TURNAROUND MANAGEMENT: THE CONCEPT

In the last century, Indian trade deficits had run at record levels. Bank failures had reached depression levels. Various business sectors had experienced severe decline. Several key industries continued to operate in a depressed state and were then joined by some of the previously glamorous high-tech industries. Trade deficits had improved only marginally in spite of a shrinking rupee while capital markets had become increasingly volatile. Unprecedented consumer debt, government deficits several times the amounts formerly regarded as astronomical, volatile capital markets, monumental trade deficits, and a plethora of unfriendly and under analyzed corporate takeovers, all provided testimony that the world economy, though prosperous, lacks equilibrium.

However, in such a scenario, some Indian companies have put up truly inspiring performances - rising from the very pits to touch the pinnacle of glory.

While the stock market's benchmark index, the BSE sensex has risen over 114 per cent in the last three years, the real story of the Indian stock market is scripted by the large number of small and medium-sized companies that have gained many times in value during this period; improving domestic and global economic conditions.

While top-rung companies have gained in profitability and financial strength from these favorable conditions, the biggest gainers have been corporate that were on the verge of closing shop due to huge losses.

The real story of India Inc is told by the hundreds of companies that have turned the corner in the last four years and rewarded shareholders with returns that they never expected. Some of the turnaround stories have been most stunning, like **SAIL** while others have been more carefully crafted. Interestingly, the biggest beneficiary of the upturn in economy were companies engaged in manufacture of commodities such as steel, paper, cement, chemicals and so on.

These companies have turned around from corporate sickness to phenomenon success. In simple terms corporate sickness is the impaired ability to function effectively in a competitive and complex environment. **Corporate sickness** is widespread in India and in many other market economies and may increase because of competition as a result of globalization. Turnaround management is the "***management of corporate healing***".

Thus, **Favorable reversal in the fortunes of a company, a market, or the economy at large is termed as Turnaround**. Stock market investors speculating that a poorly performing company is about to show a marked improvement in earnings might profit handsomely from its turnaround. **Turnaround is the term used when the poor performance of a company or the business experiences a positive reversal.**

The art of corporate healing is two-fold: **symptomatic and systemic.**

In symptomatic healing, some of the symptoms of corporate sickness are identified and addressed through what can be termed vigorous management action. In many cases, such action may require unpleasant decisions to be taken. ***Cost-cutting, layoffs and closures*** are very much part of such decisive action.

On the other hand, systemic turnarounds will typically go beyond the immediate, look for the ***underlying causes*** and try to transform the mindset of stakeholders and the corporation's systems and processes by including the stakeholders in both the diagnosis and remedial steps. Transformational turnarounds would often yield better corporate performance and gear an organization to withstand the stress of competition. It also enables an organization to grasp a big opportunity and innovate successfully.

A successful turnaround model will require a certain type of corporate leadership and reduce the human costs of turnaround while building capacity for sustainable growth. The successful business strategy for turnarounds focuses on improving ***a firm's effectiveness as a low-cost producer of increasingly differentiated quality products***. A corollary to this is that successful turnarounds involve leaders who focus on operations, possess strong ethical values, have good personal reputations, and follow the principles of fair play in dealing with employees, creditors, suppliers, and customers.

REASONS FOR A SICK BUSINESS

Once-stable companies struggle to maintain profitability due to which the expertise of corporate renewal professionals is more in demand than ever. Every company has a different working environment, different set of problems and different reasons for losses or low productivity. However, these reasons can be broadly mentioned as follows:

- ***Rising competition***: In today's scenario, when we have a global market, no industry is safe from competition. Right from a small scale producer, till the global leaders, everyone have to be competitive or succumb to the market.
- ***Cyclical financial markets and economic volatility*** have created a climate where no business can take economic stability for granted.
- ***Loss of management Talent***: Many companies have turned to downsizing to improve their economic health. However, downsizing has taken its toll on corporations by robbing them of management talents. The ranks of managers groomed to assume top positions have been thinned.
- ***Volatile Business Environment***: The volatile business environment has turned once-successful CEOs into hesitant managers who are no longer able to provide strong leadership.
- ***New lender liability laws*** have also increased the need for turnaround management. At one time, banks could take control of client companies in serious financial peril. Today the courts view this action as equity participation, forcing banks to avoid direct involvement with corporate management.
- ***Ineffective management style***: The president and founder of a company is unable to delegate authority. No decision, big or small, can be made without his or her blessing. As a result, the rest of the management staff is without

solid experience or any feeling of ownership. Dishonesty or fraud may exist. The board of directors is non-participative and ineffective. If the president suddenly becomes incapacitated or dies, the entire company is in danger of collapse.

- ***Over-diversification***: The business has yielded to pressure to diversify to reduce risk. However, too much diversification causes it to spread too thin. As a result, the business becomes vulnerable to the competition.
- ***Weak financial function***: The company with its excessive debt and inadequate capital is operating with little or no margin for error. Its credit is overextended and fixed assets and inventories are excessive.
- ***Poor lender relationships***: Its weak financial position has led to the company developing an adversarial relationship with its lending institution. Fearing that its loan may be in jeopardy, the company tries to hide financial information from the bank. Since money is the lifeblood of most any business, this kind of lender relationship only leads to more trouble.
- ***Lack of operating controls***: The company is operating without adequate reporting mechanisms. This is like flying an airplane without an instrument control panel. Management decisions based on old or inaccurate information can head the company in the wrong direction.
- ***Market lag***: Changes in the marketplace have bypassed the company, leaving it with sagging sales and lost market share. For some, the deficiency is technology; their equipment or products and services have become obsolete. For others, the problem lies in sales and marketing; the company hasn't kept pace with the needs of the marketplace.
- ***Explosive growth***: Companies achieving fast growth from concentrating on boosting sales overlook the effects of growth on the balance sheet. Growth often carries a very high price tag from significant investments in R&D.

Leveraging a company to such a degree means that management must operate with little or no margin for error.

- ***Precarious customer base***: The business relies on a few big customers for most of its sales. If a manufacturer selling to large retail chains has two customers representing 60% of its business, the company is obviously vulnerable. The loss of just one customer could put hundreds out of work and send the business into bankruptcy.
- ***Family vs. business matters***: Family issues are causing decisions to be made based on emotions, rather than sound business judgment. Sibling rivalry has ruined many privately-held companies. Nepotism can cause bright, skillful managers who aren't part of the family circle to take their talents elsewhere.
- ***Operating without a business plan***: The growing company is operating without a business plan. Its plan may change overnight because the plan is based on management's own "feel" for the market. In some cases the business plan exists in everyone's head rather than in writing. The result is that plans are carried out according to individual interpretation.

IDENTIFYING A TURNAROUND SITUATION

A crisis serious enough to necessitate turnaround is a feature event for any company, an experience that can be catastrophic or a healthy and positive force of strengthening and renewal. A turnaround attempt can draw together the people of the organization or it can tear them apart. It can foster innovation or stop it completely. A turnaround event is different from other periods of economic reversal because of the uncommon severity of the situation. A turnaround event occurs when the very existence of the company is threatened. Yet, turnaround situations frequently go unrecognized. Company managers often fail to differentiate routine business situations requiring less spectacular change from more serious situations where extraordinary action is required for the firm's survival. Occasionally, gradual drift takes place until the threatened firm deteriorates beyond the point where reasonable action can save it. These are the most serious cases because they represent situations in which the firm could have been saved but was not. The resulting catastrophe takes a cruel toll on employees, creditors, suppliers, stockholders, customers, and members of the local community. For both business and societal reasons, it is worthwhile to understand the early signs of decline.

The signs of decline indicate slippage in the company's financial and competitive performance.

Seven basic families of problems which are easy to detect:

1. ***Liquidity problems*** including frequent cash shortages, borrowing levels up to collateral limits, or cash-on-demand status with many vendors
2. ***Collection problems*** including an unusually large number of disputed balances or frequent sales to a customer base which is not equipped to pay

3. ***Profit problems*** such as ongoing losses in the general business or chronic losses in a main segment
4. ***Quality problems*** and other product problems resulting in low levels of customer acceptance
5. ***Employee problems*** including attrition of high-caliber people, low morale, high rates of absenteeism, or low productivity
6. ***Organizational problems*** including a confusing organizational structure, dispersed responsibility, or inappropriate staffing for key positions
7. ***Ethical problems*** including the falsification of financial statements, excessive executive compensation, unreasonable perquisites, theft, chemical dependency, or improper supplier-purchaser relationships

TURNAROUND MANAGEMENT: THE VARIOUS FACETS

The effect of business failure is widespread. Many other supplier and dealer organizations are also affected, as are financial and service institutions. The general community is affected in that when major companies close, the affordability of essential community services is inevitably reduced. Home prices decline, thus limiting mobility and making it difficult for even the most talented individuals to seek employment opportunities in new locations. The special skills developed by individuals, often in response to company needs, are frequently of limited value to other employers. Even those who have good work habits and valid training often have limited geographical or occupational alternatives.

Companies rarely fail because of any one single cause. Inept company management is certainly a factor in some situations. Though many variables are involved in turnaround success or failure, competent management can impact most of them. Management is the principal catalyst and the root of ultimate responsibility in the revival of troubled firms. But the workers, financial intermediaries, government, and the community also have their responsibilities.

Characteristics of the economy, the quality and personal traits of the people hired by the company, the degree of support from the community, and many other factors help determine turnaround success.

In 2001, ***Tata Motors***, then Tata Engineering, reported a net loss of some ***Rs 500 crores***, its first ever in 57 years. From record losses in 2001, Tata Motors bounced back to become one of the most profitable private sector companies. In 2003, Tata Motors was back in black (and how) with a net profit of **Rs 300 crores**.

Not only has it been able to maintain its pre-eminent position in commercial vehicles, the company has made its presence felt in the passenger car segment by taking on competition from Maruti and Hyundai Motors. And the acquisition of Daewoo Commercial Vehicle was a very bold and forthright move.

The Tata Motors turnaround is unique because the company decided that its turnaround would encompass short-term and long-term growth strategies. The most obvious short-term strategy was to focus on internal efficiencies, i.e., the employees and employers. Tata Motors' turnaround initiatives were focused on aggressive cost reduction, right-sizing the organization, financial restructuring, gains in volume and market share, re-engineering processes, organizational transformation, and launching new products.

Post 2001, Tata Motors cut costs by ***Rs 960 crore***; 65 per cent of these gains came from reduction in the cost of raw materials, and 25 per cent from that of interest. The company's 2002-03 balance sheet showed a net negative working capital, for the first time, ever. Thanks to these, Tata Motors can today break even if it churns out commercial vehicles at 31 per cent of its capacity, and cars at 48 per cent of its capacity. Two years ago, the corresponding proportions were 45 per cent and 95 per cent. The company also moved into the platform-sharing mode, an approach where models share the manufacturing system (including key components), thereby reducing cost, as well as time to market. The Indigo sedan, for instance, shares its platform with Indica. To sum it up, the nuts and bolts of the turnaround were:

- ✓ Internal Efficiencies: Improving Productivity and Re-engineering Operations
- ✓ Reducing costs: Reducing input and interest costs and working capital cycles.
- ✓ Market development: Looking at markets without India was an integral part of the turnaround strategy.
- ✓ The platform approach: Sharing the manufacturing system, thereby reducing cost.

SUCCESSFUL V/S UNSUCCESSFUL TURNAROUNDS

There are many questions regarding the causes of decline of individual firms and the turnaround process. How does it happen? What kind of people achieve it? How many people are involved? What skills are necessary? What character traits are present? What resources are employed? How long does it take?

