Organizational Decline and Turnaround Management: Empirical Study of a Government Owned Automobile Company

Sunil Kumar Maheshwari

INTRODUCTION

Globally the incidences of decline have been increasing (Cameron et al. 1988a; Witteloostuijn, 1998) causing organizational decline and turnaround management to be one of the most important topics addressed by business education and research in recent years (Mone et al. 1998). Attempts (Maheshwari, 2000) are made to develop a comprehensive framework for turnaround management that could help managers to preempt and ameliorate declining conditions. This paper contributes in this stream by examining "**How do organizations decline and turnaround?"**

Scooters India Limited (SIL), a Public Sector Enterprise (PSE), was among the top 10 loss-making companies in India in 1989-90. It was setup in 1972 and continued to report losses till 1995-96. It carried a negative net-worth of Rs. 6.47 billion in 1995-96. The company underwent turnaround and has been reporting profits since then. The study provides an insight into the process that led to decline and turnaround of the company, leading to theoretical advancement of turnaround literature. Twenty propositions are developed to explain the action choices with the help of macro organizational variables to guide future research and help managers.

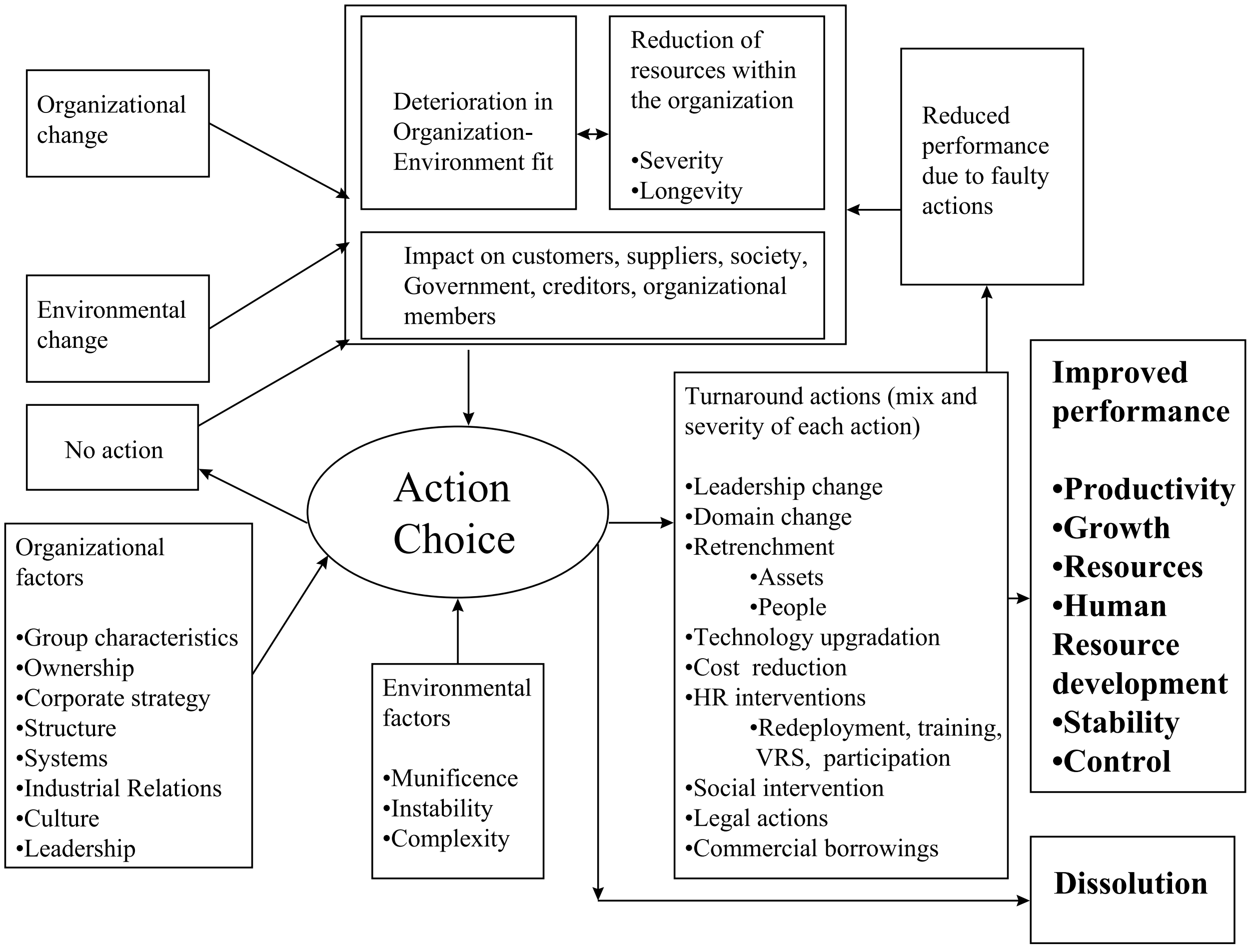
FRAMEWORK FOR THE STUDY

Literature on decline and turnaround management can be identified to address following questions:

