that we are capable of the best in the world, when roused to the job."

- Onkar Singh Kanwar, Vice Chairman & MD, Apollo Tyres

- "Global competitiveness demands a major change in mind set, it also calls for organization vitality, backed by substantial investments in modernization, and such strategic investments would naturally entail gestation drags that would severely test managements for their staying in power and commitment to their business."

  - V.C. Deveshwar, Chairman, I.T.C.

Global competition is one of the symptoms of industry sickness, which has 45% chances of getting the industry sick.

18% Government and Statutory Obligations: City, State, Federal laws, regulations, Taxes, Services, Court Systems and political factors are some of the factors, which effects the operations of any business unit.

Government policies significantly affect the business it operates. This is particularly true also in 10 core studies we have undertaken, these business units got sick because government keep playing several roles, which had a bearing on the functioning of the firms. Some of the instances are enumerated here below:

- In some areas Governments are large purchaser of goods and services, their slight change in procurement policies effect particular industry operations.
- Change of Government policies to subsidize firms or particular industry.
- Government liberal policies to promote liberalization.
- In some cases governments happen to be producers and therefore function as competitors to other producers.
- Internal taxes like excise etc. are quite high; but at the same time imports are made so liberal that custom duty contrary to those goods which are produced on our own lands costs higher than imported goods.

- Some time Government stringent and bureaucratic style of working hampers the operations.
- There are some other factors also, which effect business operations like the interest rate for capital borrowings, the taxes imposed on raw materials, Excise duty and Sales/ Value added taxes on finished goods. This may lead to uncompetitive price for the homegrown products than the products available globally in international market.

These Government rules and statutory obligation have 18% impact in getting industry sick.

Conclusion:

Only two external reasons and Government rules has 63% chances for making the industry sick, while other reasons are –

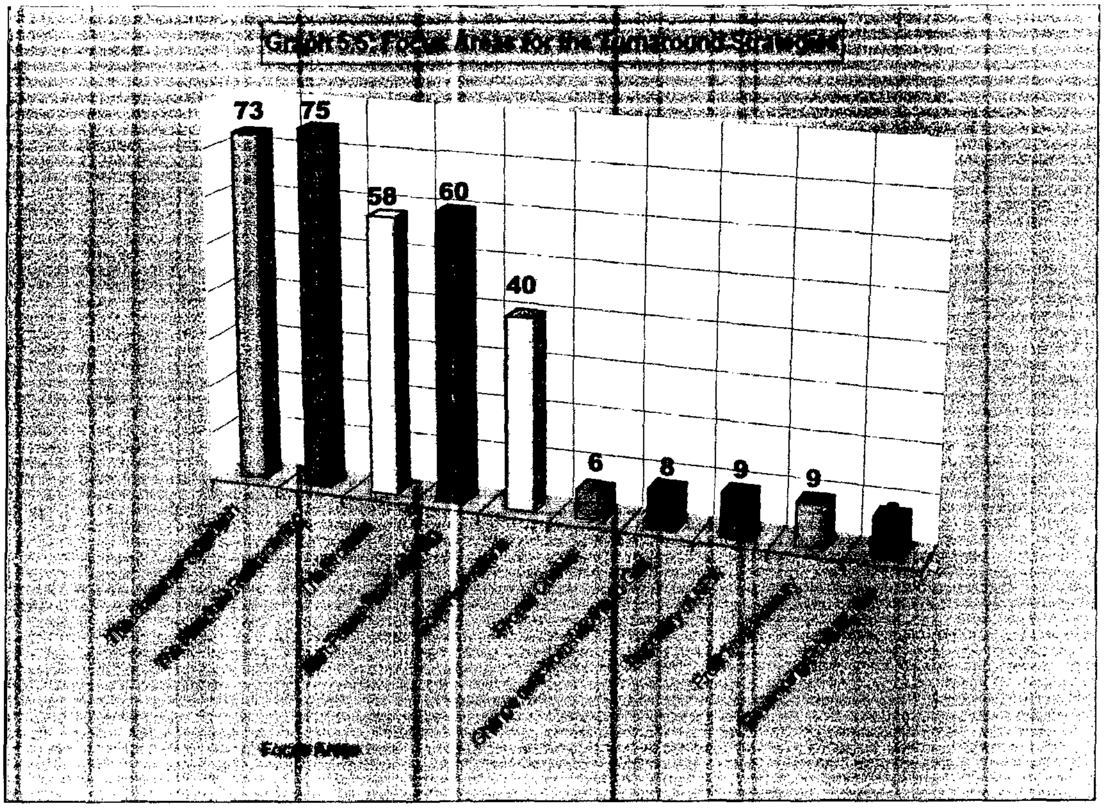
- Recession in the industry: 17%
- Environmental/Climatic factors: 14%
- Economic Reforms: 3%
- Lack of Resources: 3%

These are the reasons whereby management has very little role to play. Though Government has large role to play in revamping industry; but it is the internal reasons whereby any management can exercise better control.

5.3 FOCUS AREAS FOR THE TURNAROUND STRATEGIES ADOPTED:

In this study, we have tried to evaluate that in process of turnaround which are the most common and influencing focus areas whereby companies have put forth their energies for their revamping exercise.

It is observed that as per the rating, the priorities of focused areas differ; we are analyzing it below in chronological order from highest to lowest:



1. **Financial Restructuring:** It got highest rating of 75 points, some of the main actions taken up in this sphere of activity are as follows:
    - Liquidation of non performing assets
    - Reduction of high interest on borrowed funds.
    - To expedite cash in-flow.
    - To arrange funds on less interest with the facility of repaying it on long term period.
    - Defer expenditure.
    - Restructuring of debt.
    - Settlement with creditors.
    - Budget Control.
    - Curtail capital purchases.
    - Expedite Recoveries and proper cash flow management.
    - To keep investors/ share holders/ financial institutions aspirations and expectations intact.

2. **The Customer Approach:** Marketing is just like a war; but one basic difference is between war and marketing, in war you have to suppress your enemies to conquer while in marketing you have to woo your customer by satisfying their aspirations.

   Customer approach has got 2nd highest rating i.e. 73 points. The basic functions of this approach are

   - Launching new innovative products, satisfying needs of customer
   - Efforts to sell proper product mix.
   - Arrangement of easy accessibility of the product through proper logistic arrangement.
   - To search out for unexplored high return and high growth markets.
   - Evolving customer/dealer oriented scheme.
   - To create brand awareness.
   - To take care of better customer care and efficient after sales service.
   - To create value for money for customer.

3. **Manpower Restructuring:** 'Manpower restructuring' function acquired total 60 points and remain third on priority. It has following roles to play:

   - Downsizing of manpower, it is one of the most important aspects, which is been adopted by most of the organization.
   - Reshuffling of staff to re-organize their function and to put right people at right place.
   - In sick unit it is often found that company suffered because of one-man show, it lacked vision. Some times it becomes imperative to change the management with the induction of new top management with his liked minded team brings new life into the company.
   - In initial phase of turnaround, management has to authorative and supposes to prove their action right by creating example by their deeds.

- Change of mindset and culture is some of the other activities that become requisite with the change requirement of turnaround process.
- Training and upgrading the skill of employees. Employees are identified for training and for skill development on the basis of quality they are lacking.

4. **The Process:** Process remain on fourth on priority with 58 points. In this basic ativities were-

    - Adoption of new technology, technique to get new innovative superior products with low cost.
    - To enhance better productivity, with implementation of industrial engineering, works and motion study.
    - Better use of energy sources which increases efficiency.
    - To implement better product design.

5. **Cost Reduction:** Though as per ranking this function has got 40 points; but it plays a major role in turnaround process, In fact respondents have thought explicitly to put forth special points to cost cutting, in fact cost cutting is a part of Financial restructuring exercise; but looking into turnaround leaders more emphasis on this aspect and their intention to give separately points for this function, we have considered it separately as well.

    The industry that makes their operations lean and thin and remain cost effective, they find their going easy during recession and in era of competitive market. To provide better, technological superior products and best services with reasonable price and optimum profits to shareholders, it is necessary that cost of operations should be at minimal level and comparable to the standard of the trade/industry in which one is working.

The main actions for achieving cost effectiveness, following measures are undertaken:

- Evaluation of the cost – in which area, our costing is higher, whether it is raw material, employee cost, manufacturing cost, administrative expense or marketing cost?
- Productivity to be enhanced to reduce manufacturing cost.
- To make purchase cost at minimal, proper assessment of suppliers to be made and reorganize the suppliers on the basis of low price with efficient supplies and least burden to carry inventory.
- Proper layout of machines, Work and Motion Study to be adopted to lower down the cost of operations.
- Downsizing and re-shuffling of staff to get lower cost per unit.
- Proper check on Marketing and Administrative expense. Keep on monitoring the expense with the budget expense defined.
- To explore alternate raw material, source of energy, new technology or process to be adopted so that manufacturing cost gets lower.
- Whereby expenses within house are not competitive whether it is goods or services, it should be outsourced.