To the benefit of this inquiry, considerable research on turnaround management has already been conducted, and this research can be used as a foundation for further examination of the turnaround process. In addition, there have been many successful and unsuccessful attempts at rescuing companies facing economic stress and much can be learned by studying previous attempts. A more detailed comparison of both successful and unsuccessful turnaround attempts over longer periods of time should allow us to gather some insights into how individual companies either failed or recovered.

While the various sectors and industries may be significantly different from other industries, during a period of crisis, all industries have common concerns. These concerns usually involve questions about **productivity, quality, integrity, and managerial training and experience**. There are three key factors required to make the turnaround, a success story: (1) a low cost operation, (2) differentiated products, and (3) quality of leadership.

- ✓ Successful turnarounds often experienced more dramatic initial declines in revenue and deeper loss rates than unsuccessful turnarounds did.
- ✓ Unsuccessful firms were less severely affected by dramatic downturns but declined gradually many years.

- ✓ Successful turnarounds were much more proficient in manufacturing efficiency and product development than were the unsuccessful cases.
- ✓ Most successful turnaround agents were product people or engineers and had extensive experience in the industry in question.
- ✓ Unsuccessful turnarounds were more likely to be head marketing or finance people who had comparatively little experience in the industry.
- ✓ Successful turnarounds usually involved constant incremental improvement and focused on operational issues.
- ✓ Unsuccessful turnaround attempts often involved major dramatic shifts in products, businesses, or markets served.
- ✓ Successful turnaround agent able to instill values, they reduced their own compensation during periods of crisis, and they shared credit for accomplishments with others. Unsuccessful turnaround agents generally did not exhibit these characteristics.

TWO TURNAROUND CONTRASTS

Prof. Pradip N Khandwalla, the well-known turnaround management expert and former professor and director at Indian Institute of Management, Ahmedabad, elaborates on the forms of turnaround management and shows how turnaround can be achieved by contrasting approaches.

Turnarounds can differ drastically between companies. Consider, for example, the case of ***Scott Paper*** of the US, an old and established company with annual sales of $5 billion, the company saw losses during 1991-93 and declining sales. ***John Dunlap*** was brought in as CEO in April 1994. During his first five days in office, he dissolved the management committee, fired nine out of 11 top executives, destroyed all previous strategic plans and brought in three of his own people. Over the next few months 40 per cent of the employees were asked to go home, and this included 70 per cent of the staff at corporate headquarters.

The CEO disposed of about $4.6 billion worth of assets, paid off debts and invested some of that money in the market to keep the Scott stock at respectable levels. Scott turned profitable in under a year. Kimberly-Clark bought it out for over $7 billion and the CEO made good money from stock options.

Contrast this with the creative turnaround at ***Siemens-Nixdorf***, Germany. Siemens-Nixdorf, an InfoTech company, fell sick in the early '90s and had 40,000 employees. ***Gerhard Schulmeyer*** of ABB was brought in as CEO in October 1994 to turn the company around. He met some 9,000 employees and stakeholders even before taking over, and his diagnosis was that the company needed a mindset change to thrive in the dynamic IT industry in which it operates. It needed an entrepreneurial, customer-focused and teamwork-oriented culture, and he wanted the mindset change in just two years.

Talking to potential change agents like the heads of HR, corporate communications and corporate strategy, he asked them to identify more such change agents. Thirty were identified, who brainstormed for three days and developed a 19-point agenda. Another 300 opinion leaders were roped into the transformation, and 60 consensus issues for action emerged at a workshop.

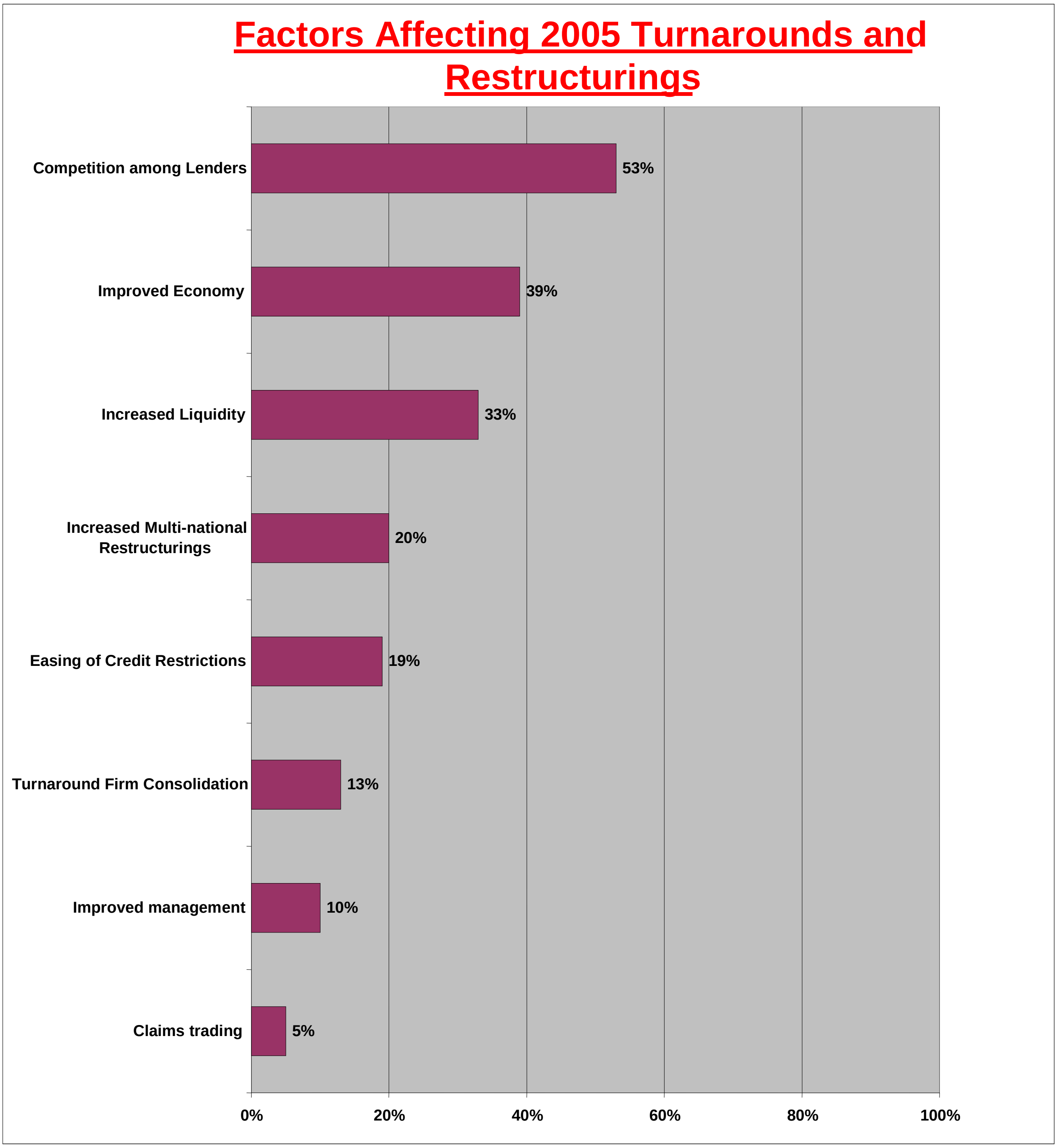
Each such action was assigned to a project leader, who recruited his/her own team for it. Eventually 2,000 change agents were identified. Many such change agents were sent to a 13-week exposure in the US to pick up the Silicon Valley approach to entrepreneurial culture. The CEO created 2,000 profit centres with the trained change agents heading those.

Twice monthly, transformation programme developments were discussed company-wide and new developments flashed on e-mail. Initiatives were often implemented by teams autonomously. The result was the company broke even in 1995, and in 1996 it had made a 550 million DM profit on sales of 15,400 million DM.

These examples serve as excellent lessons for India Inc, which often grapples with the challenge of turnaround without a sound strategy for the nature of the problem at hand.

TURNAROUNDS: THE GLOBAL SCENARIO

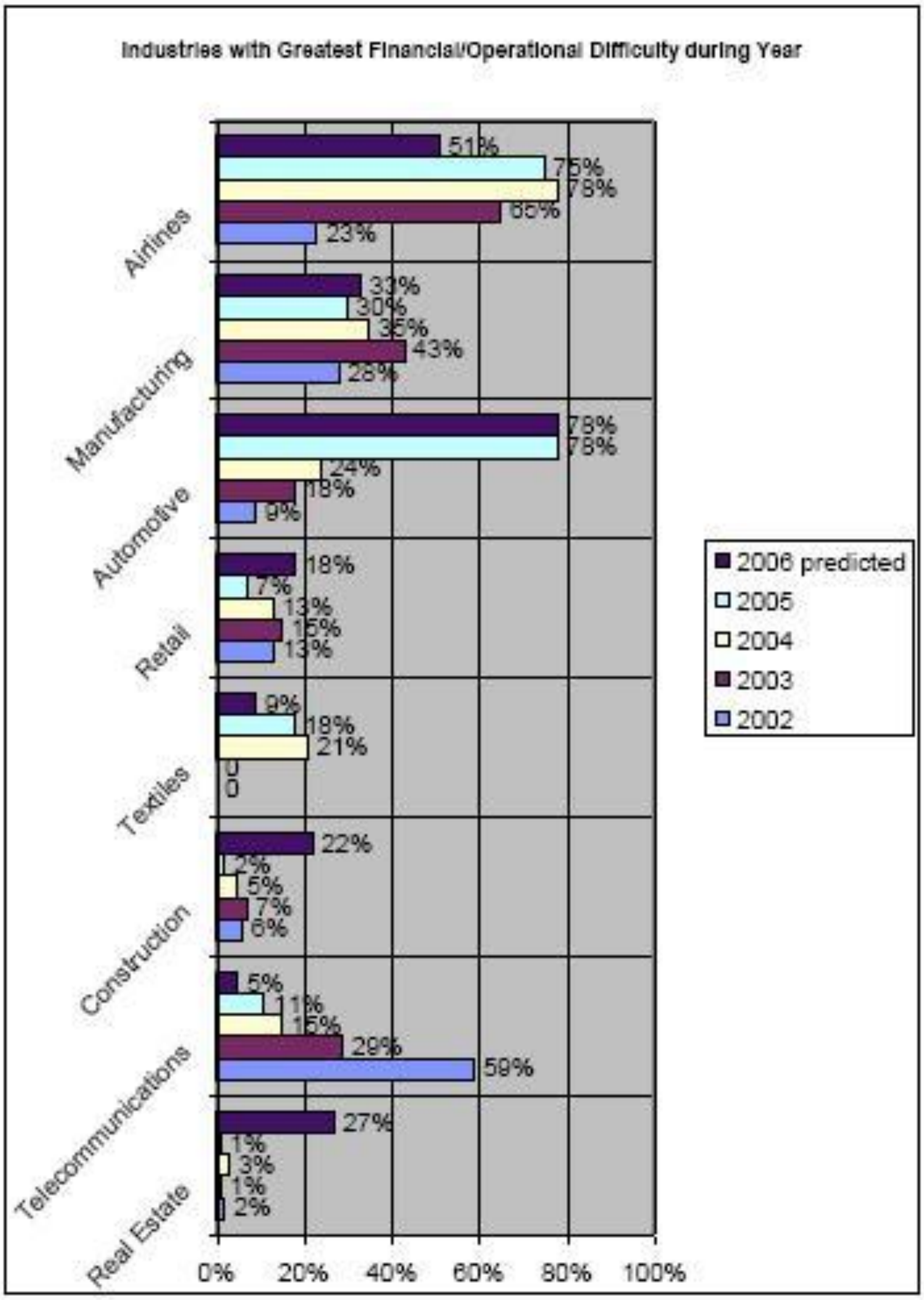
A global survey was made by **Turnaround Management Association** regarding various aspects of Turnarounds and Restructuring. The following are the results of the research and survey.