a) Why do firms decline (Argenti, 1976; Hambrick and D'Aveni, 1988; Hannan and Freeman, 1977; Khandwalla, 1992; Singh, 1986; Witteloostuijn, 1998; Zammuto and Cameron, 1985;)?
b) What are the consequences of firms' decline on social, psychological, economic, and political issues within and outside the organization (Harris and Sutton, 1986; Khandwalla, 1992; Sutton and Callahan, 1987;)?
c) How do firms respond to decline (Barker, III and Duhaime, 1997; D'Aveni, 1989; Ford and Baucus, 1987; Khandwalla, 1992; Navarro, 1998; Sutton and Callahan, 1987; Witteloostuijn, 1998;)?

These three questions could be conceptualized as organizational actions, their triggers and consequences. Business environment and organizational factors, financial health and stakeholders' responses influence action choices. Integrating these variables, figure 1 shows the framework for the study.

Figure 1: Framework for the Study



Source: Maheshwari, 2000

Researchers have examined organizational decline from economic, psychological and sociological perspectives (Argeti, 1976; Cameron et. al. 1988a; D'Aveni, 1989; Kahneman and Lovallo, 1993; Kelly and Amburgey, 1991; Khandwalla, 1989). The common thread in all these works has been the inquiry about managerial decision making process and action choices of managers that lead the organizational decline and subsequent turnaround of organizations.

There are two streams of research to examine decision-making. The normative stream explores, "how should decisions be made in different contexts (Goodwin and Wright, 1998)?" The other stream explores, "how are decisions taken in organizations and what are the influencing variables?" It assumes bounded rationality of managers (Argyris, 1973; Ghemawat, 1991; Hammond et. al., 1998; Kahneman and Tversky, 1979). Both the streams do not recognize that all the decisions may not result into actions. Such unimplemented decisions are inconsequential for the organizational performance. Hence, the author chose to concentrate on actions undertaken in the organization that led to decline and turnaround.

From action choice perspective, the decline of firms could be for three reasons. First, the managers are unable to account for environmental uncertainty in their action-choices e.g. sudden changes in technological environment and government policies (Kelly and Amburgey, 1991; Khandwalla, 1992; Mone et. al. 1998;). The population-ecology (Aldrich and Pfeffer, 1976) and lifecycle theories (Carrol, 1984) provide perspectives to understand and examine the external causes of decline. Population-ecology theory suggests the survival of organizations that are able to align their strengths and weaknesses with the environmental niche due to limited carrying capacity of the environment. Organizational inertia, causing slow responsiveness to the changes in the environment, leads to the decline of organizations.

Second, corporate managers commit genuine mistakes. Third, corporate managers knowingly undertake action choices for their own subjective reasons that lead to decline. Agency theory (Eisenhardt, 1989), prospect theory (Kahneman and Tversky, 1979) and resource dependent model of firm (Pfeffer and Salancik, 1974) explain the causes of inertial pressure. According to these theories, inertial pressure arises from sunk investment, specialized assets, bureaucratic control, internal political and cultural constraints, external restrictions, and managerial commitment to status quo due to long tenure of managers in the organization and in the industry (Hambrick et al., 1993). Empirical findings also indicate that excessive domain initiatives too lead to decline (Hambrick and D'Aveni, 1988).

According to the systems theory (Khandwalla, 1992) vicious circles afflict organizations. These circles are triggered either by excessive control or under control of the management. While the excessive control is triggered by lack of organizational slack (Bozeman and Slusher, 1979; Staw et al. 1982;), studies indicate that the excessive slack also may lead to complacency causing minimal adaptive initiative (Hambrick and D'Adveni, 1988). Greenley and Oktemgil (1998) observed that invested slack was significantly higher in high performing companies than in low performing companies, indicating that the literature is inconclusive about organizational responses under excessive slack conditions.

METHODOLOGY

A case study approach was adopted for in-depth examination of the decline and turnaround process. SIL was selected for the study as it met the following criteria.

a) It was a sufficiently old company. It ensured that the decline was not purely for inadequate early project implementation phase.
b) This two-wheeler automobile industry had experienced both high munificence and low munificence environment.
c) The company was big and employed more than 2500 employees and had a turnover of more than Rs.[1] 1 billion.
d) The organization reported operating losses for sufficiently long time. Its net worth had completely eroded in 1992 and it was declared a "Sick Company" by regulatory authorities.
e) It had been earning profits after turnaround for six successive years (Exhibit 1).

f) The management allowed an access to all the minutes and agenda of board meetings. It enabled the author to examine different action choices of SIL and the role of directors in those action choices.