Here we would like to quote by Mr. N.R. Narayan Murthy, Chairman, Infosys Technologies-

"The key imperative before us is to become increasingly global, I believe globalization is about sourcing capital from where it is cheapest, producing where it is most cost-effective and selling where it is most profitable, all without being constrained by national boundaries."

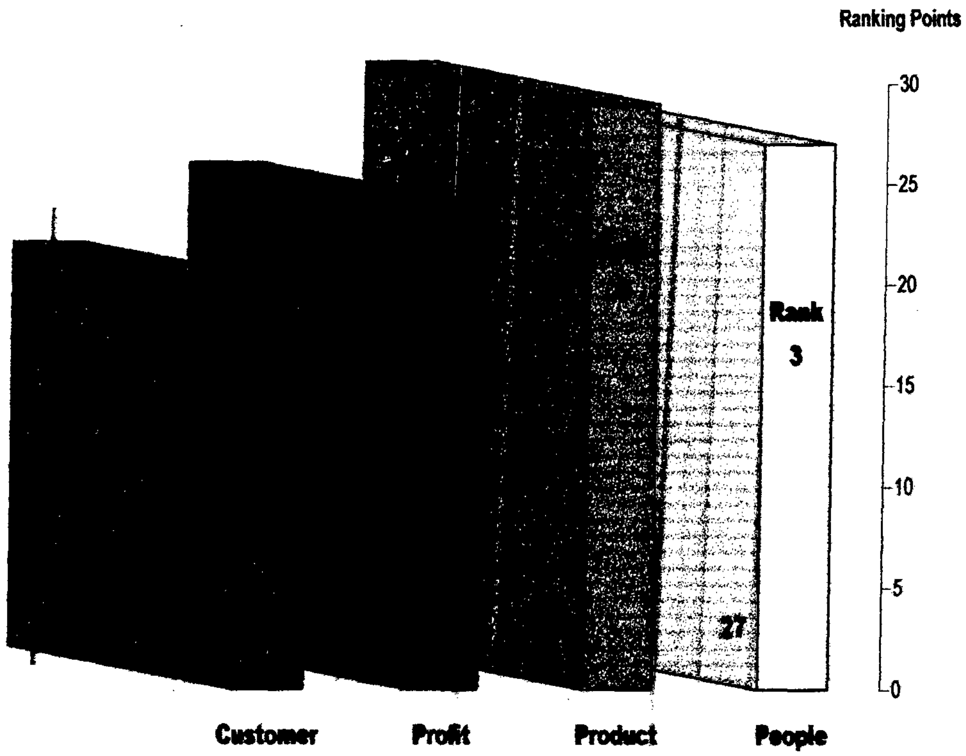
Other areas of focus for turnaround has very insignificant role like change over naptha from gas got 8 points, Proper checks got 6 points, while Revamping Product line got 8 points, Recovery of NPA scored 9 while profit from treasury procurred 9.

5.4 MAJOR CONSTITUENTS OF TURNAROUND STRATEGIES:

This study is been undertaken to evaluate that among People, Product , Profit and Customer,which are main contituent of turnaroun strategy. While opting for turnaround strategy, respondents are being asked that among all these four constituents, whom the have taken first as bieng important constituent? They have been asked to rank each one of them on the rating scale of 1 to 4, whereby 1 stands for better and 4 stands for worst.

When data for all the 10 relevant cases were assimilated following picture got potrayed, whereby the constituent scored least numbers, enjoyed better confidence and the one got highest score had least preference of turnaround strategiest.

Graph 5.6: Ranking of Major Constituents of Turnaround



The conclusion drawn is as follows:

- Customer being the most sought constituent of turnaround strategies being implemented and they ranked number acquiring total 22 points.
- While Profit, People and product remained second, third and fourth in consequence as per the preferred constituent of turnaround strategist.
- The above analysis reveals that 'Customer and profits' are the most sought criteria for opting for any turnaround strategy.

5.5 VISION STATEMENT:

It is also important to study the farsightedness of these turnaround firms, how they perceived their future and on what guide map they performed. Vision being the blue-print of future course of actions, imply the management outlook as how they would like to face the grim situation arise due to the reflection of losses by these units. We gathered the vision statement of all these 10 firms. Now if we have summarized the common vision statement of these firms, it may be inculcating following aspects:

- Cutting cost from all the fronts remained the major thrust area of all the companies.
- Profitable growth with satisfaction to stakeholders.
- Customer satisfaction and providing value for money to them with innovative product range time to time.
- To become world-class global dynamic and modern company.
- To serve the needs and interest of country and society with enduring ethics and values.
- Instead of just delivering the products/service, company has to play a role of 'Solution Provider'.

5.6 STYLE OF LEADERSHIP:

Managers regularly confront uncertainty and tough competition. To trail out any business empire, as winner is not an easy task. How to shape up your industry? What type of leadership generally adapted to turnaround industry? It is a million dollar question, in this study we have tried to evaluate the type of leadership adopted by most of these successful turnaround leaders. We have categorized broadly Leadership into three types of categories:

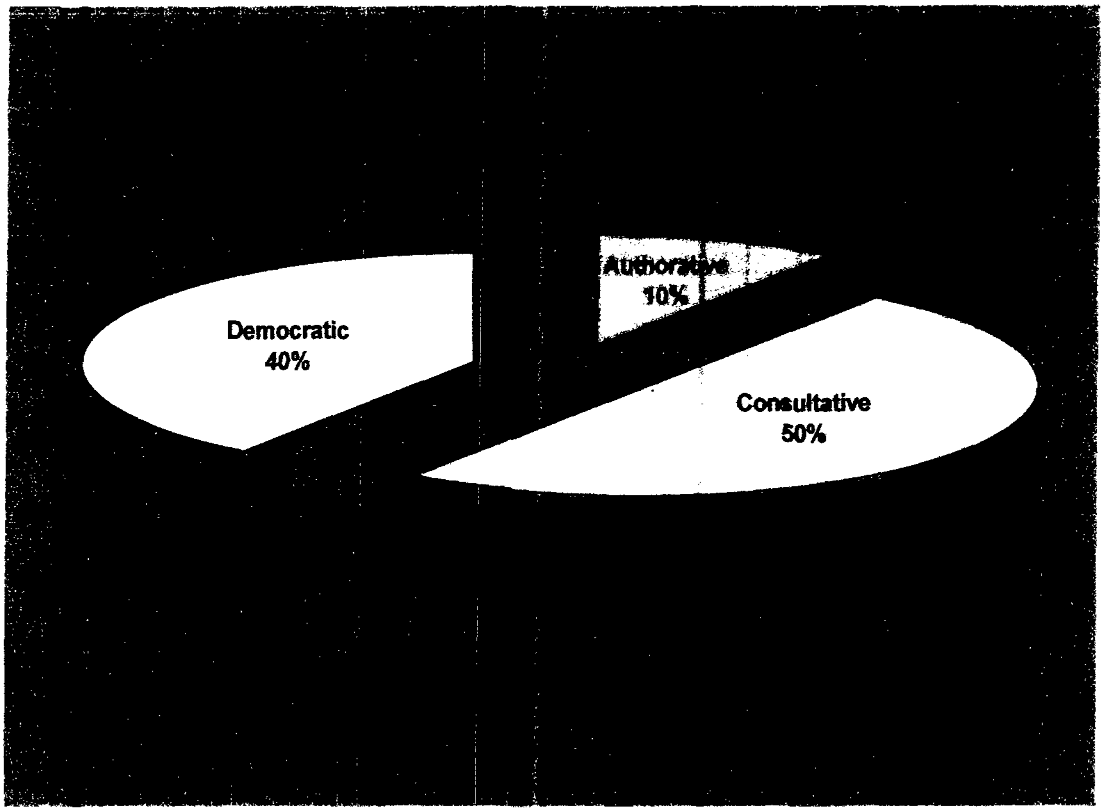
Authorative: Some may term it as Autocratic Leadership. Here the leader take all the decisions of its own, believes more on formal communications. Leader is generally tough-minded and pays reward to achievers while reprimand for failures.

Consultative: In this type of leadership, leader consults his subordinates and then set goals. He takes major decisions of his own while leaves routine decisions to be taken by subordinates. He believes in two-way communications, here the control systems tend to be flexible and goal oriented. Consultative leader puts more emphasis on rewards than on punishments.