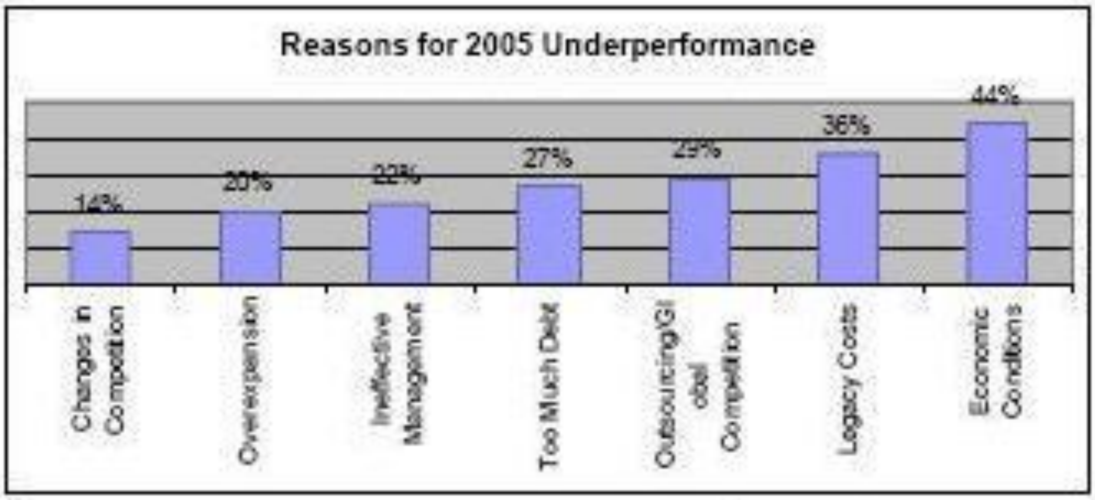


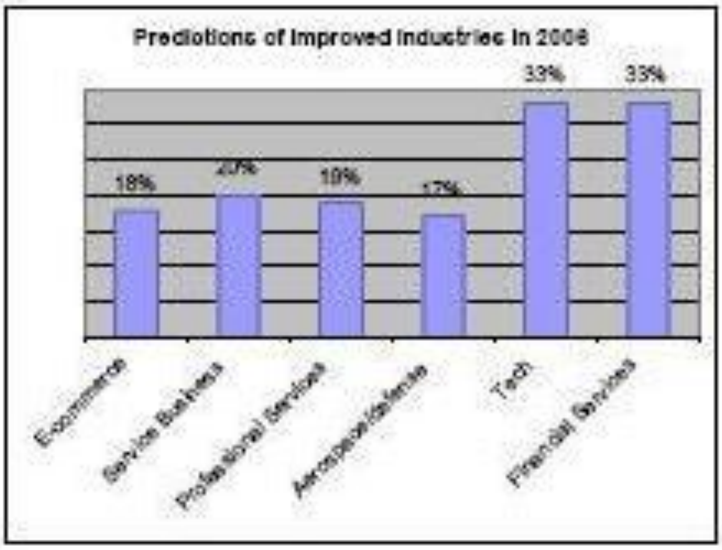
These charts show corporate renewal professionals' experience during 2005 within industry sectors and predictions for most troubled industries and recovery projections for 2006. Results show the trends over the past four years.

Source: Turnaround Management Association

Troubled Industries




Reasons for 2005 Underperformance
14%
20%
22%
27%
29%
36%
44%
Changes in Competition
Overexpension
Ineffective Management
Too Much Debt
Outsourcing/Global Competition
Legacy Costs
Economic Conditions


Predictions of Improved Industries in 2006
18%
20%
19%
17%
33%
33%
Tech

STAGES OF A TURNAROUND

There are five stages to a turnaround. The whole turnaround journey of any firm is based on how these five steps are handled. Right from the period the profitability begins to decline, the company should be alerted. The company is still considered profitable at this point, but losing ground. Even after this, still if the company reaches the period of crisis, at this point the company needs to turnaround. This is a situation of a decline in profits (even negatives), a fall in market share and the company's poor cash situation. The following symptoms are the indicators of a period of crisis:

- ***Profitability has declined*** from the previous 4-year average for a period of at least 1 year and profitability should not only be low but slipping.
- ***Profitability is either negative or significantly below the industry average*** and there are instances when other competitors are clearly able to achieve higher profit rates selling similar products.
- ***Real revenue has declined*** represents a measure taken after adjustment for inflation to eliminate the instances where revenue increases solely because of inflation while actual business levels are down.
- ***Market position is deteriorating*** as represented by a loss in market share, a decline in the number of key distributors or dealers, or price erosion in the company's products.
- ***Investors, board members, or managers express concerns*** regarding the condition of the company, and initiate actions in response to these concerns. These concerns commonly coincide with deterioration in the company's cash position to the point that satisfaction of cash obligations is difficult.

The above criteria, along with other subjective information about the individual case, can help us make a judgment about whether we are dealing with a true turnaround situation or a more routine business fluctuation. The stages in the Turnaround Strategy are as follows:

Stage One : Changing the management

Most CEOs or company presidents don't relinquish power easily. Often their egos make it hard for them to admit such a downturn is really happening or that they are unable to pull the company out of its nosedive. So, usually the first step is to put into place the top management team who will lead the turnaround effort. In many instances, the board of directors selects and hires the turnaround specialist, although others such as bankers and corporate attorneys may also be involved. As an outsider rather than a corporate insider, the turnaround specialist enters the company carrying no political baggage. ***The change may be in the management team or in the attitude of the management team***.

During this stage or after Stage Two—situation analysis—steps are taken to weed out or replace any top managers, which may include the CEO, CFO or weak board members, who might impede the effort.

Stage Two : Analyzing the situation

Before the management makes any major changes, he or she must determine the chances of the business's survival, identify appropriate strategies and develop a preliminary action plan. This means the first days are spent ***fact-finding and diagnosing the scope and severity of the company's ills***. Is it in imminent danger of failure? Does it have substantial losses but its survival is not yet threatened? Or is it merely in a declining business position? The first three requirements for viability are analyzed: one or more viable core businesses, adequate bridge financing and adequate organizational resources. A more detailed assessment of strengths and weaknesses follows in the areas of competitive position, engineering and R&D, finances, marketing, operations, organizational structure and personnel.

In the meantime, various stakeholders are to be handled. The first is various creditors who may have been kept in the dark about the company's financial status. Employees are confused and insecured. Customers, vendors and suppliers are wary about the future of the firm. The management must be open and frank with all these audiences.

Once the major problems are spotted and identified, the professionals develops a strategic plan with specific goals and detailed functional actions. They must then sell it to all key parties in the company, including the board of directors, management team and employees. Presenting the plan to key parties outside the company—bankers, major creditors and vendors—should regain their confidence.

Stage Three : Implementing an emergency action plan

When the condition of the company is critical, the plan is simple but drastic. At this time severe steps are taken; employees are laid off or entire departments eliminated. After sizing up the situation objectively, the skilled turnaround leader makes these cuts swiftly.

Cash is the lifeblood of the business. A positive operating cash flow must be established as quickly as possible and enough cash to implement the turnaround strategies must be raised. Often, unprofitable divisions or business units are unloaded. Frequently, the turnaround leader will apply some quick, corrective measures before placing them on the market. If the unit fails to attract a buyer in a given time frame, liquidation occurs.

The plan typically includes other financial, marketing and operations actions to restructure debts, improve working capital, reduce costs, improve budgeting practices, correct pricing, prune product lines and accelerate high potential products.

The status quo is challenged and those who change as a result of the plans are rewarded and those who don't are sanctioned. In a typical turnaround, the new company emerges from the operating table, a smaller organization but no longer losing cash.

<u>Stage Four : Restructuring the business</u>

Once the loss has stopped, the losing divisions sold off and the administrative costs cut, turnaround efforts are directed toward making current operations effective and efficient. The company must be restructured to increase profits and return on assets and equity.

In many ways, this stage is the most difficult of all. ***Eliminating losses is one thing, but achieving an acceptable return on the firm's investment is another***. The financial state of the core business of the company is particularly important. If the core business is irreparably damaged, then the outlook is bleak. If the remaining corporation is capable of long-term survival, it must now concentrate on sustained profitability and the smooth operation of existing facilities.

During the turnaround, the product mix may have changed, requiring the company to do some repositioning. Core products neglected over time require immediate attention to remain competitive. In the new, leaner company, some facilities might be closed; the company may even withdraw from certain markets or target its products toward a different niche.

The "people mix" becomes more important as the company is restructured for competitive effectiveness. Reward and compensation systems that reinforce the turnaround effort get people to think "profits" and "return on investment." Survival, not tradition, determines the new shape of the business.

Stage Five : Returning to normal

In the final step of the turnaround, the company slowly returns to profitability. While earlier steps concentrated on correcting problems, this one focuses on institutionalizing an emphasis on profitability, return on equity and enhancing economic value-added. For example, the company may initiate new marketing programs to broaden the business base and increase market penetration. The company increases revenue by carefully adding new products and improving customer service. Strategic alliances with other world-class organizations are explored. Financially, the emphasis shifts from cash flow concerns to maintaining a strong balance sheet, long-term financing, and strategic accounting and control systems.

This final step cannot be successful without a psychological shift as well. Rebuilding momentum and morale is almost as important as rebuilding the ROI. It means a rebirth of the corporate culture and transforming the negative attitudes to positive, confident ones as the company maps out its future.

THREE KEY FACTORS OF A SUCCESSFUL TURNAROUND

The general proposition advanced here is that a successful business turnaround involves improving the company's position as a low-cost provider of increasingly differentiated products and the products and services, along with the nurturing of an appropriate turnaround organization which is competent, possesses industry-oriented technical expertise, and employs a general sense of fair play in dealing with employees, creditors, suppliers, shareholders, and customers. Successful turnarounds involve this very special form of leadership.