The following methodology was adopted for data collection and analysis.

a) Eight in-depth unstructured interviews were conducted with the CEO, Directors and functional heads of the company.
b) Fifteen structured interviews were conducted with other managers in the company.
c) Nine interviews with external stakeholders (Dealers- one; customers- two, members of the audit teams- two, suppliers- two, and banker- one) were conducted.
d) The author spent seven days at the plant of the company as an observer. In the process he could talk to workers informally.
e) The author examined all the agenda and minutes of meetings of the board of directors, annual reports of the company and consulting reports.
f) Data interpretation was validated through a presentation to the top management team consisting of managing director, director (operations) and other seven senior most managers of the company.
g) Comments were taken on the documented case to ensure validity of data and its interpretation.
h) Case was given to four faculty colleagues in the institute. Their comments were sought. Subsequently they were requested to read the paper and comments were sought whether the interpretations in the paper were congruent with their analysis.

SIL: ITS DECLINE DURING 1972-1990

Early Phase: A joint venture between Innocenti of Italy, Automobile Products of India Limited (API) and the Government of India was formed to set up SIL, a two-wheeler manufacturing company, on June 16, 1972. It was a time when the licensed production capacity of scooters in India was far below the demand. API already had technical collaboration with Innocenti and was manufacturing Lambretta scooters, a brand of Innocenti. It was proposed to buy an old plant of Innocenti that was lying unused in Italy for two years owing to labour problems. Condition of the machines assured a varied life from four to eight years to produce 100,000 scooters a year with investment in some additional machines, backup facilities, tools and equipment.

Innocenti sold available technical documentation, world rights to manufacture two-wheeler Lambretta scooters, and the old plant at a FOB cost of US $2.4 million on "as is where is" basis to SIL. Soon after the sale, Innocenti dissolved itself and did not contribute to the joint venture. One of the executives in the company stated,

> *"The price that we paid for the old plant was so low that even the sale of plant as scrap would have fetched similar price to Innocenti."*

Foundation for the plant was laid in an industrially backward city Lucknow, a state capital in northern India on April 8, 1973. The region had poor infrastructure and no ancillaries at that time.

The government appointed S. Soundarajan, an officer from Indian Audit and Accounts Services, as the first Executive Director (ED) of the company. Employees in SIL remembered him as an autocratic, quick decision-maker, optimistic, and extremely bright leader. Another senior manager recalled him as "a man of principles, work addict, ambitious, and simple." Some of the executives commented,

> *"He was a man in haste. Perhaps he had plans to stay in SIL for 5 years and looked for greater challenges after that."*

Soundarajan planned to manufacture 30,000 scooters in 1974, the first year after plant installation, 60,000 scooters in 1975 and 100,000 scooters from 1976 onwards. He acted fast and did not develop adequate plans. While commissioning the plant, SIL engineers discovered that some of the machines, components, accessories, and drawings were missing. Engineers also found that concrete columns in the plant would obstruct the movement of material by overhead cranes. SIL had to resort to the movement of material through forklifts and trucks.

A senior manager stated,

> *"The initial organizational structure was not well developed. We lacked human resource plans. People were recruited in the first year itself to operate at full production capacity of 100,000 scooters. Selection of people was also not planned. Many persons were selected with similar expertise. Casual labour was temporarily hired to open cases of machines and equipment. Subsequently, they became regular employees. Most of them were illiterate."*

Soundarajan started expanding the activities of SIL right from its early stage. He could get his expansion proposals approved by the government with the help of government nominees in the board. These nominees used their service network in different ministries for early approval of SIL proposals.

SIL set up a foundry shop that was not the part of initially approved project. This and other additional manufacturing facilities increased project cost from Rs. 119 million to nearly Rs. 200 million in 1973.

Soundarajan negotiated with Innocenti to purchase their three wheeler plant at a FOB price of $ 500,000 in 1973. "It was a throwaway price for the plant," some company managers commented. The entry into the three-wheeler market strained the relationship between SIL and API because API wanted to takeover the three-wheeler manufacturing on its own. Soon after, API withdrew from the joint venture.

Soundarajan simultaneously pursued agreements with seven manufacturing units in different Indian states to supply 100,000 power packs[2] to them. State governments set up these new units with the help of SIL.

Product Launch: Vehicle Research and Development Establishment tested the first prototype of SIL scooter in late 1974. It reported few problems regarding inferior quality of components. But, SIL stuck to its original plans to start commercial production in February 1975 without immediately been able to address the quality problems adequately. However, SIL initiated to set up ancillaries and in-house production facilities to ensure adequate supply of quality components in future.

Vijay Deluxe, the first scooter, provided 9.6 B.H.P. power against 6 to 7 B.H.P. of competitors' scooter. It was also priced lowest in the market. Yet, it failed in the nationwide market due to perceived lower quality image. SIL responded by developing new products. It developed a 50cc moped in 1976, a petrol-driven three-wheeler minibus and a petrol-driven six-passenger carrier in late 1977 and a 125 cc Scooter in 1978. But, none of them could be launched successfully.