Democratic: In this leadership style relation between the managers and subordinates are cordial and friendly communication system is completely open. Goals are set and work related decisions are to be taken by the subordinates. Group supervises and control, besides economic rewards, feeling of worth & importance is inculcated.

Indian industries biggest problem in the years to come is not going to be lack of capital or technology or in the infrastructure; it is going to be the lack of effective leaders.

Leadership cannot be taught in business schools, it has to be taught by the practitioners. The stories that turnaround leaders tell to the next generation invariably communicate certain values and impact. They also generate fresh ideas and energize the future managers in a way pure theory never can. The best stories also have an edge – they talk of battles, how they fought and tough decisions got implemented, how they faced eventualities and trail out their empire successfully.



Through our study, we have tried to evaluate as which of the style of leadership best suited to any turnaround leader? Our analysis reveals that among 10 cases of successful turnaround, In 5 cases the leadership style adopted is of Consultative, We may term this leadership activity as group approach for solving the problem; but here we also observed that respective leader takes his own decision with his acumen, experience and farsightedness after consulting with every one else.

Two companies have adopted Democratic style of leadership while one company had Authorative style of leadership.

Conclusion: We conclude that companies should adopt 'Consultative' style of leadership. Turnaround actions are executed in effective manner only when all team members get involved to achieve the defined objective, turnaround gets faster. From top to bottom everyone thinks and act on one unilateral focused direction. Of course as all the fingers are not of the same size, there may be chances that few persons may work adverse to the turnaround requirement or they may not in accordance to the basic purpose or as per the individual industry culture or the mindset, there only we should act as ruthless to these stubborn attitude people or we may have to use Authorative style of leadership for this particular segment.

I shall like to summarize this conclusion with the words of Mr. Nandan Nilkerni, CEO-Infosys:

> "I believe that the most important aspect of leadership is about raising the aspirations of the followers, it is about making people believe in themselves; it is making them confident about pushing people to achieve to their fullest potential, In essence leadership is about dreaming the impossible and helping followers to achieve the same. More over the dream has to be built on sound and context-in-variant values to sustain the enthusiasm and energy of people over a long time."

5.7 STRATEGIES FOR TURNAROUND:

"Strategy not being a lengthy action plan; but it is the evaluation of a central idea through continually changing circumstances." – (Jack Welch, 2001) Chairman & CFO of General Electric.

There cannot be any single turnaround strategy that can be applied for all sick units' revival. Each case has different type of sickness and accordingly different type of strategy to be made as per the requirement of situation; but here in our study we have split these turnaround strategies primarily in four blocks:

1. Marketing/Customer approach
2. Financial aspect/Financial Restructuring
3. Technical Aspects/The Process
4. H.R. Aspects/Manpower Restructuring

There are different elements of particular block of strategy, it is been tried out that for each element what is a ranking (in scale of 1 to 5) for implementation of a particular strategy.

5.71: Marketing/ Customer Approach:

Gone are the days when you were in sellers market, a decade ago, the term 'Global Economy' did not exist. No matter your company is professionally managed, have best of the plant and machinery, best of the technology, may be financially sound too; but that does not guarantee to have continuous profitable path and final difference get emerge in the market place. It is a customer who decides the fate and destiny of the company.

Marketing can be termed as open war, to woo customers, companies offering better products/ services and that too at lesser prices. Organizations are operating at very thin margins or somewhere it is in losses too.

In this marketing war, companies must pursue to find out the best of the strategies for the survival and to overcome their competitors.

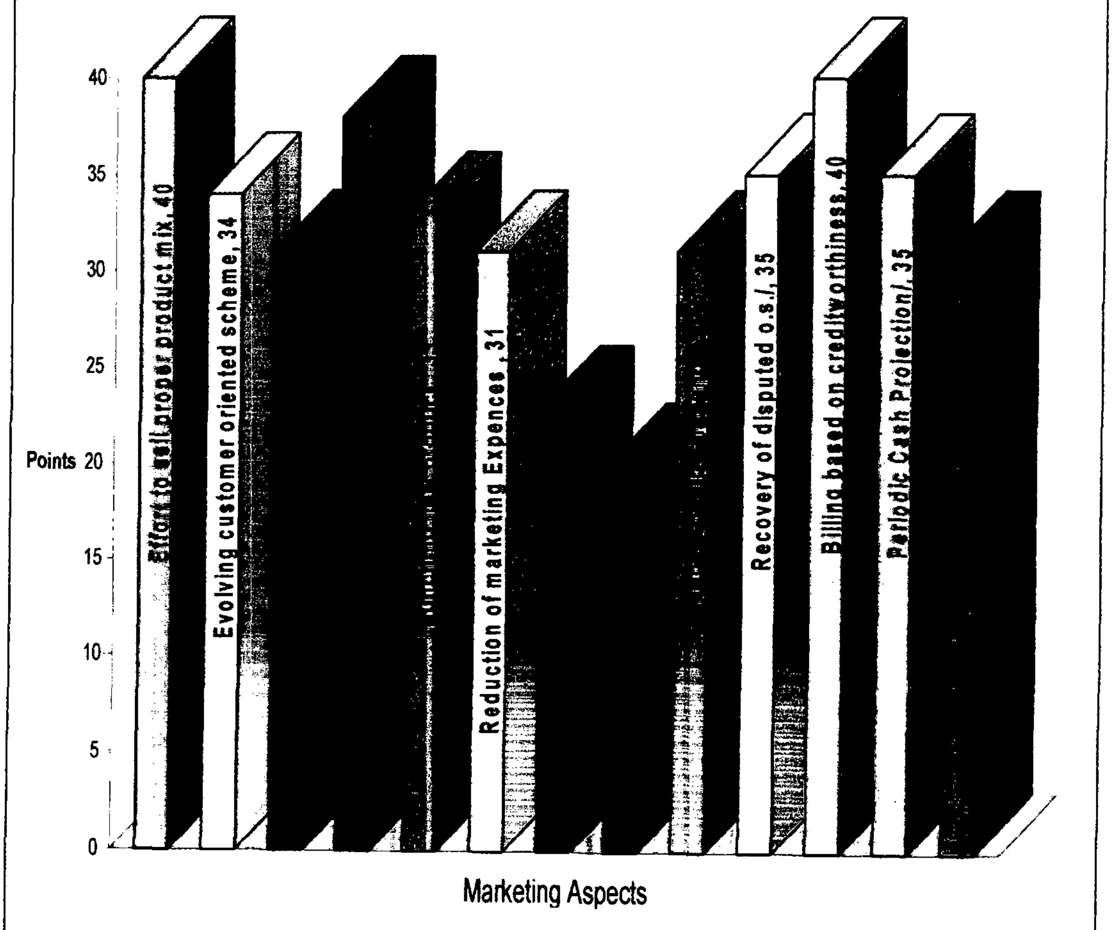
In this chapter, we have tried to evaluate that among the 10 Indian companies what were the major marketing strategies, which helped the enterprise to come out of the red. On the basis of survey, we have taken the ranking from 1 to 5 for the 13 marketing strategies implemented by various companies. We are putting forth the details here below:

- <u>Efforts to sell proper product mix:</u>

  By obtaining 40 points, this is one of the strategies which topped among all the preferences, but other three actions such that 'Recovery of old over dues, billing based on credit worthiness and Inventory Control' stood the same ranking of 40 points. 'Efforts to sell proper product mix', emphasis on following points-

- Most profitable product-mix evolved to enrich the gains.
- Considering the geographical needs and customer preference, proper product-mix was decided.
- Some of obsolete ranges were discarded, new product introduced to keep an edge on competitors and to satisfy customer needs.
- On the basis of market survey new products identified, which had better value to customer and more margins for the company. These products were developed and proper product-mix evolved to get optimum profits.

Graph 5.8: Actions priority of Marketing Aspects



- <u>Billing based on Credit-Worthiness</u>:

  This strategy of marketing got 40 points and scored highest level of priority. To get high volume of sales it is often found that companies keep on billing the material to customers, neglecting the system of monitoring credit ability/worthiness of customer, which results to high debts and some time it becomes slow recovery or bad debts too.

  In process of turnaround this strategy helps in overcoming the losses by taking following precautions:

  - ❖ Billing limit fixation of each purchaser on the basis of his credit-worthiness and ability to make payments.

  - ❖ Credit Periods are defined, Control and checks are implemented to safeguard company interest, so that billing to dealer/ consumer is avoided, in case his payments get delayed.

- <u>Inventory Control through logistic management</u>-

This sub category of marketing strategy also secured 38 points; large inventory blocks huge funds results loss of an opportunity and enhances the interest cost.

Through proper sales forecasting and with proper inventory control, not only one can utilize the funds in proper manner; but also saves energy, labour and godown space and its rent, which otherwise organization has to spend.