A more detailed description of the model being described is that successful turnarounds are a function of three principal factors:

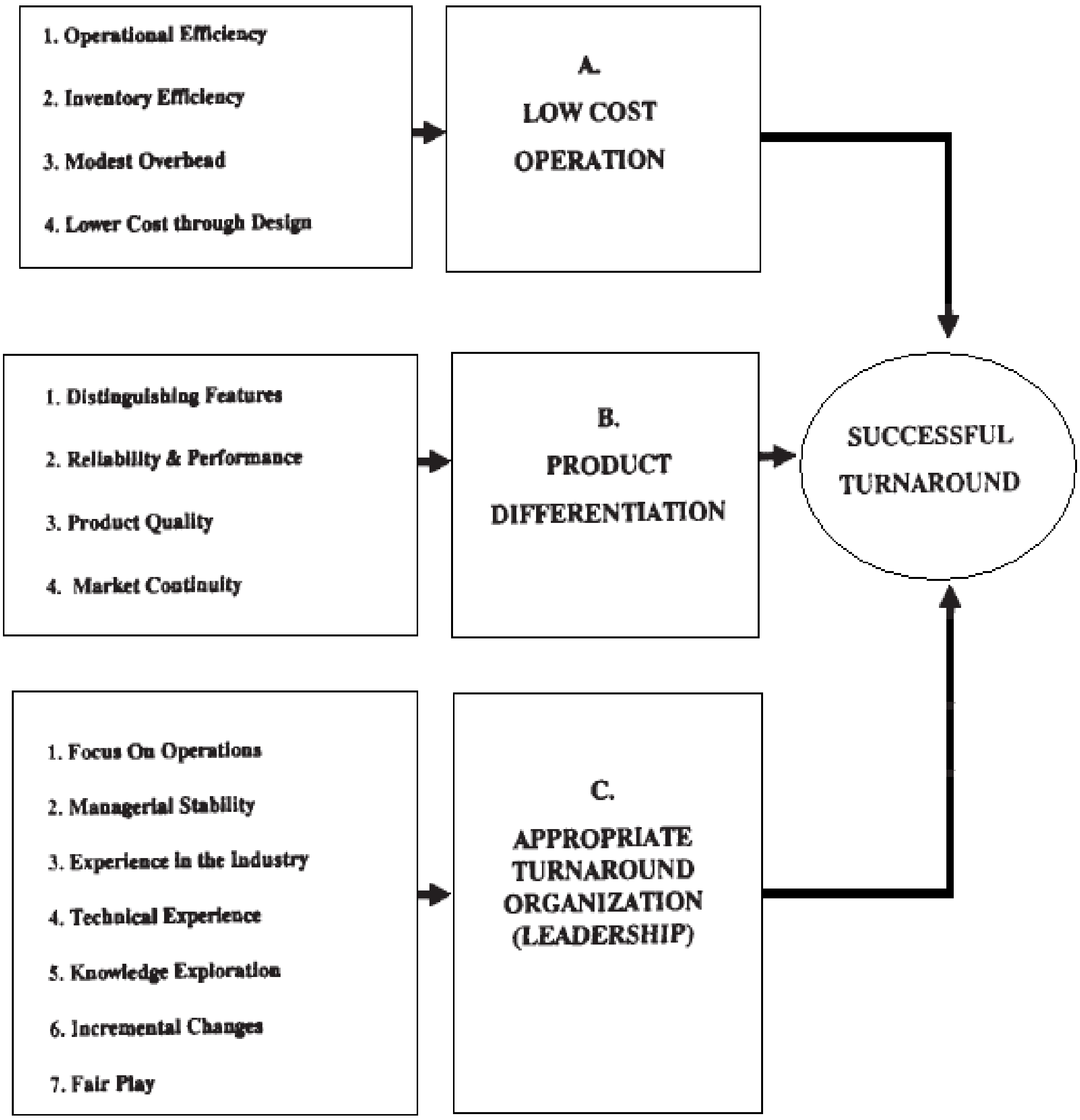
- ✓ A strategy that focuses primarily on improving the firm's effectiveness as a ***low-cost operator***. Low-cost operation implies the design of products for manufacturability, the attainment of high rates of manufacturing and inventory efficiency, and the containment of overhead costs to below industry levels.
- ✓ A strategy that focuses at a later stage on improving the firm's effectiveness as provider of increasingly ***differentiated products***. Producing differentiated products implies products with distinguishing features, high reliability, and significant performance, exceptional product quality, and the development of long-term continuity with the markets being served so that product differentiation can be recognized by potential buyers.
- ✓ ***Leadership*** involves turnaround agents who have significant experience in the industry being served and in some technical function such as manufacturing or engineering, and have a major propensity to focus on operational issues such as manufacturing, product development, and sales. Successful turnaround agents tend to have longer term associations with the

company and make incremental changes based on information which is appropriate to the decisions being made. Successful turnaround agents enjoy generally favorable personal reputations and employ a sense of fair play in dealing with employees, creditors, suppliers, and customers, and focus intensely on the important operational questions that are pertinent to the business the firm is in at the time.

Apart from these three key factors, the other most important factor are the **Turnaround Agents**. Turnaround agents are those individuals or groups of individuals most involved in directing the turnaround attempt during the period of recovery. In most cases, the chief turnaround agent is the firm's chief executive. However, many people are involved in leadership roles in the most successful turnaround cases. One person may receive the bulk of the publicity but a more thorough examination will reveal that team efforts, rather than singular leadership, are really responsible for the restoration of company health. We, therefore, must distinguish between the chief turnaround agent, such as Lee Iacocca in the case of Chrysler, and the other very important additional turnaround agents, such as Hans Matthias of manufacturing, Hal Sperlich of product development, Douglas Fraser of the United Auto Workers, or Gerald Greenwald of finance who played crucial roles in restoring the competitive strength of the firm. The turnaround process involves many essential steps and seldom can total success or failure be attributed to any single individual.

FRAMEWORK OF A SUCCESSFUL TURNAROUND

Many successful turnarounds possess all the sub elements for a particular major factor such as low-cost operation or product differentiation, but some employ different combinations of sub elements to achieve turnaround success. Again, it must be emphasized that even the best executed turnarounds are seldom effective in every respect. Similarly, unsuccessful turnarounds rarely fail in every respect. Turnarounds are a mixture of hundreds of partially developed successes and failures with the successful firms being more thorough and consistent.



<u>Strategy: Low-cost operation</u>

i. ***Operational efficiency:***

Operational efficiency refers to the amount of work that gets done in a day. General efficiency is required in all aspects of the organization, not just production. But, production efficiency relates keenly to the competitive edge of the firm and delineates the importance of well-organized factories. Operational efficiency implies modern up-to-date equipment, the systematic layout of production space, well-trained managers and workers, and other factors that relate to general efficiency.

ii. ***Inventory efficiency:***

Inventory efficiency is the ability of a firm to produce and sell higher amounts of a product, generating more revenue from lower levels of on-hand inventory. It has too large an impact on cash flow and overall efficiency to be considered a subset of more general operational efficiency. Production efficiency and inventory efficiency are often pursued as separate objectives; it is not uncommon for a firm to achieve one without the other. Successful firms tend to achieve both, however.

iii. ***Modest overhead:***

As measured in terms of percent expense to revenue, successful turnaround companies spend significantly ***less money on non-cost-of-sales expense*** than unsuccessful companies. Successful firms generally have a widespread reputation for frugality; operate with small central staffs, and spurn excessive spending on personal embellishments and expensive travel. In contrast, unsuccessful firms often spend large amounts of money on items not directly related to what the customer was buying, the product.

iv. Low Cost through Design:

Successful firms systematically design products (and services) to be produced (and delivered) at low cost. Efforts aimed at the ***reduction of product cost through design*** is an essential tactic if profits are to be improved. Effective turnaround managers understand production processes well and insist that product design and production capability interact with one another to achieve an enhanced competitive position. In contrast, management of unsuccessful turnarounds treat manufacturing more as an afterthought and less as a proactive competitive force. Difficulties with the manufacturability of specific products have contributed to the demise of some of the largest industrial firms in the United States. The commonality of component parts is a meaningful factor in achieving low-cost operation, and successful firms often have programs to utilize common component parts in the manufacture of several models -after the products themselves are designed for lower cost.

Strategy: Product Differentiation

i. ***Differentiating Features:***

In order for customers to be attracted, the product must possess distinguishing features. Successful companies field products customers need, products often created through a blend of competent technical research and ongoing familiarity with customers. Unsuccessful companies offer products that can be sold, but unfortunately, they cannot always be sold with sufficient margin during all economic periods. Successful turnaround companies offer innovative well-tested features which are introduced to the market in sync with or slightly ahead of emerging market trends. In contrast, unsuccessful companies offer "me too" products or, in some cases, products with substantial negative features.

ii. ***Reliability and Performance:***

Some products do not do enough for the customer, for periods that are long enough to secure repeat business. Successful companies ensure that their products perform at levels beyond what the customer is expecting and that the products are reliable enough to continue performing for long periods of time. The products of unsuccessful companies either do not meet customer expectations or do so for short periods and then wear out.

iii. ***Product Quality:***

Many companies fail simply because their products are simply not good enough to effectively compete in world markets. They are able to sell a few products in good times but suffer acutely when times are bad. At successful companies, product quality is actively managed and constantly improved even if it is already the best in the industry. At unsuccessful companies, product quality is assumed to be good, but nobody checks for sure.

iv. Market Continuity:

Market continuity can be briefly described as the predisposition of the firm to focus on providing products for one very familiar market before expanding into any new markets or into other new activities. Successful firms work very hard to remain familiar to their historical customers and they avoid making changes that are confusing to customers. Unsuccessful firms often jump from one market niche to another or into altogether new markets, all without much success while neglecting their mainline businesses. They allow competitors to exploit their historical markets.

Strategy: Appropriate Turnaround organization (Leadership)

i. ***Focus on Operations:***

Focus on operations can be described as the propensity to focus on operational problems such as production cost, product quality, customer satisfaction and short-term sales. Unsuccessful firms stray away from day-to-day operational issues to acquisitions, divestitures, poorly thought-out expansion, politics, entertainment, or other matters which are either less immediate or else totally unrelated to the firms' present business.

ii. ***Managerial Stability:***

Because of the long-drawn-out nature of the turnaround process, managerial stability is often present among successful turnaround cases while instability and internal political turmoil often characterize failure. Most successful turnarounds involve a top-management team that is essentially constant for at least 7 or 8 years following the period of crisis. Unsuccessful firms have frequent managerial changes, sometimes even when progress is being made.

iii. ***Experience in the Industry:***

The evidence is quite strong that those who head successful turnaround efforts have vast experience in the industry being served while those who head unsuccessful attempts commonly do not.

One reason why experience may be powerful as a determinant of success is because so much of what needs to be known is unique to particular processes, competitors, suppliers, customers, or individual people within an industry. Broad managerial concepts are rarely sufficient for the short time available for a turnaround. Detailed, industry-specific knowledge is almost always required.

iv. *Technical Experience:*

It is a mistake to assume that all problems can be solved with the application of management principles. Some problems are technical problems. Technical experience is common in the backgrounds of successful turnaround agents and is often lacking in those who fail. Empirically, successful turnaround agents frequently have engineering or manufacturing backgrounds either by education or by virtue of many years of experience in manufacturing or engineering positions.

Unsuccessful turnaround agents are more likely to have backgrounds in finance or marketing. Perhaps more accurately, successful turnaround agents understand how to make money in physical, people, process, and customer terms. They understand more about the inner workings of their companies.

v. *Knowledge exploration:*

Knowledge exploration is a concept difficult to measure, but meaningful to turnaround success. Decision making in unsuccessful turnarounds is frequently too intuitive, often lacking an essential knowledge base, and insufficiently grounded in fact. Successful firms are more studious about obtaining the information necessary for good decisions; they do not simply rely on information that is available. Successful companies arrange to gather, or to know, the information critical to making key strategic decisions. Unsuccessful firms frequently have significant gaps in their information and are disinclined to seek external information that is needed. Suboptimal decisions made on the basis of inaccurate, but available, information were very costly and contributed to the ultimate demise of very large firms. Successful firms overtly seek information necessary for appropriate decisions.

vi. ***Incremental changes:***

Gradual and consistent incremental improvement is the managerial style of successful turnarounds. Improvements are made one day at a time by improving one thing at a time. Great changes in corporate strategy are discussed only rarely at the meetings of successful companies. What is discussed are letters of complaint from dealers or customers, ideas presented by employees as to how products or quality can be improved. Gradual and constant incremental improvements, interspersed by occasional major improvements, provide the framework for successful companies to constantly progress. The rate of change is not linear. Periods of relative stabilization and consolidation follow periods of major innovation. Successful companies "do common things uncommonly well" and once in a while, they do something that is wonderful. Incremental change extends far beyond product changes to the process of organizational learning as old values are used as a foundation for new values and beliefs. The subtle mechanisms of change resistance are well understood by successful turnaround agents who show more appreciation for the positive contributions of people who may have been with the organization at the time problems developed. In contrast, unsuccessful firms make abrupt, drastic changes in plant location, markets served, products, and the makeup of management teams.

vii. ***Fair play:***

Though fair play is a very difficult concept to measure, proxy indicators indicate that successful turnaround agents are generally perceived as dealing fairly with employees, creditors, suppliers, and customers. Successful turnaround agents commonly know many employees on a first-name basis and tend to nurture long and mutually beneficial relationships with them. Often, the executive corps at successful companies take substantial compensation reductions during periods of economic difficulty as the first step in programs or retrenchment. As a counter example, unsuccessful turnaround executives often extract too much compensation at times when employees are being asked for greater personal sacrifice. Equity theory, commitment theory, and historical writings in the field of management provide some theoretical basis for the relevance of fair play as a variable in organizational performance. In addition to the internal considerations, fair play by successful companies often extends outside the firm to suppliers and other members of the general community.