SIL launched modified version of its first scooter in the second half of 1977. However, quality continued to be inconsistent. One of the senior managers said,

> *"Though the company was not performing, there was never a doubt about its survival. Diversification plans were being developed for rehabilitation purposes."*

SIL took over Precision Instrument Limited (PIL) in 1979 for Rs. 1 million to manufacture speedometers and magnetos. PIL performed poorly in its first year of production and continued to make losses.

These actions indicate that SIL had good technical capability in its early phase. Its engineers commissioned the plant without any support from Innocenti. They developed many new products. However, managerial actions of SIL proved inappropriate. Vijay Deluxe had technical problems though minor ones. SIL launched it nationwide without testing it in a smaller market leading to erosion of SIL's image nationwide. Its failures did not activate managers for careful launch of its subsequent products. Further, recurring failures of two-wheelers did not activate the management to switch over to another domain. SIL continued with the policy of in-sourcing of components and new product development in the same product domain, reflecting high commitment of management to two-wheeler market.

Soundarajan perceived the environment in the automobile industry to be highly munificent. He undertook ambitious and hasty initiatives with a belief that eventually SIL would become an important player in the industry. He continued with his plans to manufacture 100,000 scooters even after the failure of SIL's first product in the market. He activated development of new two-wheeler products internally and planned his entry in the three-wheeler market. His investment proposals reflected optimistic financial projections.

Proposition 1: Perceived high munificence of the environment is likely to induce commitment to the existing product-market domain.

Proposition 2: Ambitious and autocratic leaders with perception of high munificence environment are likely to undertake hasty and excessive expansion initiatives in the existing product domain.

It is in contrast with Hambrick and D'Adveni, (1988). They stated that excessive slack leads to complacency and such firms engage in minimal adaptive initiative. It could also be achieved through internal changes while remaining in the existing domain. SIL had an access to government funds, though it did not have any financial slack. It had surplus capacity and manpower. Though it was not performing well, yet, in the same product-domain it undertook many product development initiatives.

Leadership Change: L K Joshi replaced Soundarajan on January 17, 1979. Joshi had a good network of relations in the political and bureaucratic circles. He continued the policy of expansion through backward integration. SIL collaborated with the state government in 1980 to produce tyres and tubes to meet its own requirements.

Market Changes in 1980s: Two-wheeler market in India started opening up in 1980s. The government granted new licenses to LML Limited and Kinetic Motors Limited and allowed increased production by Bajaj Auto Limited. The demand for SIL scooters declined sharply since 1982. SIL tried to rationalize its product offerings. It shelved the moped project and decided to concentrate on 100cc vehicle. However, SIL could not achieve enough sales revenue and earn profit. This led to further decline of the company.

While the competition became intense, it became increasingly difficult to get funds from the government in mid 80s. SIL did not change its existing product-market domain, though it was no more munificent. SIL tried to respond to increasing competition by developing different versions of two-wheelers. The apparent adaptive initiatives were cosmetic at best. The lack of resources constrained the company to adopt radical improvement plans. There was no other market in the business portfolio of SIL that could generate sufficient surplus to enable it to respond quickly and effectively in its two-wheeler business.

Proposition 3: Organizations that try to adopt congenial niche are not able to respond effectively to sudden changes in the environment, leading to decline.

Weitzel and Jonsson, (1989) explained the decline process from stage theory perspective. They suggested five stages a) blinded, b) inaction, c) faulty action, d) crisis, and f) dissolution. However, the decline of SIL started with the selection of a faulty location for the plant leading to the problem of sourcing quality components. Subsequently, leaders in SIL ignored qualitative issues and pursued aggressively on production and vertical backward integration plans. They did not develop enough working details to bring good results for the company.

Proposition 4: Decline of firms could start either directly with blinded stage or with faulty action choices followed by blinded stage.

Actions and Their Causes During the Decline Phase of SIL: There are primarily three action choices for managers under declining conditions: a) undertaking turnaround process, b) delaying the action/maintaining status quo and c) dissolution of the organization. The literature indicates different views on the impact of environmental instability on the action choice (Papadakis et al. 1998) as munificence and complexity of the environment moderate the response to environmental instability (Rajagopalan et al. 1993). While higher munificence provides better opportunities in the environment to continue business, increased complexity increases the threat from the competitors.

When the environment is perceived to be moderate or high on munificence, it is likely that the management would try to turnaround the organization in anticipation to capitalize on opportunities in the environment. The extent and speed of organizational change under such conditions are expected to be high (Barker and Duhaime, 1997). In the early munificent environment, SIL undertook activities that were primarily aimed at its rehabilitation, though these actions proved inappropriate. There was no action to dissolve the company.

Proposition 5: Managers of declining organizations in high munificence environment are likely to strive for organization turnaround. They are likely to avoid dissolution of organizations under these conditions.

The environment suddenly became competitive in mid 80s. SIL responded to it through product rationalization. Increased complexity and reduced munificence in the environment triggered pessimistic outlook for the survival of the company in the existing domain. It prompted the managers to consolidate the domain. It also tried to dissolve the company later.