There are examples that some companies operate on zero day inventories. Company should try to operate on minimum number of days inventory and thrive to monitor and keep check as where do they stand as per trade standard and against their competitor.

- Recovery of Disputed/ Old overdue:

When going gets tough, company faces a situation whereby payments get blocked and outstanding reaches to an alarming situation. Management found them in a fix. You cannot bill the materials to the party already carrying overdue and high outstanding.

This strategy of marketing activity has scored 35 points and had very important role to play by implementing following actions:

- ❖ Categorizing the outstanding, age wise that means overdue have to be segregated on the basis of number of days outstanding. Payments that are within 90 days, 90-180 days and payments pending beyond 1 year have to be identified.

- ❖ Payments which are approaching for 3rd year of outstanding, drastic actions to be taken for its recovery otherwise it will be time bar and even any legal action also be difficult to be taken.

- ❖ Bad debts, Slow recovery, Legal cases and recoverable outstanding has to separated so that for particular outstanding, necessary action can be taken on fast and effective manner.

- Periodic Cash projection/Monitoring:

It has score of 35 points; this strategy is implemented by monitoring regularly the cash flows from different sales units to corporate office. Now a days, to reduce number of transit days of collection, companies have started opening their bank accounts in district headquarters, whereby their day today collections are deposited either by their company's own staff/Sales Representatives or by their dealers/distributors and this funds are the electronically remitted in company's corporate H.O. bank accounts. Thus cash-in-flow is substantially expedited.

- Evolving Customer/ dealer oriented scheme:

This sub category of marketing strategy remain on priority by acquiring 34 points, some of the main functions of this strategy are:

- ❖ Too woo customer attractive scheme are given like - With one purchase another gift free. Some time Scratch-Coupon schemes are given. Sometimes to lure consumer for large quantity purchase, schemes like 'Purchase 3 and get 1 free" offers are also made.

- ❖ For new product launching some special discounts are offered or free trial or free sampling are some of the way to get more customers into your fold.

- ❖ Accessibility of the product, is one of the another important aspect of marketing, if product is not available or dealer is not interested to promote your product, all the efforts may be futile to attract customer. Considering this point companies evolve dealer oriented schemes like better shelf display of product, foreign trip scheme or big gifts on purchase of large quantity, Some companies even offer commission to the counter sales man of the dealers shop. Companies even take pain for conducting training workshop for sales and service personnel of dealer shop.

- Launching New Products, satisfying needs of customer:

This strategy also scored 33 points. A customer has now plenty of choices; they are more aware about the varieties and range available in market. Companies are bound to innovate and keep on introducing new product to satisfy the quench of customer.

Consumer looking for more frills and better designs, attractive packaging, satisfying their status ego. Company cannot afford to bank upon on single product line. Competitor is providing full range of products; company has to be competitor oriented along with their efforts to satisfy customer needs.

We would like to quote a passage written by Mr. Al Ries Jack Trout in his book 'Marketing War fare': " You have to go back to twenties when business was production-oriented, This was the heyday of Henry "You can have any colour you want as long as it's black Ford.

In the Production era, business discovered advertising, Mass advertising creates mass demand which makes mass production possible,' said the advertising experts.

In the aftermath of World War II, the leading companies became customer-oriented. The marketing expert was in charge and the prime minister was marketing research.

But today every company is customer-oriented. They know what the customer's wants. American Motor's problem is not the customer; American Motor's problem is General Motors, Ford, Chrysler, and the imports."

- Reduction of Marketing Expense:

This strategy has got 31 points, under this strategy, Checks and controls are exercised on various marketing expense like

~ Branch expenses
~ Employee Cost
~ Transportation Cost/ Freights
~ Rent on hiring Godowns/offices
~ Traveling Expenses
~ Advertising and Sales Promotion Expenses

- Rationalizing Pricing Policy:

It is not always true that with lower price, you can generate better market share, even if you are successful to retain it then how long you can sustain and at what cost? It is often found that in a cut throat competition most of the companies, in blind race keep on lowering their prices, which is the easiest way to keep your market share intact; but ultimately it affects the bottom line.

With thin margins company find it difficult to put funds on advertisements, publicity, for research and developments, to develop new innovative products, to provide better and efficient sales and service. Thus you start loosing your sales and market share in this competitive era.

'Rationalizing Pricing Policy' is one of the sub categories of marketing strategy that scored 31 points; under this category company rationalize their pricing considering the following facts:

- Prices are kept rationalized on the basis of competitor –oriented rather than on customer-oriented approach.

- Some times for liquidation of some non-moving and dead stocks, prices of particular items are kept low.

- Wherever product is in high competition zone and has large volume of sales, company is constrained to keep its price low.

- Whenever it is found that product has less competition and company is among the few to supply particular item, prices are kept high.

- Searching for unexplored high return and high growth markets:

This activity has got 31 points. This is very basic strategy of marketing function; but what is important that company has to keep an eye upon high margins/ high return-products/markets.

- Disposal of Slow Moving/ Dead Stock:

This strategy scored 31 points. Non-moveable stock not only blocks huge funds; but also acquires unnecessary space in godown, which ultimately reflects high rents also. Appropriate actions helps industry to utilize block funds and utilize the opportunity which otherwise lost.

- Modification in Dealer's incentive scheme:

Dealers are company's channel partners, to woo them management keep on amending their incentive scheme to keep them intact with them. To in cash their loyalty some companies organize incentive schemes like

- Family trip to abroad destinations
- Gold Scheme
- Exchange of consumer durable against Sales quantity/ Sales points earned

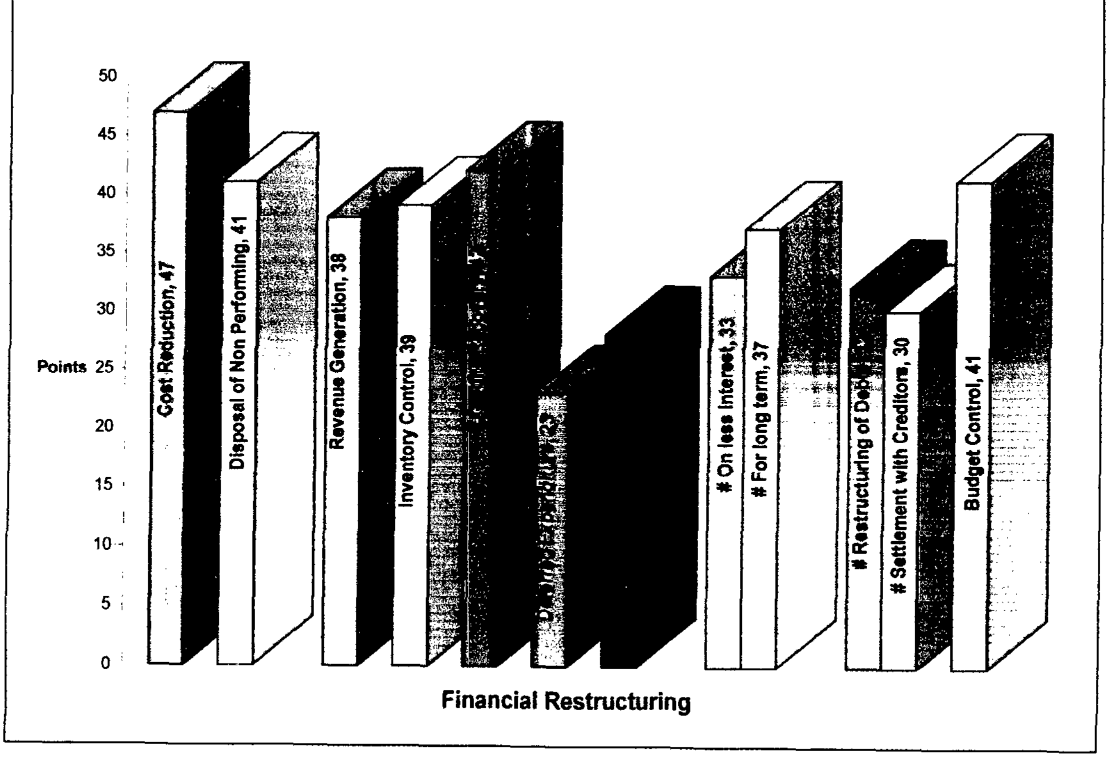
In this fierce marketing battlefield each company wants that goods should be sold through best dealer/distributor network. This strategy of marketing has scored 23 points.

- Appointment of Distributors/Dealers:

To enhance more channels of sales, it is one of the strategies, to appoint more distributors/dealers. This strategy has scored 20 points.