SICK INDUSTRIAL COMPANIES ACT, 1985

In the wake of sickness in the country's industrial climate prevailing in the eighties, the Government of India set up in 1981, a Committee of Experts under the Chairmanship of ***Shri T.Tiwari*** to examine the matter and recommend suitable remedies therefore. Based on the recommendations of the Committee, the Government of India enacted a special legislation namely, the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986) commonly known as the SICA.

The main objective of SICA is to determine sickness and expedite the revival of potentially viable units or closure of unviable units (unit here in refers to a Sick Industrial Company). It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

The Sick Industrial Companies (Special Provisions) Act, 1985 (hereinafter called the Act) was enacted with a view to securing the timely detection of sick and potential sick companies owning industrial undertakings, the speedy determination by a body of experts of the preventive, ameliorative, remedial and other measure which need to be taken with respect to such companies and the expeditious enforcement of the measures so determined and for matters connected therewith or incidental thereto.

The Board of experts named the ***Board for Industrial and Financial Reconstruction (BIFR)*** was set up in January, 1987 and functional with effect from 15th May 1987. The Appellate Authority for Industrial and Financial Reconstruction (AAIRFR) was constituted in April 1987. Government companies were brought under the purview of SICA in 1991 when extensive changes were made in the Act including, inter-alia, changes in the criteria for determining industrial sickness.

SICA applies to companies both in public and private sectors owning industrial undertakings:-

a) pertaining to industries specified in the First Schedule to the Industries (Development and Regulation) Act, 1951, (IDR Act) except the industries relating to ships and other vessels drawn by power and;
b) not being "small scale industrial undertakings or ancillary industrial undertakings" as defined in Section 3(j) of the IDR Act.
c) The criteria to determine sickness in an industrial company are (i) the accumulated losses of the company to be equal to or more than its net worth i.e. its paid up capital plus its free reserves (ii) the company should have completed five years after incorporation under the Companies Act, 1956 (iii) it should have 50 or more workers on any day of the 12 months preceding the end of the financial year with reference to which sickness is claimed. (iv) it should have a factory license.

The ***objectives*** of this Act (SICA) as incorporated in its preamble, emphasizes the following points:

- ✓ The SICA had been enacted in the public interest to deal with the problems of industrial sickness with regard to the crucial sectors where public money is locked up.
- ✓ It contains special provisions for timely detection of sick and potentially sick industrial companies, speedy determination and enforcement of preventive, remedial and other measures with respect to such companies.

- ✓ Those measures are to be taken by a body of experts. The measures are mainly: Legal, Financial restructuring, Managerial.

BOARD FOR INDUSTRIAL AND FINANCIAL RECONSTRUCTION

In India, The rehabilitation package for sick units is administered by the Board for Industrial and Financial Reconstruction.

Section 15 / 22 of BIFR act states that if a company has a 100% / 50% erosion of net worth and cash loss in 2 successive years both occurring simultaneously then it should be referred to the BIFR for rehabilitation. Further, the company should be in existence for 3 years. It works under the purview of SICA, 1986.

BIFR appoints operating agencies to prepare revival scheme under SICA guidelines.

List of Operating Agencies (OAs)

INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)

INDUSTRIAL RESERVE BANK OF INDIA

INDUSTRIAL FINANCIAL CORPN. OF INDIA

INDUSTRIAL CREDIT INVESTMENT CORPN. OF INDIA (ICICI)

STATE BANK OF INDIA

CANARA BANK

PUNJAB NATIONAL BANK

BANK OF INDIA

CENTRAL BANK OF INDIA

BANK OF BARODA

INDIAN BANK

STATE BANK OF BIKANER AND JAIPUR

UCO BANK

UNION BANK OF INDIA

UTTAR PRADESH FINANCE COORPORATION

STATE BANK OF HYDERABAD

STATE BANK OF INDORE

STATE BANK OF MYSORE

STATE BANK OF PATIALA

STATE BANK OF SAURASHTRA

STATE BANK OF TRAVANCORE

DENA BANK

SYNDICATE BANK

ALLAHABAD BANK

BOARD OF INDUSTRIAL AND FINANCIAL RECONSTRUCTION YEARWISE PERFORMANCE (as on 31.12.04)

Year	Total Cases Registered during the Year	Cases Disposed off during the Year			
		Cases under Revival	Cases Revived	Winding up Recommended	Dismissed
1	*2*	*3a*	*3b*	*3c*	*3d*
1987	311	0	0	0	8
1988	298	0	1	12	29
1989	202	0	1	31	78
1990	151	3	3	43	44
1991	155	3	4	47	28
1992	177	3	7	30	42
1993	152	6	13	64	59
1994	193	7	38	79	48
1995	115	13	25	63	29
1996	97	19	92	85	25
1997	233	5	35	85	21
1998	370	7	21	50	36
1999	413	7	10	64	69
2000	429	5	37	151	153
2001	463	28	47	129	114
2002	559	52	33	135	247
2003	430	54	40	145	260
2004	399	47	29	89	87
TOTAL	5147	259	436	1302	1377

REGISTRATION OF PSUs (as on 31.12.2005)*

Year	Central PSU (Rs crores)				State PSU (Rs crores)			
	Total Cases	Net worth	Acc. Losses	Workers	Total Cases	Net worth	Acc. Losses	Workers
1992	38	2063.63	7230.43	123639	33	679.22	1642.18	154010
1993	9	249.78	1920.70	89222	26	154.26	596.76	36757
1994	8	495.63	1268.67	40996	8	252.97	399.68	17877
1995	4	1358.51	1668.73	122305	12	450.17	563.53	18002
1996	2	4.89	6.92	4595	5	36.36	97.89	7927
1997	4	47.08	102.40	2490	3	10.90	26.36	907
1998	4	1156.92	1393.21	135955	5	225.04	365.60	2200
1999	3	104.85	222.35	3198	7	61.77	120.33	3386
2000	2	2224.03	2208.17	115621	2	10.10	73.28	310
2001	2	256.13	2798.77	97812	1	14.69	19.09	1174
2002	5	1022.59	1590.70	12993	7	200.20	333.06	5927
2003	2	78.81	123.76	1123	7	276.76	400.53	5781
2004	5	641.14	1512.97	22444	3	74.20	657.40	2726
2005	2	1458.51	2373.00	1604	3	1220.62	1288.42	848
TOTAL	90	11162.50	24420.78	773997	122	3667.26	6584.11	257832

* As indicated in the definition of "Company" under SICA by Act 57 of '1991'

Short comings of BIFR

- BIFR does not have powers to instruct any authority, Banks, FI or company.
- Only if there is a consensus, on a scheme can BIFR pass orders.

Revival measures

1. Working with concessions as per SICA act.
2. Merging with profitable unit, and claiming Sec 72A
3 Change in management.
4. Introduction of new value added products.
5. Conversion of debt to equity.
6. Controlling costs.
7. One time settlement of debt, funded interest etc.

<u>THE CHRYSLER STORY</u>

Introduction to the company

Chrysler was a truly American company with engineering skills as its strength. Chrysler Automobiles was the smallest of the "Big Three" (the other two being Ford and General Motors of course). It had a subsidiary financial company, "Chrysler Financial" which provided credit to both the retail customers and the dealers. Innovation was also one of its strengths and was evident in its products. Newer generation fancied a Chrysler car initially. Chrysler had to its credit many great super fast cars (Dodge Daytona, Chrysler 300 Series and the Road-Runner) which targeted the youth, especially in California.

The smallest and less internationalized of the 'Big Three' was always centered in North America, had its main production sites in the Detroit region and the attempts to follow the internationalization paths of GM and Ford in the late 1960s failed (engagements in French Simca, British Rootes and Spanish truck maker Barreiros). Another failed follow-the-leader strategy was the small car business where it depended on a single Mitsubishi cooperation model, the Dodge Colt.

The Chrysler story is much more turbulent with several existential crises (end of the 1970s and beginning 1990s) and some spectacular company reinventions. The turnaround after the last deep crisis 1992 converted Chrysler for several years into a model firm, "the world's hottest car company". The innovative designs, the successful niche models, the leading position in the growing light truck and minivan segments and the Chrysler Operating System made the company a demonstration object for the international business community.

Current Scenario

DaimlerChrysler Corporation, the US division of DaimlerChrysler AG, is proud of its German-American heritage. The company manufactures passenger cars, light trucks, and commercial vehicles. Passenger car and truck brands include Dodge, Chrysler, Jeep, and Mercedes. Commercial vehicle brands include Freightliner and Western Star.

The merger 1998

DaimlerChrysler AG was formed by the 1998 merger of Chrysler Corporation and Germany's Daimler Benz.

Similarities and differences with the Daimler-Benz trajectory: Chrysler shared some structural deficits with Mercedes, particularly the poor presence in overseas markets and the failed diversification experience. The merger conditions, therefore, seemed to be nearly ideal: two strong companies with complementary model ranges and competencies, sharing similar deficits and challenges- A Marriage made in heaven.

The Industry

The Automotive Industry, from the American perspective (in this case) is dominated by Toyota and Honda – Japanese Automotive Giants.

The merger of Chrysler and Daimler was thought to be a pair made in heaven, and since the deal was completed one half of the company or the other usually has been in trouble. Some wonder if the whole affair should be called off.

Industry players have their eyes placed on the largest automotive market – China. The industry leader, Toyota is slow and getting beaten up by the GM, Ford and even the Korean manufacturer Hyundai, industry watchers have their eyes stuck on its latest moves.

Why Turnaround?

During the late 1970s, there was nothing on the balance sheets of Chrysler that reflected glitches in its operations. The company's financial situation before the late 1970s was extremely severe and required dramatic steps in financial restructuring. When Lee Iacocca boarded the sinking ship as President in September 1979, the company announced third-quarter loss of almost $160 million, which was the worst deficit in its history. The company was falling short of working capital. There was total anarchy in the organization.

It had mini-empires within itself. There were 35 vice-presidents all with their own turfs. There was no order or discipline. There was no real committee setup, no cement in the organizational chart, no system of meetings. For example, there was no co-ordination between the engineering department and the manufacturing department. Even the sales and manufacturing divisions had glitches. They had the same vice-president which made it difficult for them to separately focus on their core activities independently.