Proposition 6: Declining firms in low munificence environment are likely to respond through dissolution, domain reduction and cost savings.

The government continued SIL's operations for employment reasons, making SIL prone to inaction and turnaround actions as against dissolution. It could not collaborate for new technology for a long time primarily due to political reasons.

One of the union-ministers while addressing the employees in 1983 said to agitating employees,

> *"What is your problem? You are getting your salary."*

This response is in line with existing literature (Papadakis et al. 1998) that corporate objectives, industrial relations and ownership moderate the action choice of managers.

Proposition 7: Government owned organizations are likely to have longer periods of inaction and lower propensity for dissolution in developing countries.

Stakeholders' Response to Decline: Virtually all the stakeholders in SIL became hostile towards the company since mid-80s. The instances of inferior quality supplies increased. The manager (material management) of that time recalled,

> *"It was extremely difficult to act tough with suppliers for quality due to our frequent defaults on payments. While it was difficult to get supplies once, it was extremely difficult to get supplies again on time after rejection. Hence, we frequently accepted supplies of sub-standard quality. Suppliers usually insisted on advance payment. At best we could get the supplies against the letter of credit (LC)."*

SIL had to make provisions for bad recovery accounts. Many times suppliers whose supplies were returned for quality reasons did not refund the advance to the company. Managerial efforts to solve quality problems in 80s proved futile as suppliers used to refuse to invest in dies for redesigned components for scooters of upgraded design in the absence of reasonable volumes.

Local media too was hostile. The Public Relation Officer (PRO) of SIL recalled,

> *"The local media people would not even offer me a seat to sit in those days whenever I visited them. I used to feel ashamed to discuss about SIL since people had no regards for the company in those days."*

SIL was unable to recruit skilled or properly qualified managers after its project implementation. The task force study of 1983 estimated an annual turnover of 10% among officers in 1983. Employees reacted adversely to the management. Executives in SIL recalled,

> *"Employees in the company developed a sense of job security. They thought that the government would ensure the continuity of the plant, having started once. They started demanding better compensation and working conditions. They frequently resorted to strikes to press for their demands."*

Internally, employees carried low morale. Managers recalled,

> *"Lambretta Cento, the first 100cc scooter in India, was launched without fanfare as we all thought that we had poor name in the market and fanfare would not be appropriate. It was a reflection of low self esteem among the employees at that time."*

Unions became aggressive from 1983 onwards. There were five unions in the company. Each was affiliated to either of the national federation of unions. SIL frequently faced inter-union rivalry problems.

These adverse reactions in declining organizations are similar to those documented by Sutton and Callahan (1987). Such adverse reactions increase organizational transaction cost

(Williamson, 1985). Such reactions also adversely affect the career, reputation, and self-efficacy of the top management. Managers try to avoid or delay such reactions through increased secrecy, rigidity, centralization, formalization, scapegoating, conflict, and conservatism. These actions may further lead the organization into bankruptcy (Khandwalla, 1992).

Proposition 8: The cost of transaction with suppliers, creditors, customers and other organizational audience increases under declining conditions.

Proposition 9: Unions are likely to be demanding and aggressive in organizations where people carry a perception of job security and favourable political interventions.

Change of ED: PS Kapoor joined SIL on deputation from Indian Railways as the ED of the company in July 1984. On joining he made it known to the employees that he would go back to his parent organization once his deputation were over. One of the senior managers commented,

> *"Kapoor had very little concern for SIL as his stakes in SIL were very low. He had a job to fall upon, in case of dissolution of SIL."*

Kapoor himself did not believe that the company could be revived. One of the managers recalled an incident in Mid 80s. After attending a training programme, Kapoor said in a lighter mood,

> *"Trainers were talking about communication of vision. Will they tell me how to communicate the vision of closing a company?"*

Hostility of different stakeholders increased sharply during his tenure. Perturbed by fast deteriorating performance, the government made an effort to sell the company in 1987. One of the strong contenders wanted SIL to reduce the manpower to nearly half of the then strength of 3200 employees. Employees resisted the privitisation of SIL. The period now onwards was one of severe industrial unrest.

SIL reported a loss of Rs. 404 million on sale revenue of Rs. 103 million in 1989-90. The accumulated loss stood at Rs. 2125 million. A manager described this period as,

> *"The capacity utilization of the plant was very low. Unions were very aggressive. Union members usually sat outside the gate of the factory and did not allow the senior managers to enter the plant. Kapoor was forced to operate from his residence or city office, which was nearly 25 km away from the plant. Mistrust, conflicts, vitriol and secret information seeking characterized the environment of SIL. Senior managers were unable to work as a team."*

Literature (Khandwalla, 1992; Robbins and Pearce II, 1992; Ruiz-Navarro, 1998;) suggests that the management under adverse reactions feel stigma that accelerates the chances of managerial succession. Hence, change of leadership is almost a certainty to the start turnaround process. However, taking over by Kapoor in 1984 did not help SIL. His own stakes in the company were little.