5.72: Financial Aspect/ Financial Restructuring

Graph 5.9: Actions prority of Financial Restructuring



Cost Reduction:

This strategy is ranked 1st in sub category of financial restructuring with 47 points. It is one of the major exercises, which consist of:

✓ Reduction in Manufacturing Cost

- Exploring energy saving devices and reducing power consumption.
- By use of better material handling equipment and facilities.
- By implementation of Work and Motion Study.
- Retrenchment of excess manpower.
- Simplifying Purchase procedure and effective control on it.
- By enhancing productivity.

✓ Reduction in marketing expenses

- By reducing inventory and outstanding.
- Control on advertising and sales promotion expenses.
- By reducing rent on hiring premises.
- By exercising control on traveling expenses.
- By reducing transport freight.
- By redefining Sales/Trade discounts.
- Proper deployment of human resources so that employee cost can be reduced.

✓ Cost Reduction in Human Resources:

- Reduction in fringe benefits to managers.
- Strict control on fresh recruitments.
- Elimination of some operating units and service departments.
- Reduction in managerial posts.

✓ Cost Reduction through Finance and Accounts functions:

- Re-organizing debtor funds so that interest burden can be reduced.
- Arrangements to be made for fast inflow of cash and delay in outflow of funds disbursements.
- Tight control on expenditure and for capital purchases.
- System should be evolved to have regular checks and control on costs.
- Implementation of Budgetary control system.

Expedite Recovery:

Faster turnaround of funds leads to better profits. The fast recovery of outstanding creates prestige in market and leverage more funds into company's kitty so that it can be deployed for more profitable purpose. In our research analysis this action of turnaround strategy has scored 42 points.

Disposal of Non-Performing Assets:

In case company's financial position is critical, they have to depend more on borrowed funds with high rate of interest , it is advicable to get rid of these debts by deploying funds generated through selling non-performing assests. This strategy has scored 41 points in the process of turnaround.

- Units with loosing propositions to be identified, basicall they are road-blocks in the path of turnaround.
- Non performing assets like building, plant, machineries and scraps to be identified.
- Process should be started for liquidating these non-performing assets on best prices.

- Funds generated through selling can be redeployed for better returns or for repaying the debts which were borrowed on high rate of interest.

Budget Control:

To safeguard company interest, Budget is pre-defined for any operational activity in the organization. It provides parameter to monitor the actual involvement of funds with budgeted one. In competitive market environment 'Rupee saved is rupee earned', thus in our study we observed that it has scored total 41 points.

Inventory Control:

In any organization, Inventory plays a pivotal role as company's substantial funds get involved in it, the effective control on stock not only leads to saving in form of the interest on capital deployed; but also provides funds availability which could be otherwise utilized and deployed for more productive and profitable use. Here our study reveals that 'Inventory' scored total 39 points, and thus it shows that it has to be controlled in well manner, whether it is Raw material or finished stock of inventory.

Revenue Generation:

An activity of 'Revenue Generation' scored 38 points and it is a prime factor of financial restructuring for any business enterprise. Organization can generate revenue by selling non-performing assets, selling products and services and through accruing interest on the bank deposits, by investing on mutual funds and by getting dividends on the amount invested on other company's shares.

Rests of the strategies enumerated are the sub categories of financial restructuring, we have put it down below in chronological order as per their significance being concluded in the research study, though they have ranked less; but all the actions are needed for an effective turnaround of any loss making enterprise :

Finance Generation for long term period (37 points)

Finance Generation on less interest (33 points)

Restructuring of Debts (32 points)

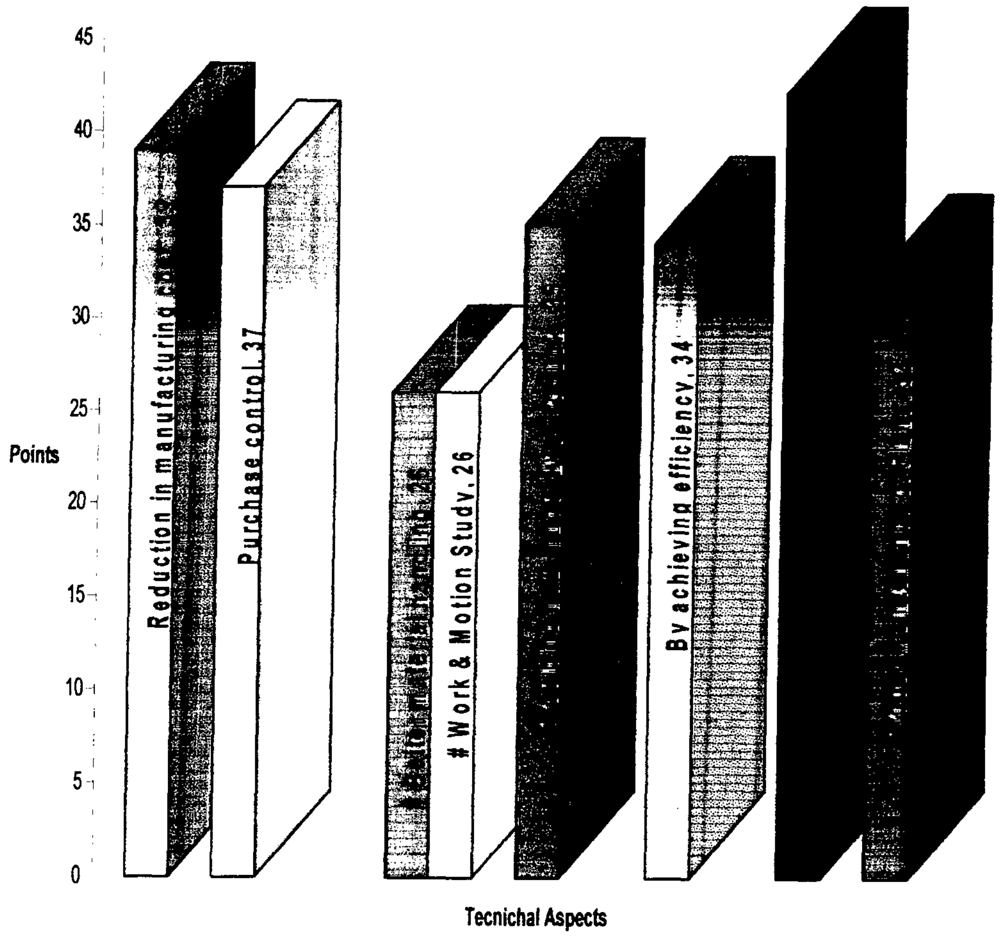
Settlement with creditors (30 points)

Curtail expenditure (28 points)

Deferred Expenditures (23 points)

5.73: Technical Aspect/ the Process:

Graph 5.10:Priority of Actions in The Process



Increasing Labour Productivity:

This strategy has scored 42 points and ranked top for the actions initiated for turnaround, it has following requirements to handle:

- ✓ Proper deployment of labour, right person to be placed at right job.
- ✓ Training and upgrading the skills of workers. They are been apprise with the techniques of TQM and JIT, they are been made responsible to produce correctly first time only and let them keep it monitor and apprise their own performance.
- ✓ The processes of quality improvement, stock reduction are regular features and never ending, it involves attention to detail and continuous minor improvements.
- ✓ 'Suggestion Box' also plays pivotal role in reducing the cost. Direct production workers are been asked to submit their proposal by which cost can be reduced. Good suggestions are reciprocated with awards and cash incentives.
- ✓ Workers participation and Total Employee Involvement (TEI) are some of the other techniques, which enhance the productivity.
- ✓ Plant-level industrial relations are kept in harmony and with better negotiations and collective bargaining; management can look forward for better outputs from the labour union.
- ✓ Labour welfare schemes generate loyalty and belongingness with the organization.

Reduction in Manufacturing Cost:

The more efficient you are to produce products at lesser cost, more funds can be spared out for research and development, product innovations, incentive to employees to produce hihger quantity,better advertisement and sales promotion. This all will lead help in generating better profits. This strategy has scored 39 points and remained 2nd highest on the ranking chart.

Manufacturing cost can be reduced by implementing following actions:

- ✓ Re-locating your firm , where tax exemptions are available, labour and skill labour are available at reasonable wages, transportation cost is lesser and works is nearer to selling point.
- ✓ By upgrading manufacturing process and by adopting new technologies.
- ✓ By applying more proactive approach to supplier development, involving a significant restructuring in the number of suppliers and an upgrading of their capabilities.
- ✓ *An introduction of new products which generate better profitability.*
- ✓ Increase in labour productivity.
- ✓ By applying industrial engineering tecniques, production to be enhanced for full capacity utilization.
- ✓ To shed out excess manpower.
- ✓ Keeping co-ordial industrial relations.
- ✓ Keeping proper control on inventory/ material management.