- There was no financial control in the company. The accountants could not even provide numbers on the ROI that every plant gave!
- Wrong techniques of production were used. The company focused on expanding operations to Europe and newer regions rather than producing a better car.
- Owner loyalty dropped to 36% compared to Ford's 53% and GM at 70%

- Chrysler was selling less than 1.2 million cars compared to Ford's sales of 2.6 million and GM's 5.4 million
- Market Share in the American market had dropped from 12.2% to 11.1%
- Product Range was old and targeted old and uneducated class of people and there was a need for innovative luxury cars that could target the youth and the futuristic generation
- Quality of the products was bad
- Inventory management was pathetic at the factory's end. There was a need to sell cars for which dealer orders were not received. And sales needed to be done from the company's end to the dealers at dirt-cheap prices in order to empty the overload of inventory at the factories.

Challenges encountered

- It was one of the most complicated and ambitious turnarounds in history.
- Chrysler Corporation had to greatly improve:
    - Product quality
    - Develop and bring to market entirely new models of cars
    - Achieve more efficient production
    - Nurture the loyalty of key vendors
    - Mend fences with its anxious and depleted work force
    - Restore the confidence of its dealer network, all at lower cost
- Chrysler needed to:
    - Store the effectiveness of its
    - Dealer network
    - Dramatically reduce overhead costs
    - Trim losing operations
    - Make investments to raise cash

- Design cars that would sell before it could effect a full operational turnaround.

- Chrysler plants had to attain new levels of productivity and efficiency; all while workers and managers labored with reduced compensation.

The Process of Revival

- ✓ The loan guarantees and the financial restructurings set the stage for the revival of Chrysler Corporation.
- ✓ An extremely important element of the Chrysler turnaround strategy was the substantial reduction of cost. During the turnaround, Chrysler reduced costs from more than $16 billion to less than $10 billion. Adjusted for inflation, this represented a reduction of nearly 60 percent.
- ✓ Salaried and production staff was reduced in approximately the same proportion — each by about 50 percent.
- ✓ Worldwide, Chrysler employed more than 250,000 people in 1977(Moody's 1984). By 1983, Chrysler's employment was down to 97, 000.
- ✓ The Chrysler breakeven point was cut from 2.5 million cars to 1.2 million cars.
- ✓ To achieve this increase in productivity along with a simultaneous reduction in cost, Iacocca sought and received the cooperation of the United Auto Workers, then headed by Douglas Fraser. Fraser helped immeasurably in working out delicate arrangements with the union membership, in exerting political pressure to obtain approval of the bank guarantees, and in serving as a highly competent, savvy, and experienced company director
- ✓ Few people recognize the sacrifices made by the Chrysler workers during the turnaround of 1979 to 1982. Not only had employment been decimated by the layoffs instituted under Ricardo and Iacocca, but wage concessions amounting to hundreds of millions of dollars were agreed upon on two occasions and in some cases required as covenants to the loan guarantees. In

1982, the average hourly wage for Chrysler workers was approximately 80 percent of what it was for Ford and GM counterparts.

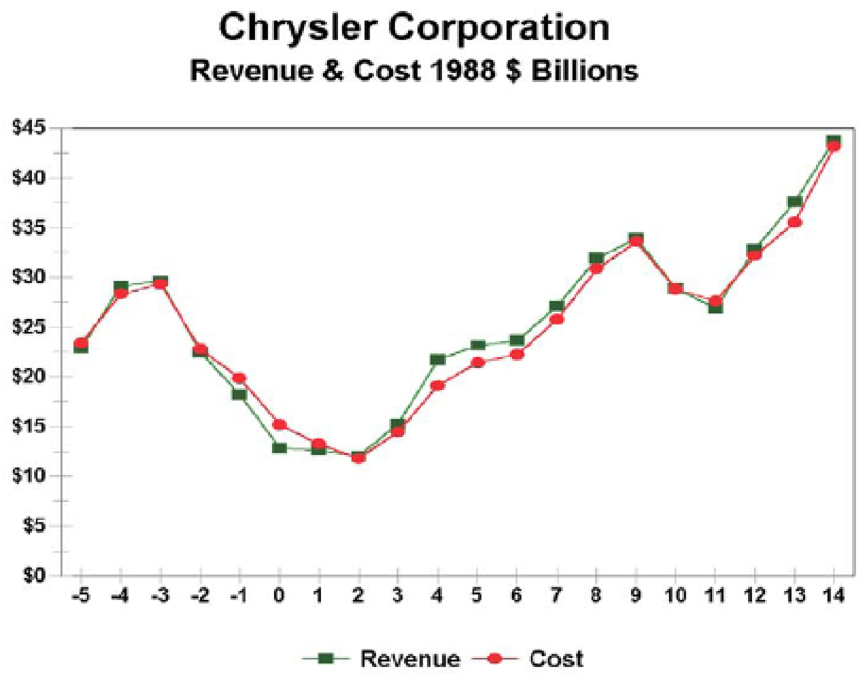
- ✓ Yet, even against considerable odds, and with a substantially reduced staff, the "new Chrysler Corporation" achieved its goals: Revitalizing its dealer network and bringing out a new family of cars on time. Chrysler's decision to concentrate production on one basic platform, thereby reducing the number of parts needed to produce a variety of automobiles, was key to achieving these goals.
- ✓ In 1984, the company produced more than 1.1 million cars and made a profit of $ 2.3 billion. Market share increased in 1984 and again in 1985. As can be seen from the Table below, there has been distinct improvement.
- ✓ This improvement was preceded by some financial restructuring, but the true strength of the turnaround lay in sound practices of manufacturing engineering, timely product development, wholesome working relationships with employees and vendors, and attention to the business the company was in at the time.
- ✓ The Chrysler turnaround of the 1980s ranks as one of the most ambitious in the history of the country because it involved a complete reorientation of product development, production, and finance as well as heavy coordination with both government and organized labor.

Chrysler Manufacturing Statistics 1980 and 1986

	1980	1986
Daily vehicle production (units per day)	4000/day	8000/day
Steel inventories at stamping plants (no. Of days' supply)	32.6 days	6.0 days
Assembly plant inventory turn ratio (sales to inventory)	16.8	47.5
Total inventory turn ratio (sale to inventory)	6.6	8.0
Number of faults/front-drive vehicle		Down 42%
Warranty work		Down 25%

Reference: *The Turnaround Experience*

Result of the Turnaround



Chrysler revenue and costs — 1975 to 1988 (1988 $). Chrysler survived the recession of the early 1980s because the company sustained continuity with its historical markets and then learned to produce quality products for these markets at reasonable cost. With massive sacrifices on the part of Chrysler professionals and workers, the company ascended from disaster to become a healthy contributor to American industry until the diversification programs of the late 1980s diverted resources from the firm's core business.

- ✓ Labor and management worked cooperatively in order to restore the health of Chrysler.
- ✓ Both labor and management played exemplary roles.
- ✓ Continuity was maintained with major historical markets.
- ✓ Costs were reduced to current levels of revenue. Revenue was not expanded to cover costs.
- ✓ Utilization of current resources to develop a new range of products (since a wide variety of products was produced from the same components)

- ✓ Operational efficiency dramatically improved.
- ✓ Inventory efficiency dramatically improved.

THE IBM STORY

Introduction to the company

International Business Machines Corporation (IBM) is an information technology (IT) company. The Company's major operations comprise a Global Services segment, Systems and Technology Group, a Personal Systems Group, a Software segment, a Global Financing segment and an Enterprise Investments segment. The majority of the company's enterprise business, which excludes the company's original equipment manufacturer (OEM) technology business, occurs in industries that are broadly grouped into six sectors: financial services, public, industrial, distribution, communications, and small and medium business (mainly companies with less than 1,000 employees). In December 2004, the Company acquired Danish companies Maersk Data and DMdata. In January 2005, IBM acquired SRD, a provider of identity resolution software.

The Industry

Even in times of economic uncertainty, software remains a significant component of the global economy, generating annual revenues of approximately $75 billion. The drive for greater efficiency and the increasing globalization of business markets spurs much of the spending, as companies must continue to invest in the hardware and software infrastructure that enables them to operate in increasingly competitive markets.

There are signs, however, that the software industry is maturing, especially when compared to the dizzying growth rates of the turn of the century. While there are bright spots of growth (including compliance software, open source software, security software, virus protection and anti-spam software, and business intelligence software), many specialized software industries have largely stalled out, including enterprise resource planning (ERP) software and customer relationship management (CRM) software. While many companies remain profitable (especially large, global software providers), there is an undeniable glut of companies chasing a revenue pool that has ceased to expand quickly enough to support them all.

Why Turnaround?

The mainframe business that accounted for more than 90% of IBM's business was deteriorating. What troubled Gerstner was that mainframes are indispensable in businesses like credit cards and airlines. A business that involves huge data processing cannot rely on PCs. They need mainframes for this. Hence, it was the price and not the product that mattered.

Employees were not sure whether it was their teamwork or their individual aspirations that sought top management's appreciation. Also, employees were apprehensive about issues like risk taking, consensus building, and corporate protocol.

Challenges encountered

- Reduce Prices
- Keep IBM intact and realize HR objectives

The Process of Revival

The turnaround process began with a thorough analysis of customer profiles and needs. The mainframe business that accounted for more than 90% of IBM's business was deteriorating. What troubled Gerstner was that mainframes are indispensable in businesses like credit cards and airlines. A business that involves huge data processing cannot rely on PCs. They need mainframes for this. Hence, it was the price and not the product that mattered. Gerstner recommended a price-reduction plan, which he thought was most essential to remain competitive. Until then, the company had maintained a very shortsighted view advocating that with lowered prices it would gather less profit and revenue.

The next issue was keeping IBM intact. As opposed to the views of many top management officials who were contemplating the division of IBM into smaller, supposedly manageable units, Gerstner maintained his stand. He was convinced that it wasn't wise to divide the company into units. From a customer's point of view, he felt it would be highly cumbersome to go through a plethora of suppliers and zero in on one. Gerstner believed that customers preferred a one-stop shop that offered all services at one door. "At the end of the day, in every industry there is an integrator," affirms Gerstner.

Culturing culture

Having worked on the external customer's perspective, it was now time for Gerstner to stimulate the turnaround internally. The culture at IBM posed the toughest challenge in the effort. When Gerstner took up the assignment, he found himself adrift in a company that had an unclear culture. Employees were not sure whether it was their teamwork or their individual aspirations that sought top management's appreciation. Also, employees were apprehensive about issues like risk taking, consensus building, and corporate protocol.