Proposition 10: The linking the CEO's own interests with the performance of the organization is likely to induce CEO's commitment for organizational turnaround. The lack of such linkage may not induce the CEO to undertake torturous and challenging route of organizational turnaround.

TURNAROUND OF SIL (1990 - 2001)

Emergence of Turnaround Leader: Turnaround of SIL started with the change of leadership in 1990. Dr. Arun Sahay replaced Kapoor. Sahay had been SIL since May 1977. He had worked in the company at different positions before seeking voluntary retirement from SIL in 1988. However, his request was turned down. He proceeded on leave in the same year. He was requested to cancel his remaining leaves and join the company as the new ED in 1990.

Sahay carried a conviction that the company could be revived. He had resisted in past all the plans for closing the plant. But, he was being pressurized to take over as CEO of the company precisely for what he had resisted strongly. When he asked the authorities the rationale, he was told

"We need an MD even to close the company."

Proposition 11: A turnaround leader need not always be from external sources. The leader's faith in revivability, confidence, reverence, acceptability, knowledge of organization and industry are likely to help to revive the company.

Fair and Firm handling of Industrial Relations: Sahay realized that he had four challenges to revive the company: a) improving work culture, b) getting the support of external stakeholders, c) selecting a profitable market-product domain and d) arranging finances for the company. Sahay recalled,

> *"Gambling within the factory premises was common. Employees had regular interaction with local political leaders. They customarily went out for campaigning in elections. Political leaders frequently used to intervene in personnel and industrial relation matters in the company."*

Management had been yielding to employees. Kapoor had not visited the factory for a long time owing to union threats. However, Sahay assumed the authority vested in him by his position. He announced immediately after taking over as CEO that he would operate from his regular office in the factory premises. None, including the local police authorities, apprehending the danger, could dissuade him. One of the managers stated,

> *"Sahay was known to have high commitment to SIL. It helped him take the command of the situation."*

Proposition 12: A turnaround leader is likely to be successful if perceived by employees to be committed to the organization.

Proposition 13: Perception of employees that the leader is committed to the organization is likely to instigate bold turnaround initiatives by the leader.

Regarding industrial relations, Sahay stated,

> *"Union rivalry created many conflicting issues relating to day-to-day operations of the company. In such conflicting matters, I preferred to decide the matters on merit. Where they could not be settled bilaterally, the issues were decided in the court of law. In one such matter, we were successful in negotiating a wage revision agreement directly with employees, as unions could not agree on a settlement. Each of the 3200 employees accepted and signed the revised wage agreement individually."*

Regarding political interventions Sahay took a firm view. He recalled,

> *"I dealt issues strictly on merit. I did not concede to the political pressures though it was risky for my career. I dealt matters related to the discipline with firm hands."*

Conflict of interests among internal stakeholders could be resolved with fair and firm application of rules and company policies.

Proposition 14: Bureaucratic orientation is likely to be effective to resolve internal disputes in declining organizations

Temporary Relief from Recoveries: The Sick Industrial Companies (Special Provisions) Act (SICA), 1985 was amended in 1992. The amendment allowed PSEs to be referred to the Board for Industrial and Financial Reconstruction (BIFR). BIFR was a semi judicial body that approved the turnaround plans of companies that were registered with it. Such registered companies got protection from recovery by creditors and other legal matters till their cases were decided by BIFR. SIL was immediately referred to BIFR as its net worth had eroded long back.

Cognizance of Interests of Different Stakeholders: Sahay preferred to manage by "walking and talking" to bridge the communication gap between management and workmen. He firmly displayed his commitment to protect the long-term interests of different stakeholders. The concerned minister had announced in the parliament on January 23, 1992 that SIL would be closed down. Three days later on Republic Day, Sahay while addressing the workers after flag hoisting said,

> *"No one is born to close down this company. I will teach the person bitter lessons if one carries any ill intention towards SIL."*

Sahay recalled a meeting with the union minister in which he asked , *“Why do your secretaries want to close my company when I am not asking additional fund from the government? Moreover SIL is providing employment to so many people in an industrially backward state."*

Since then, Sahay sought the support of government through his slogan:

"We manufacture three wheelers in the factory but sell employment in the market."

This slogan proved very effective to make ministry people consider turnaround plans seriously.

Proposition 15: Autocratic orientation for benevolent reasons is likely to help to turnaround declining organizations.

Proposition 16: Projection of being sensitive to the interests of different stakeholders is likely to help leaders to seek the support of different stakeholders for the turnaround of companies.

These actions indicate that management of relationship with stakeholders, outside the organization is an important task of turnaround management. They are in line with the existing literature (Khandwalla, 1992; Robbins and Pearce II, 1992;Ruiz-Navarro, 1998).