<u>Purchase Control</u>:

This strategy of technical process has scored 37 points, its activities consist of:

- ✓ Re-organizing vendors.
- ✓ To establish e tendering.
- ✓ Implementation of systems for keeping check and control on inventory levels.
- ✓ To put constraints on high capital purchases till organization start showing profits.
- ✓ Some times companies go for backward integration to produce components and raw materials of their own to get the cost reduced.
- ✓ Approval of Inventory requisition is made through two/three tier system

Besides the above important techniques, following are some of the other technical aspects of the turnaround strategy, which are enumerated in chronological order as per their significance of their scoring:

<u>Providing new, innovative and technically superior products (35 points)</u>

<u>By achieving efficiency in manufacturing (34 points)</u>

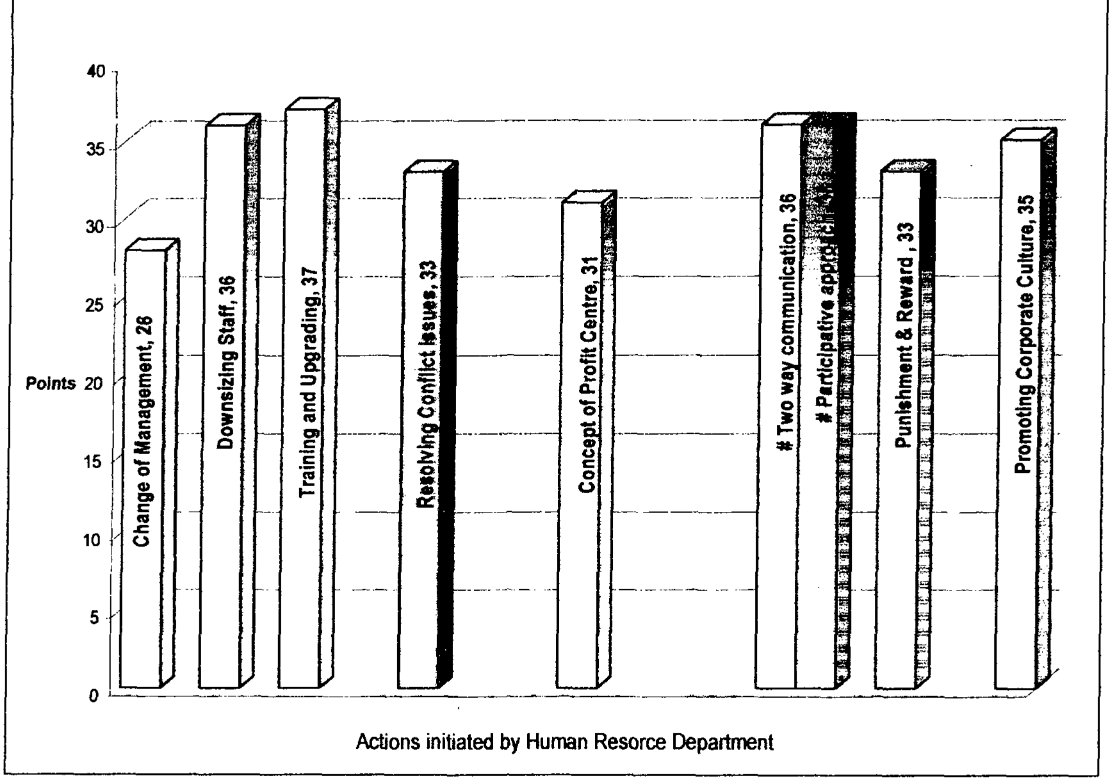
<u>Proper maintenance of plant and machinery (32 points)</u>

<u>Work and Motion Study for proper job allocation (26 points)</u>

<u>Use of better material handling equipments (26 points)</u>

5.74: H.R. Aspects/ Manpower Restructuring:

Graph 5.11: Priority of Actions in Manpower Restructuring



<u>Training and Upgrading the Skills:</u>

Management should identify like-minded, willing and able employees who will rise to the challenge, efforts should be taken in keeping in view the raising of performance by imparting training and upgrading the skills of these identified employees. This strategy of HRD has scored 37 points.

Downsizing Staff:

It is one of the critical decisions, which has implication on society. Though it has scored 36 points; but this strategy implementation is painful and not an easy task, especially in a country like India, which has a large population. It has ramification on social values. The act of downsizing staff has impact on community at large; but for the larger interest of company' health and for society and manpower livelihood, management is suppose to take harsh decision for retrenchment or for golden handshake.

Stubborn, arrogant and roadblocks in the process of turnaround are to be first to be shunt out. Even some amount is invested in voluntary–retirement-scheme; it is found that these expenses are recoverable in few years with profitable working.

Implementation of two-way communication (36 points)
Implementation of Participative Approach (36 Points)

In any organization, unless top to bottom all work in one unilateral mission, nothing is possible and that is why 'Two-way communication and participative approach played a vital role in turn around. It scored total 36 points each.

Promoting Corporate Culture and to change the mindset:

This strategy has got 35 points. With continuous working of years together on profits, for any company existing employees, it is hard to digest that the company in which they are working, is on path of losses. There is great resistance to accept the changes.

To change the mindset turnaround leader has to create examples with his own deeds, concept of profit centre should be introduced with decision making power within. Involvement of all the employees to achieve defined task is mandatory. This would inculcate a feeling of belongingness and encourage every individual to put in his or her best efforts for the organisation.

Some of the other strategies adopted for Manpower Restructuring are:

Resolving the issues relating to centralization and organizational conflict (33 Points)

Punishment and Reward policies (33 Points)

Concept of Profit Center introduction with prescribed decision making power (31 Points)

Change of Management (28 Points)

CONCLUSION AND SUGGESTIONS

These recommendations are entirely researcher point of view; it may be contrary to the present belief of most of the academicians or practitioners.

We think turnaround process is not only confined to be applied to the sick units only. With the rapidly changing scenario, you never know when you will be trailing in same boat of sickness. Turnaround is a cautious process of introspection of our internal performance v/s external challenges coming up in external environment with fast and dynamic changes taking place in corporate world.

If losses can crept in to the best 10 Indian industries (cases taken), which are among the best in their respective field and most respected for their professionalism working, It may happen with any of the industry/businesses.

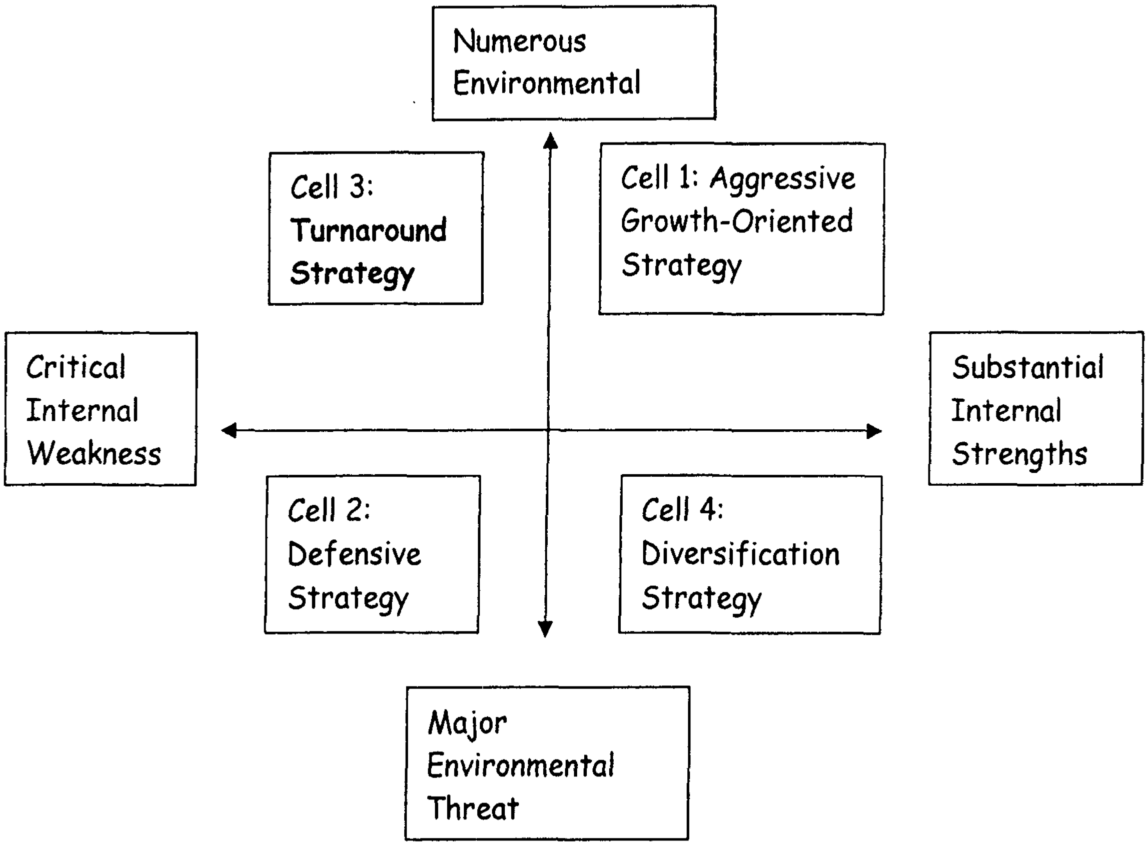
We are working in borderless economy, where world is a market, you are open to face competition from all over. To survive just to break even is not sufficient, you have to be the best and then only you can spread out and be world-class organization.