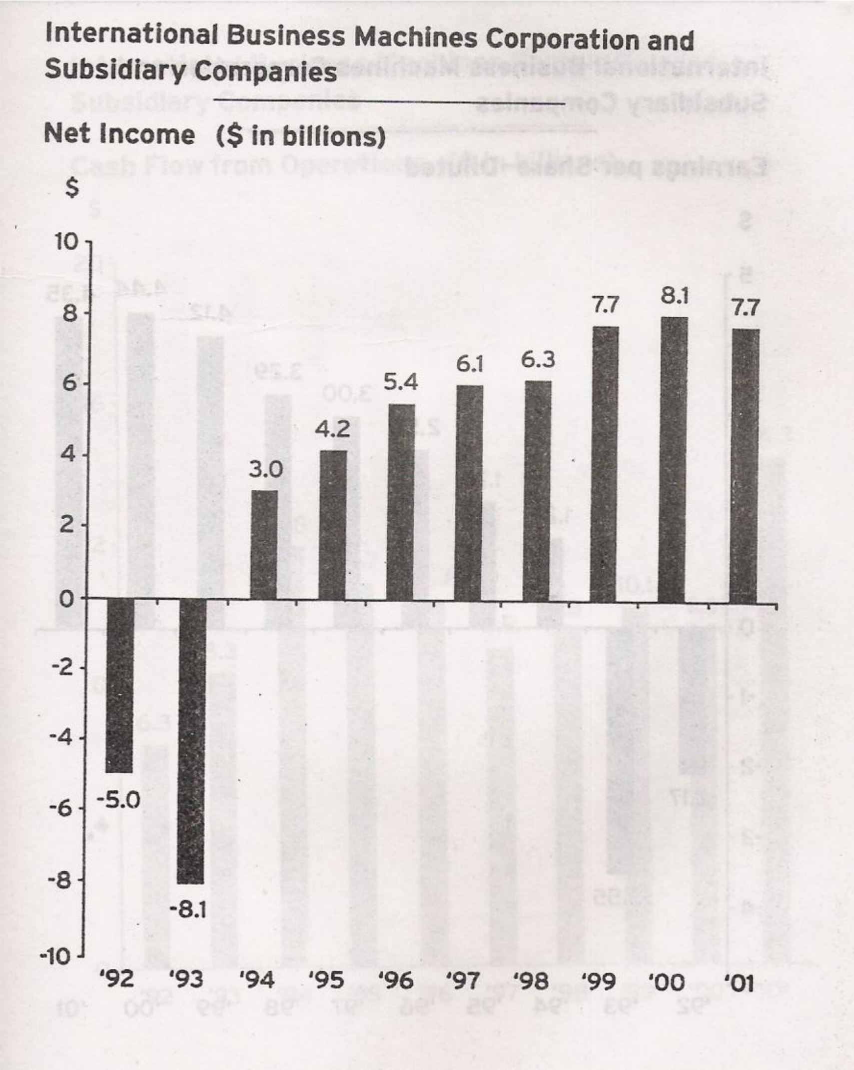
Another striking feature that figured on the "culture" list of IBM was the dress code. In one of his first meetings at IBM, Gerstner observed that all members were in stark white-collared shirts except him. He introduced flexibility in dress, giving employees the freedom to wear what made them most comfortable provided they adhered to decency. Gerstner viewed the dress code as an outward manifestation of severe internal problems that defined the IBM culture. The company was obsessed with internal rules and conflicts, each one trying to be one-upping over the other. Unhealthy competition among teams led to lost productivity. They spent more time debating transfer-pricing terms than incorporating a smooth product transfer system for employees.

He also observed a great amount of jealousy among employees, each one fiercely protecting his own privileges. Another shocking discovery was that the employees stationed in the European continent received only selected communication from Gerstner. Reason: the IBM head in Europe intercepted his e-mails. Gerstner confronted him and clarified that employees were not his personal property, they belonged to IBM.

Gerstner also worked on the "we are the best" attitude that employees reflected despite its faltering health. He attributed the attitude to the fact that IBM software was compatible only with IBM hardware. Customers were thus compelled to buy IBM products. However, with increased competition, there are better bargains that customers can get without having to rely on IBM. Gerstner facilitated the process of setting standards that would be compatible with competitor's products. Thereby business opportunities would increase. This called for a sea change in the traditional IBM setup. Gerstner achieved it by opening channels of communication and sending regular e-mails to employees across the globe keeping them abreast of the change process.

The compensation system was also revamped. The focus shifted to total corporate performance from unit performance. The criterion for picking up promotions was also reworked. Those in senior management at IBM were more accustomed to getting work done, than getting to work. Gerstner changed this too.

The Result of Turnaround



Louis V. Gerstner played the knight in the shining armor when he took over IBM, the world leader in providing services and solutions in advanced technology. It was in 1993 that Gerstner took up the challenging task of rebuilding the "elephant" of the corporate world. IBM was sclerotic, senile, and hemorrhaging when Gerstner started the Herculean task of cleaning the Aegean stables.

The company reported a loss of $8 billion dollars with the share value plummeting from a decent $43 to a heartbreaking $12. Economists and experts hardly expected IBM to survive. Competitors like Oracle publicly commented, "IBM? It's not dead, it's become irrelevant." One instance caused Gerstner to give the IBM offer a second thought. He almost declined the offer since he felt that he lacked the degree of technical competence needed to take on the sick giant. However, while working on the turnaround assignment, Gerstner realized that technical competence had little relevance. He would base most of his strategies on his experience as an IBM customer.

Gerstner left IBM with 65,000 more employees than when he had joined. IBM is back on its feet, recording a profit of $8 billion.

- ✓ The company realized the importance of Organizational Culture
- ✓ It also realized how turnaround can be achieved by managing people

THE JNPT STORY

Introduction to the company

Among the 12 major Indian ports, the ***Jawaharlal Nehru Port Trust (JNPT)*** occupies a place of prominence. Commissioned in 1989 and located within the Mumbai harbor on the west coast of India, JNPT is the second youngest and one of the most modern major ports of the country. JNPT was established with the goal of creating a world-class port in India. Indeed, it clearly enjoyed an edge over other Indian ports with respect to both infrastructure and performance even in the pre-reforms period.

However, it suffered from some of the inherent drawbacks ailing the Indian port sector that prevented it from achieving world standards in port efficiency. As the most modern among Indian ports, and also the one with the least labor problems, JNPT was the natural choice as a test case in privatization of port operations.

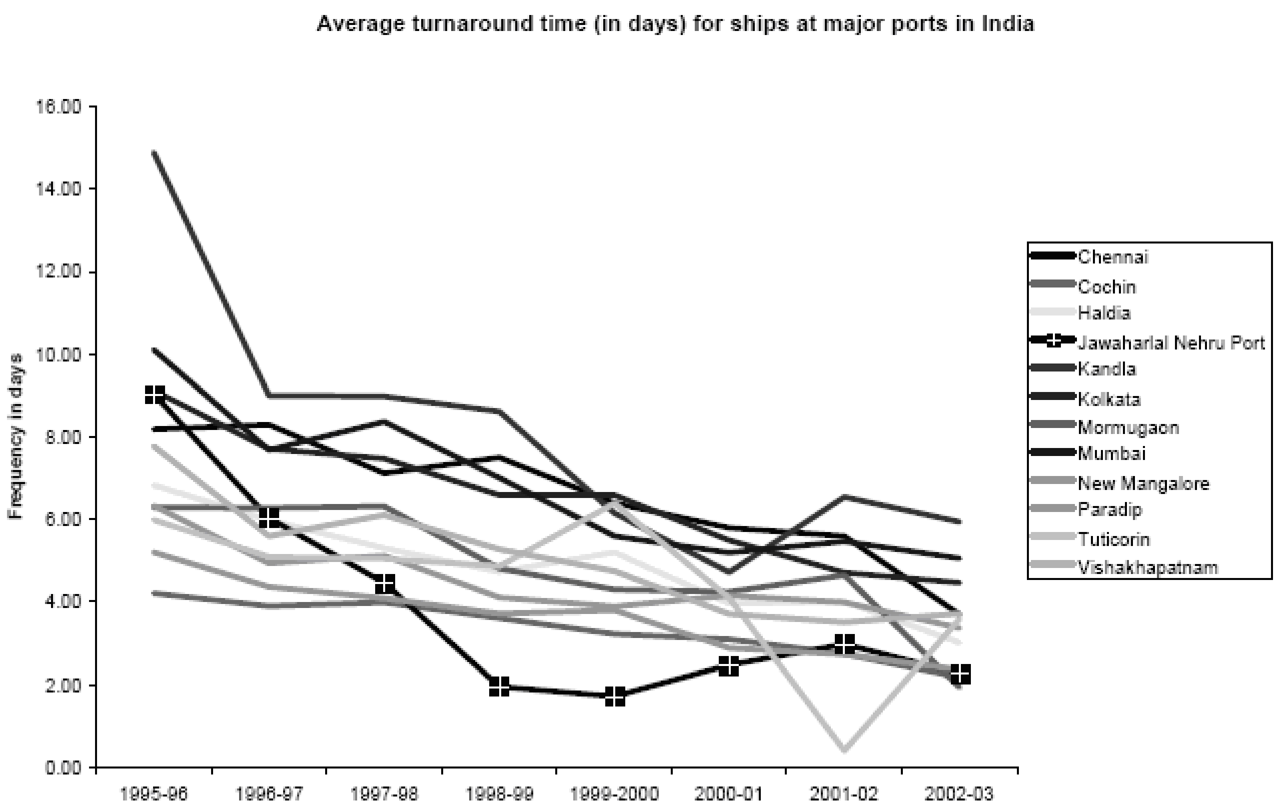
It is clear that the reform process was well designed and optimally sequenced with active participation of a wide range of actors. The nitty-gritty of the reform process at JNPT was not imposed top-down. The reform has been a reasonable success. With the creation of a new private terminal and the follow-up measures undertaken thereafter, JNPT has demonstrated its capability to enhance efficiency of the public terminal through the introduction of intra-port competition and it has succeeded in earning the distinction of being the world's 29th largest container port.

The Industry

India has almost 5560 km of natural peninsular coastline strategically located on the crucial East-West trade route, which links Europe and the Far East. The coastline is serviced by 12 major ports and about 180 minor and intermediate ports. Ports have assumed enormous importance in the era of globalization with phenomenal expansion in world trade. The volume of cargo traffic in Indian has also expanded significantly. Total throughput of all the major ports taken together was 313.53 million tonnes in 2002-03, an increase of almost 15 times since 1950-51, the beginning of the First Five Year Plan, when India embarked on the path of economic development. In this study, we focus exclusively on the major ports of India, in the context of a case study of the Jawaharlal Nehru Port Trust (JNPT).

Why Turnaround?

- In terms of port productivity, however, JNPT presented a mixed picture. In some areas, it seemed to have performed well towards the end of the 1990s with respect to other Indian ports, whereas in certain others, its performance can at best be described as modest.
- In 1995-96, average turnaround time of ships at JNPT (9.03 days) was among the higher ones in India, but it progressively declined to 1.96 in 1998-99, the lowest among all major ports.



- With respect to average ship berth output, however, JNPT's performance was not at par with the best in India. It experienced a massive expansion in average ship berth output from 1996-97 (2,987 tonnes) to 1997-98 (6,209 tonnes) and stabilized at that level in the next two years.
- It is notable that JNPT's rank among the 12 major ports with regard to Average Ship Berth Output (ASBO) improved from 10th in 1996-97 to just

6th in1998-99, reflecting no distinct advantage enjoyed by JNPT in this context in the pre reforms period.

- Despite comparing by and large favorably vis-à-vis other Indian ports, JNPT failed to achieve the standards of the other efficient ports of the world, as it could not escape certain inherent shortcomings of the Indian port sector in general. For instance, in 1992, even the very modern container facilities at JNPT handled at most 10 containers per hour (of vessel at berth), which probably increased to 11 or 12 containers per hour in 1994 but still fell far short of comparable ports in East Asia, namely Bangkok and Singapore, which handled an average of 38 and 69 containers per hour respectively during the same period. At Singapore, particularly for container ships, the average turnaround time was only six to eight hours, a cut above the levels achieved by JNPT (1.96 days) in 1998-99.

The bottom-line is that JNPT clearly enjoyed an edge over other Indian ports with respect to both infrastructure and performance and was perhaps the obvious candidate for the reforms experimentation. However, it did suffer from some of the drawbacks inherent in the Indian port sector in the pre-reforms era, especially in terms of capacity that prevented it from achieving world standards of port efficiency and performance. No doubt, there was a natural growth of traffic at JNPT and its performance also showed an upward trend, but clearly, it failed to reach its full potential commensurate with growing volumes of container cargo.

Challenges Encountered

- Shortage of crucial equipment acted as a major constraint in this regard because the port was operating with the World Bank's specified original capacity since its inception in 1989 right up to 1994. However, the Port administration soon realized the urgent need to upgrade and augment the port's equipment to ensure larger cargo handling capability.
- It was realized that JNPT's strength lay in the vast land area it owned and that its performance was being constrained by the lack of sufficient equipment.
- Modernization of facilities and augmentation of capacity seemed to be the need of the day.