Change of Product Domain: Financial help came from the dealers of the company. The three-wheeler of the company generated employment for taxi drivers. Inadequate public transport systems, narrow roads in cities and high unemployment created substantial demand for this kind of vehicle. It was estimated that a three-wheeler carried a premium of Rs. 10,000 to 20,000 on delivery in 1992. It was possible to get advances from the dealers. The advances eased the problem of working capital of the company. It also developed some confidence among different stakeholders for possible turnaround of SIL.

SIL, now onwards, decided to focus on three-wheelers. Its production increased from 150-200 three-wheeler vehicles per month in 1992-93 to 500 vehicles per month in 1995 by tooling up two-wheeler facilities for the production of three-wheeler vehicles. SIL reported operating profit in 1995-96 for the first time since 1981.

Proposition 17: Domain interventions that reflect better prospects are likely to be helpful to seek support of external shareholders.

Manpower Downsizing: SIL took the help of a consulting firm. The consultant recommended more than 50 percent manpower reduction, closure of two wheeler and fan manufacturing plants and to concentrate on three-wheeler production. It also recommended diversification into a related activity of diesel generating sets.

Regarding manpower reduction, Indian government had announced a Voluntary Retirement (VR) scheme in 1988. SIL employees were not willing to opt for the scheme till 1992-93. Sahay stated in one of the board meeting in 1992-93,

> *"Poor employment opportunities in the region, lower income background of employees and younger age profile were the reasons for not accepting VR scheme."*

Subsequently, two events took place in the same year. First, one of the government nominees in the board declared the government's intention to dissolve SIL. When contacted by trade union leaders, he suggested them to accept VR to avoid losing the jobs without any compensation. Secondly, the concerned minister made a statement in the parliament about the government's intention to close down SIL. Sahay stated,

> *"It was a setback to my strong message to people about turnaround of SIL. However, I weighed the situation and sensed an opportunity. I speeded the process of decision making. Any application received in the morning for VR was disposed off by the evening."*

Suddenly number of people reduced from 3007 in 1992 to 2898 in 1993 and 2098 in 1994.

Proposition 18: People are likely to accept VR schemes as a last resort in developing countries.

Seeking Support of Board of Directors: The working of the board changed significantly in the period between 1992 and 1996. Members were willing to help the ED in his turnaround efforts from 1993 onwards. In a board meeting in 1993 Sahay sought the help for the release of funds from National Renewal Fund[3] (NRF) to accept VR applications of employees. Management had accepted VR applications but had no funds to discharge the associated liabilities. There was no provision for VR scheme of SIL in the 1993-94 budget of the ministry. An agreement was signed with the bank. Banks, despite huge overdraws and irregular account, agreed to advance further funds to discharge VR liabilities provided SIL ensured government guarantee. Government nominee in the board actively helped Sahay to get that guarantee. Similarly other external stakeholders supported the revival of SIL after realizing the commitment of government for turnaround of SIL. It accelerated the turnaround process.

Proposition 19: The revival of PSEs is likely to be fast, once the government displays commitment for such revival.

BIFR Proceedings: During the period of hearings on the turnaround scheme between 1993 and 1996, the production and sales performance had consistently improved. Earning of operating profit in 1995-96 proved extremely helpful to change the conviction of BIFR members about the feasibility to revive SIL. After many deliberations, BIFR sanctioned the turnaround scheme in September 1996. The turnaround package granted many financial benefits to the company (Exhibit 2).

Proposition 20: Stakeholders are likely to help in the turnaround process once they perceive that the turnaround is possible and management is striving for the turnaround of the company.

CONCLUSIONS AND DISCUSSION

Decline of SIL was rooted in its early phase. However the inertia to change was high primarily owing to commitment to sunken investment, lack of performance-reward linkage of the CEOs and perceived continuous financial support of the government. The early futile decisions were not corrected for nearly 18 years. Leadership, board functioning, internal management and external changes accounted to the decline of SIL. Though the government ownership helped company to seek financial support from different agencies, it also created difficulties for its survival. It could not enter into technical collaborations. It faced frequent political interventions. Employees carried a perception of job security, making them volatile in difficult times. CEOs who came on deputation were always not committed to the company. There were no linkage between reward and performance for CEOs.

Hambrick and D'Aveni (1988) are of the view that both excess and lack of domain change leads to decline. Study by Barker and Duhaime (1997) indicates that extent of domain change would increase with the changes in the top management, level of firm resources, severity of decline, level of industry growth, perception of the extent that decline is created by external events. The study shows that all the above variables were changing in SIL. However, there was no shift in the domain till the emergence of Sahay as the CEO. Hence, the change at the top is a necessary but not sufficient action to initiate domain initiatives in companies.

There have been efforts to find the relationship of decline with innovation to justify the proverb "necessity is the mother of invention." Mone et al. (1998) indicate that innovation reduces with institutionalization of organizational mission, diffused power structure, lack of slack, attribution that decline is uncontrollable and temporary. SIL case shows that there were too many new product developments in 80s even though the slack was low and decline was perceived to be uncontrollable. It happened primarily to increase the activity level in the company to keep people employed. These product development efforts were not focussed innovative efforts for organizational turnaround.