Our endeavor through this study is to highlight the basic reasons by which companies may get ill so that preventive measures can be taken as and when these symptoms arises.

One can implement this turnaround strategy, even to the normal running organization, it is not necessary that one would act only when company is trapped into red.

Business is growing, market has got widen but what is pulling us down? It is human tendency that during comfort days, no one cares for rainy days. The one who envisage the future and act now to take measures, does not have to face the eventualities. Turnaround is constant process to be adopted or you may term it as anti-dose to safeguard the health of your organization in advance.

Here I would like to draw your attention towards chart given by AIMA in their Study Material (Refer Strategic Management subject, 2002, page 80)



Indian industry after having many years of protected environment has open world with numerous opportunities. It is the time to address and rectify internal weakness and that is why we term this all phenomenon as turnaround.

Turnaround Management is quite relevant study in present context of scenario. We would like to portray our viewpoint in a specific manner appended below:

MAJOR REASONS OF FINANCIAL LOSSES

INTERNAL

1. HIGH COST
2. LACK OF MARKET DRIVEN APPROACH}

3. FINANCIAL INDISCIPLINE
4. OVER EXPANSION
5. LOWER PROFITABILITY

First three reasons itself constitute (Point 1 to 3) 53% causes of financial losses while remaining two (Point 4 & 5) adds up to another 10% each of the cause of reasoning.

EXTERNAL

1. GLOBAL COMPETITION
2. GOVERNMENT RULES

Global completion emerged out to be the main factor which creep the financial doldrums while Government rules added another 18% reasoning to this effect

BASIC FOCUS AREAS ON WHICH TURNAROUND IS POSSIBLE

* FINANCIAL RESTRUCTURING
* CUSTOMER APPROACH
* MANPOWER RESTRUCTURING
* THE PROCESS

PRIORITY OF ATTENTION

1. CUSTOMER
2. PROFIT
3. PEOPLE and than
4. PRODUCT

LEADERSHIP STYLE

In initial phase of turnaround, Leadership style has to be authorative because it is often found that there is a great resistance for the change; mass can not understand your vision and anticipate the future. At first stage of turnaround you have to address the issues like High Cost, Large manpower, better quality and Market refocusing, which may not be liked and encouraged by everyone.

It is tough task to convince every one with your ideas, one can not afford always be so democratic, some times leader has to exercise his own actions, which may be harsh also; but this is a requirement of leader in initial phase of turnaround. But gradually he may opt for 'Consultative type of leadership'.

Turnaround manager is visionary leader and architect. He should be tough minded, self confident, decisiveness, focused to the job and go-getter.

FIRST 10 STRATEGIES FOR TURNAROUND

1. Cost Reduction
2. Expedite Recovery
3. To increase Labour Productivity
4. Disposal of Non-Performing Assets
5. Budget Control
6. Efforts to sell Proper-Product-Mix
7. Billing based on credit worthiness
8. Inventory Control
9. Training and upgrading the skills
10. Downsizing Staff

There are some of the facts which are eye opener, among about 60 actions which we are suppose to take up as turnaround strategy, Downsizing of Staff has come on 10th position of first 10 actions to be taken up on priority.

For exploring better output from manpower resources, study says it is better first to increase labour productivity and train them for upgrading their skills.

Disposal of non-performing assets and selling proper product-mix are some of the actions which escape our attention in routine operational working.

This turnaround study may bring fresh approach to the business; it will provide insight as what may happen tomorrow. It may serve as guide to keep the organization healthy, wealthy and wise.

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QUESTIONNAIRE

Date

Firm:

Turnaround Leader:

(1) When it was diagnosed that company is sick?

(2) How you diagnosed the sickness?

(3) How do you term the sickness at the time of diagnosis?

Initial symptoms	Incipient Sickness	Gravely Sick	Critical – No chance of survival

(4) Sickness Analysis

		The type of sickness	% of sickness
I	1. Poor Management		
N	2. Financial Indiscipline		
T	3. Lack of Market driven approach		
E	4. High Cost		
R	5. Over Expansions/Big Projects		
N	6. Over Trading/Adverse Product Demand		
A	7. Technical / Product failure		
L	8. Labour Trouble		
	9. Lower profitability/margins		
CAUSES	10.		

		The type of sickness	% of sickness
External Causes	1. Lack of resources – Raw Material / Skill man power		
	2. Government & Statutory Obligations		
	3. Environmental / Climate factors		
	4. Global Competition		

(5) What were the focus areas for the Turnaround Strategies?

→ (Scale rating 1 to 10), 1 stand for low and 10 for higher focus

<u>**Scale Rating**</u>

(a) The Customer Approach	
(b) The Financial restructuring	
(c) The Processes	
(d) Man Power Restructuring	
(e) Any other (if any)	
(f)	

(6) **Vision Statement** of the Company

(7) Rank the following key factors (1 to 4) as per their importance of being major constituent of your Turnover Strategies.

→ 1 Stand for better and 4 for worst ranking

	Rank
People	
Product	
Profits	
Customer	

(8) **Style of leadership expected from your Turnaround Leader / Manager**

→ (Circle the one you find most appropriate for suited to implement your turnaround strategy)

Authorative	Consultative	Democratic
• Make all the work related decisions • Communication between the managers and subordinate is highly formal. • Tough minded, self confidence • Decisiveness, objective orientation and impatient to get something done. • Reward to achievers and Punishment to failures.	• Manager set goals and issue orders after discussing with subordinates. • They take major decisions and leave the routine decisions to be taken by the subordinates. • There is two way communication • Control system tends to be flexible and goal oriented. • More emphasis is placed on rewards than on punishments.	• Relations between the Managers and subordinates are cordial and friendly. • Communication system is completely open. • Goals are set and work related decisions are to be taken by the subordinates. • Group approach is adopted in supervision and control. • Beside economic rewards, feeling of worth and importance is inculcated
Yes / No	**Yes / No**	**Yes / No**

(9) Strategies for Turnaround:

Rating 1-5 scale requested, as per The Quantum of Strategy implemented in turnaround process: → 1stand for low and 5 stand for high rating

MARKETING ASPECT / CUSTOMER APPROACH	Rating 1-5	FINANCE ASPECT / FINANCIAL RESTRUCTURING	Rating 1-5
1. Efforts to sell proper product – mix 2. Evolving customer/dealer oriented scheme 3. Searching for unexplored high return and high growth markets. 4. Inventory control through logiotic management. 5. Launching new product satisfying needs of customer. 6. Reduction of marketing expenses. 7. Modification in Dealer incentive schemes 8. Appointment of Distributors. 9. Disposal of slow moving. Dead stock 10. Recovery of Disputed/old over dues. 11. Billing based on creditworthiness. 12. Periodic cash projection / monitoring. 13. Rationalizing pricing policies.		1. Cost reduction 2. Disposal of Non-performing assets. 3. Revenue Generation 4. Inventory Control 5. Expedite Recovery 6. Deferred Expenditure 7. Curtail Capital Expenditure 8. Explore to find possibilities for finance generation • On less interest • For long term 9. Expedite cost flow • Restructuring of debts • Settlement with creditors 10. Budget control	

Rating 1-5 scale requested, as per The Quantum of Strategy implemented in turnaround process: → 1stand for low and 5 stand for high rating

TECHNICAL ASPECTS / THE PROCESS	Rating 1-5	H.R. ASPECTS / MANPOWER RESTRUCTURING	Rating 1-5
1. Reduction in Manufacturing cost 2. Purchase control 3. Implementing industrial engineering techniques • Better material, handling equipments. • Work and motion study for proper job allocation. 4. Providing new, innovative & technically superior products. 5. By achieving efficiency in manufacturing 6. Increasing Labour productivity 7. Proper maintenance of Plant and Machinery		1. Change of Management 2. Downsizing Staff 3. Training & Upgrading the Skills 4. Resolving the issues relating to centralization, decentralization and organizational conflicts. 5. Concept of Profit Centre introduction, with prescribed decision – making powers. 6. Implementation of • Two way communication • Participative Approach 7. Punishment and Reward Policies 8. Promoting Corporate Culture to change the mind set	

Organization Stamp

Authorized Signatory
Name:
Designation:

Annexure-1: Sickness Analysis

Internal Reasons	TATA	Crompton	Arvind	SAIL	GACL	Gillette	Dena	Thermax	Philips	Siemens	Total	%age
Poor Management			20					30	15	12	77	7.70
Financial Indiscipilne		70	10						10	20	110	11.00
Lack of market driven approach	50					40			55	10	155	15.50
High Cost	50	30	20	60	20		40	20	10	12	262	26.20
Over Expansion/Big Projects			25	20	20			20		20	105	10.50
Over Trading/Adverse Demand						30				20	50	5.00
Technical/ Product Failure										6	6	0.60
Labour Trouble									5		5	0.50
Lower Profitability				20	15	30		30	5		100	10.00
Manpower Turnover			15								15	1.50
High Interest Debt			10		30						40	4.00
Cost & time over run of projects					15						15	1.50
NPA Provisioning (Rs. 158.29 Cr)							60				60	6.00
	100	100	100	100	100	100	100	100	100	100	1000	100.00
External Reasons	**TATA**	**Crompton**	**Arvind**	**SAIL**	**GACL**	**Gillette**	**Dena**	**Thermax**	**Philips**	**Siemens**	**Total**	**%age**
Lack of Resource			25								25	3
Govt. & Statutorary obligations				10		50	50			50	160	18
Environmental/ Climate Factors			25	10			50	90			175	19
Global Competition	100		25	80	50	50		10		50	365	41
Recession in the industry		100			50						150	17
Economic Reforms/ Liberalization			25								25	3
	100	100	100	100	100	100	100	100	0	100	900	

Annexure-2: Focus Areas for the Turnaround Strategies

Sl. No.	Focus Areas	TATA Motots	Cromptoı Greaves	Arvind Mills	Steel Authority	Gujrat Alkalies	Gillette India	Dena Bank	Thermax India	Philips India	Siemens India	Total Points
1	The Customer Approach	6	6	4	8	7	9	9	7	10	7	73
2	The Financial Restructuring	7	10	9	8	7	8	8	3	6	9	75
3	The Process	10	8			6	6	8	8	6	6	58
4	Man Power Restructuring	5	10		8	3	5	8	6	8	7	60
5	Cost Reductions			6	8	8	4	8			6	40
6	Proper Checks			6								6
7	Change over from Naptha to Gas					8						8
8	Recovery of NPA							9				9
9	Profit from treasury							9				9
10	Revamping Product Line									8		8

Annexure-3: Major Constituents of Turnaround Strategies

Sl. No.	Major Constituents	TATA Motots	Crompton Greaves	Arvind Mills	Steel Authority	Gujrat Alkalies	Gillette India	Dena Bank	Thermax India	Philips India	Siemens India	Total Points
1	People	3	2	4	2	3	4	3	1	3	2	27
2	Product	1	4	2	4	4	2	4	2	2	4	29
3	Profit	4	1	1	3	1	3	2	4	4	1	24
4	Customer	2	3	3	1	2	1	1	3	1	3	20

Annuxure 4: Style of Leadership

Sl.	Company's	Style of Leadership		
No.	Name	Authorative	Consultative	Democratic
1	Tata Motors		yes	
2	Crompton Greaves	yes		
3	Arvind Mills		yes	
4	Steel Authority of India Ltd			yes
5	Gurat Alkalies & Chemicals Limited		yes	
6	Gillette India Limited			yes
7	Dena Bank Limited			yes
8	Thermax Limited		yes	
9	Phillips India Limited			yes
10	Seimens India Limited		yes	
	Total Yes	1	5	4
	% age	10%	50%	40%

Sl. No	Annexure 5: Marketing Aspect of Turnaround	TATA Motots	Crompton Greaves	Arvind Mills	Steel Authority	Gujrat Alkalies	Gillette India	Dena Bank	Thermax India	Philips India	Siemens India	Total
1	Effort to sell proper product mix	4	3	4	5	5	4	4	3	4	4	40
2	Evolving customer oriented /dealer oriented scheme	4	3	4	3	4	5		3	4	4	34
3	Searching for unexplored high returns	3	3	4	3	3	4	3	1	3	4	31
4	Inventory Control through logistic management	5	5	3	4	5	4		4	4	4	38
5	Launching new product satisfying needs of customer	5	4	4	1	3	4		2	5	5	33
6	Reduction of marketing Exp	5	5	3	3	3	2		3	3	4	31
7	Modification of dealer Inc S	2	4	2	2	3	2		1	4	3	23
8	Appointment of distributors	2	3	2	2	2	2		1	3	3	20
9	Disposal of slow moving/ dead stock	4	4	2	4	3	4		4	4	2	31
10	Recovery of disputed o.s./ old recovery	3	5	3	3	5	3		4	4	5	35
11	Billing based on creditworth	2	5	3	3	5	3	4	5	5	5	40
12	Periodic Cash Projection/ monitoring	3	4	2	4	5	3	2	4	5	3	35
13	Rationalizing pricing policie	2	0	3	4	4	4	3	3	5	3	31

Sl. No	Annexure 6: Financial Aspect of Turnaround	TATA Motots	Crompton Greaves	Arvind Mills	Steel Authority	Gujrat Alkalies	Gillette India	Dena Bank	Thermax India	Philips India	Siemens India	Total
1	Cost Reduction	5	5	5	5	5	4	4	5	5	4	47
2	Disposal of Non Performing Assets	3	4	4	5	1	5	5	5	4	5	41
3	Revenue Generation	4	3	3	4	3	4	5	4	4	4	38
4	Inventory Control	5	5	3	4	5	4		4	5	4	39
5	Expedite Recovery	3	5	3	4	5	3	5	5	4	5	42
6	Deferred Expenditure	2	0	2	4	3	2		4	3	3	23
7	Curtail Expenditure	2	5	2	3	3	1	1	4	4	3	28
8	Explore to find Possibilities											
	# On less interest	2	0	5	4	5	3	3	1	5	5	33
	# For long term	2	4	5	4	5	4	3	1	4	5	37
9	Expedite Cash Flow											
	# Restructuring of Debts	3	4	5	4	5	2	4	1	0	4	32
	# Settlement with Creditors	3	0	5	4	5	2	4	1	2	4	30
10	Budget Control	4	5	4	5	5	2	4	4	5	3	41

Sl. No	Annexure 7: Technical Aspect of Turnaround	TATA Motots	Crompton Greaves	Arvind Mills	Steel Authority	Gujrat Alkalies	Gillette India	Dena Bank	Thermax India	Philips India	Siemens India	Total
1	Reduction in manufacturing	5	5	4	5	5	2		4	5	4	39
2	Purchase control	5	4	4	4	5	2		4	5	4	37
3	Implementing industrial											
	engineering techniques											
	# Better material handling	5	5	3	3	0	2		2	3	3	26
	# Work & Motion Study	5	5	3	2	0	2		2	4	3	26
4	Providing new innovative Pr	5	3	3	2	0	5	5	3	5	4	35
	& technically superior products											
5	By achieving efficiency	5	4	3	3	5	2		3	5	4	34
	in manufacturing											
6	Increasing Labour Productiv	5	5	3	4	4	4	4	4	5	4	42
7	Proper Maintenance of Plant	4	4	3	3	4	3	3	2	3	3	32
	and Machinery											

Sl. No	**Annexure 8: H.R. Aspect of turnaround**	TATA Motots	Crompton Greaves	Arvind Mills	Steel Authority	Gujrat Alkalies	Gillette India	Dena Bank	Thermax India	Philips India	Siemens India	Total
1	Change of Management	4	4	4	0	0		4	5	5	2	28
2	Downsizing Staff	1	5	3	5	1	5	4	5	3	4	36
3	Training and Upgrading the skills	3	4	3	4	3	4	4	4	4	4	37
4	Resolving Conflict issues related to centralization and organizational conflicts.	2	3	3	4	4	2	3	4	5	3	33
5	Concept of Profit Centre introduction, with prescribed decision making powers	3	4	3	3	2	3	3	2	5	3	31
6	Implementation of											
	# Two way communication	5	2	4	2	3	4	4	4	5	3	36
	# Participative approach	5	2	4	2	3	4	5	4	4	3	36
7	Punishment & Reward policies	3	4	3	3	3	2	4	4	5	2	33
8	Promoting Corporate Cultur	4	3	3	2	2	3	4	5	5	4	35