Most of the turnaround studies have tried to develop typology of turnaround strategy (Ford and Baucus, 1987; Khandwalla, 1992; Robbins and Pearce II, 1992; Schendel et al., 1976). The fundamental tenant of inquiry to develop typology has been to identify consistent mix of different actions to turnaround the organization. Khandwalla (1992) developed typology based on retrenchment of people, technology upgradation and people-management. He found that all other activities were common to most of the turnaround experiences. This study indicates that the company had to undertake all of these activities. It is not possible to classify the turnaround of SIL in any one of the typologies.

There has been difference of argument on asset retrenchment efforts in the turnaround process. It is perceived as an essential activity to ease the cash flow problems in the initial stage of turnaround efforts (Robbins and Pearce, 1992). Barker and Mone (1994) are of the view that this may not be always true. Cases from Khandwalla (1992) indicate that organizations may even expand their activities in the turnaround process or the retrenchment may be of insignificant order. However, in severely declined firms like SIL, asset reduction for cash inflow is not possible as firms are likely to have already mortgaged most of their assets. SIL had to undertake domain shift from two-wheeler to three-wheeler to seek financial support from dealers.

Domain change would be an effective action in case of reduced munificence in the existing niche. Decline of organizations due to other factors may not call for domain change efforts. However, the recent economic recession does not leave many product domains in which organizations can switch over to. It is likely that organizations would not invest aggressively in new businesses, though they may have access to financial and other resources. The role of the government during recession would be critical to change the perception of investors that the recession is temporary. Governments could do that by creating new demands through aggressive investment in the physical and social infrastructure.

PSEs carry multiple social objectives. Frequently governments protect under-performing organizations to protect employment and availability of products in the market. Consequently, employees in these organizations develop a sense of job security. This reduces managers' initiatives to align with the environment, leading to longer periods of inaction.

Decline of organizational performance causes a feeling of stigma among managers. It may lead to reduced transparency in their actions. Further, different stakeholders react in a hostile manner towards management of declining organizations.

Explicit commitment of the government to revive declining PSEs reduces the hostility of different stakeholders. Government's financial security reduces the hostility of government owned banks and financial institutions, suppliers and other stakeholders. It helps to turnaround declining organizations quickly.

Implications: The study opens many fronts for further research to generalize the propositions. The existing typologies of turnaround strategies need further exploration to provide sound conceptual framework for this stream of research. The proposed linkages between managerial action choices and macro organizational variables provide levers to managers to instigate effective actions in organizations to prevent and ameliorate organizational decline.

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Exhibit 1: Income Statement (Unit: Rs. in 10 Million)

Year	74-75	84-85	93-94	94-95	95-96	96-97	97-98	98-99	99-00
Sales	0.39	5.52	29.58	50.53	86.18	120.21	128.91	125.68	135.91
Other income	0.10	0.23	-9.34	-2.54	0.53	14.76	14.10	3.57	8.14
PBDIT	-0.15	-3.21	-9.41	-2.62	0.40	13.89	13.92	8.95	8.66
PBDT	-0.89	-12.57	-75.61	-80.93	-91.17	11.57	12.72	7.25	6.96
PBT	-1.06	-14.08	-76.23	-81.56	-91.82	10.90	11.88	6.31	5.99

Exhibit 2: Turnaround Scheme, approved by BIFR

1. Employee strength to be pegged at 1676. Wage increase will be limited to 5 percent after two years if production and sales show satisfactory performance. Compensation of Rs. 52.5 million from NRF for VRS.
2. A capital expenditure of Rs. 110 million in two years to increase the installed capacity of three-wheeler manufacturing to 24000 units per year.
3. Conversion of part of GOI loan (Rs. 272.2 million) into equity and write off the balance GOI loan together with interest accrued thereon.
4. Infusion of Rs. 224.5 million by GOI for capital expenditure programme and one time settlement of dues of institutions and compensation cost of manpower rationalization (VRS).
5. One time settlement of dues of financial and investment institutions viz. IDBI, IFCI, LIC, and UPSIDC envisaged repayment of entire principal and 50 percent of the simple interest dues as on September 30, 1995 in one lump sum payment by GOI.
6. Amortization of dues to bank over a period of time based on the cash flow.
7. Benefit of deferment of sales tax for a period of 5 years.
8. Total sacrifice by GOI, banks and other institutions was estimated to Rs. 6097.7 million with the details as under.
9. Reconstitution of the board with the induction of at least 4 independent professionals (including one whole time technical director), having specialization in the field of manufacture, finance, and marketing, a nominee each of GOI, institutions, banks and BIFR.

Endnotes

[1] Rs. means Indian National Rupees. 1 US $ ~ Rs. 45.00 in 2000-2001 and Rs. 7.50 in 1972-73

[2] a compact unit consisting of engine and gearbox.

[3] NRF was created by the government of India for the purposes of redeployment, retraining and voluntary retirement of people in PSEs