- The JNPT authority was of the opinion that there was a need to convert nonperforming assets into performing ones as part of "business process re-engineering"
- Financial restructuring
- The cooperation of labor in the reform management process was extremely vital, especially in the context of operational restructuring.

The Process of Revival

Evolution of Port Reforms Policy in India

The reform process was initiated in the Indian port sector during the decade of the 1990s. The Indian economy's gradual integration with the global economy and the sharp growth in industrial output induced by the new liberalization policies made it imperative to improve the quality, and expand the capacity, of the country's physical infrastructure for sustaining industrial growth. This called for a large step-up in infrastructure investment. Public resources, however, were insufficient for creating the size of infrastructure envisaged. Accordingly, it was decided to involve the private sector in core infrastructure services like electricity generation, telecommunications, roads and highways, and ports.

Port reforms in India, therefore, were not 'stand-alone' reforms by themselves. They were part of a broader strategy of infrastructure development through private participation, the key motivation behind which was the urgent requirement for additional resources. The initial policy directions encouraging private participation in port operations were broadly indicative in nature.

Equipment Reforms at JNPT

In 1995, JNPT undertook the first set of equipment augmenting reform measures to strengthen port facilities. A second set of similar measures was undertaken in 1997. Due to major resource constraints faced by the port trust for investment in port infrastructure, some of the equipment augmentation in 1995 and 1997 was done on the basis of leasing-in arrangements with private parties. Equipment augmentation during 1995-97 led to the enhancement of the port's productivity. This is amply reflected in the Table below in terms of marked improvement in berth productivity as well as a massive rise in average output per ship-berth day (in tonnes) in 1997-98. Moreover, since 1998-99, average pre-berthing detention in JNPT has consistently remained below one day.

Selected Performance Indicators of JNPT over the period 1995-2002

Performance Indicators of JNPT	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02
Berth productivity (moves /hr)	12.84	15.8	24.51	28.62	23.15	26.67	28.42
Average ship berth output (in tonnes)	3585	2987	6209	6140	5905	6383	8307
Average pre-berthing detention (in days)	2.17	2.10	1.52	0.83	0.64	0.89	0.93

A New Private Terminal-Nhava Sheva International Container Terminal (NSICT)

In the context of complete private operation of a terminal, with a view to promoting port efficiency and profitability, MoST (1994), World Bank (1995) and the Rakesh Mohan Committee (1996) played an important role by drawing attention to the various inefficiencies prevailing in India's port sector and emphasizing upon the nature of reforms required in various areas for turning around the sector.

As the most modern among the existing Indian ports, and also the one with the least labor problems, JNPT was the natural choice as a test case in such privatization efforts. The World Bank report had also pointed out that success in achieving private collaboration in port operations at JNPT would send out firm signals regarding the government's commitment to port reforms.

In January 1994, tender documents were initially prepared for contracting out the container terminal at JNPT to private operators. However, in 1995, the proposal was amended and it was decided to invite private participation in creating a new container terminal while retaining the existing one under government ownership and operation.

JNPT issued a global tender for building a new two-berth container terminal of 600-meter quay length on B-O-T basis for thirty years. The bid document, specifying qualifying criteria for responding parties, was on sale from December 26, 1995 to February 15, 1996. The total investment in the project was estimated to be around Rs 900 crores. Thirty firms from India and abroad purchased the bid document and P&O Ports, Australia, was awarded the contract after a competitive bid. Thus, India's first ever private container terminal, christened the Nhava Sheva International Container Terminal (NSICT), commenced operations from April 1999. It was the first totally automated container terminal to be developed in India with all its operations, right from receiving the vessel bay plans to invoicing, being computerized. JNPT is responsible for scheduling entry and berthing of vessels, pilotage and towage, dredging, navigational safety, supply of electricity, water supply to terminals and ships and monitoring air and water pollution. NSICT, on the other hand, is responsible for operation maintenance and repair of port equipment at the new terminal. NSICT is required to pay royalty to JNPT for guaranteed traffic in the event of not achieving the minimum traffic indicated.

Post-NSICT Reforms Management and Follow-up Reforms, 2000-2003

By offering better customer service and faster turnaround, NSICT started diverting traffic away from the Jawaharlal Nehru Port Container Terminal (JNPCT) that consequently led to a decline in the latter's performance, both in terms of volume of traffic as well as efficiency. This made the JNPT authority realize the importance of further capacity augmentation and following up the reforms introduced prior to the establishment of NSICT with more initiatives in order to compete successfully with NSICT. The post-NSICT reform management process includes four dimensions as discussed below.

Dimension I: Capacity augmentation

Various latest technologically advanced equipments were implemented and installed in the port in 2002. In September 2002, JNPT also set up a shallow draft berth in the lagoon area between the container and bulk terminals that was capable of handling dry bulk cargo like fertilizers, cement as well as general cargo like steel coil, wood pulp etc.

Dimension II: Capacity restructuring

JNPT contracted with two major public sector oil companies, Bharat Petroleum Corporation Ltd (BPCL) and Indian Oil Corporation Ltd (IOCL), to develop a new dedicated state-of-the-art liquid cargo handling facility, with a designed capacity of 5.5 million tonnes of liquid cargo per annum, on B-O-T basis with the objective of shifting the entire handling of POL (petroleum-oil-lubricant) products and other liquid cargo to this terminal.

Dimension III: Financial restructuring

JNPT initiated a proposal for capital restructuring, which suggested clearing the entire principal component of outstanding liabilities (Rs. 487.22 crores as on 31st March 2002) and freezing the accrued interest (Rs. 741.92 crores). JNPT also decided to raise loans worth Rs. 500 crores through open market borrowings for repaying the loans from the World Bank and the Government of India (GOI). The idea was to swap high interest loans for low cost debt. Also, other loans taken from Mumbai Port Trust loan, Kandla Port Trust were paid from its own resources. Such financial restructuring will enable JNPT to clear all its debt liabilities along with interests in the near future.

Dimension IV: Enhancing labor productivity

The cooperation of labor in the reform management process was extremely vital, especially in the context of operational restructuring. Labor at JNPT was not sufficiently unionized at the time when NSICT was established. Later, however, the labor union became much more effective in looking after the interests of port employees.

Unlike in certain other Indian ports, the JNPT labor union today shares a very good rapport with the management. Such a healthy synergy between these two interest groups has minimized conflict arising out of resistance and has played an extremely significant role in JNPT's overall achievements by removing certain operational inadequacies, especially in the context of labor productivity.

The Result of Turnaround

JNPCT achieved considerable success in expanding its volume of traffic post-NSICT. In terms of other port performance indicators, however, it is yet to catch up with NSICT's levels, notwithstanding a marked improvement compared to the pre reforms era.

Initially, berth occupancy of JNPCT was higher than that of NSICT right up to June 2000, indicating a better performance by the former on this count. It was only in July 2000 that NSICT actually overtook JNPCT and has remained higher ever since. JNPCT's pre-berthing time has also been fluctuating with increasing amplitude since 2001.

JNPT's reform process adopted a moderate middle path towards privatization, which comprised of initiating private participation in new terminals (under a B-O-T i.e. BUY-OPERATE AND TRANSFER MODEL) while keeping existing facilities under government control and operation.

Selected Performance Indicators of Major Ports of India over the period 1995-2003

Average turnaround time (in days)	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
Chennai	8.18	8.30	7.12	7.50	6.40	5.80	5.60	3.70
Cochin	4.21	3.90	3.99	3.61	3.23	3.10	2.75	2.19
Haldia	6.83	5.98	5.30	4.73	5.21	3.96	4.01	3.02
Jawaharlal Nehru Port	9.03	6.03	4.47	1.96	1.72	2.48	2.98	2.28
Kandla	14.88	9.00	8.98	8.61	6.15	4.72	6.55	5.94
Kolkata	9.12	7.71	7.47	6.59	6.59	5.50	4.71	4.47
Mormugaon	6.29	6.28	6.32	4.81	4.30	4.25	4.65	1.94
Mumbai	10.10	7.68	8.37	7.01	5.60	5.20	5.47	5.06
New Mangalore	5.21	4.37	4.09	3.72	3.80	2.89	2.73	2.37
Paradip	6.34	4.94	5.12	4.11	3.89	4.16	3.99	3.37
Tuticorin	5.99	5.09	5.05	4.87	6.39	4.10	0.41	3.59
Vishakhapatnam	7.78	5.60	6.11	5.28	4.75	3.71	3.51	3.72
All Ports	*7.83*	*6.24*	*6.03*	*5.23*	*4.84*	*4.16*	*3.95*	*3.47*
Average pre-berthing time (in days)	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
Chennai	3.45	4.12	2.98	3.60	2.80	2.40	2.00	1.13
Cochin	1.24	1.12	1.12	0.87	0.87	0.74	0.55	0.47
Haldia	2.61	2.19	1.96	1.30	1.61	0.91	0.91	0.87
Jawaharlal Nehru Port	2.17	2.10	1.52	0.83	0.64	0.89	0.93	0.85
Kandla	9.56	6.61	5.12	3.25	3.04	1.46	3.10	2.20
Kolkata	1.39	0.97	1.10	1.04	1.03	0.61	0.58	0.52
Mormugaon	2.78	2.17	2.10	1.40	1.09	1.32	1.74	1.92
Mumbai	4.22	4.59	2.86	2.11	1.37	1.26	1.28	1.11
New Mangalore	1.73	1.51	1.09	0.92	1.07	0.77	0.76	0.65
Paradip	2.44	1.62	1.66	1.20	1.14	1.41	1.19	0.80
Tuticorin	2.28	1.56	1.55	1.60	2.98	1.40	1.58	1.35
Vishakhapatnam	2.41	1.63	1.97	1.59	1.37	0.75	0.75	0.91
All Ports	*3.02*	*2.52*	*2.09*	*1.64*	*1.58*	*1.16*	*1.28*	*1.06*
Average ship berth output (in tonnes)	**1995-96**	**1996-97**	**1997-98**	**1998-99**	**1999-2000**	**2000-01**	**2001-02**	**2002-03**
Chennai	4732	5461	4800	5762	5886	6977	7030	8416
Cochin	5771	5438	5420	4617	5952	6138	5984	6837
Haldia	5842	5855	5902	5282	5599	6384	6207	7531
Jawaharlal Nehru Port	3585	2987	6209	6140	5905	6383	8307	8226

As we have discussed above, the new private terminal (NSICT) injected dynamism into the functioning of JNPT through introduction of competition as well as strong demonstration effects, and the latter's subsequent improved performance provides indication of the benefits that have accrued to the port following such exposure to private competition. JNPT's own initiative to design and implement a plethora of follow-up reforms was also instrumental in bringing about the turnaround. Interestingly, these reforms were undertaken by consulting all concerned and much of the reform ideas were generated from within the system rather than being imposed top-down. Many lessons were also learnt from the experience of the neighboring private terminal, NSICT.

The overall message from the JNPT case study is that port performance and efficiency can be substantially improved by adopting a moderate approach to promote private sector development that encourages the private sector, not necessarily to replace the public sector, but to introduce a healthy competitive environment, so that it can act as a tonic to revitalize the latter. Moreover, as we have argued above, such a moderate approach is likely to be much more successfully implemented as it would be more readily accepted by a wider constituency.

Future Prospects

On the infrastructure front, a proposal has been put forward to lay another track in addition to the single track that links the Port to the main network of the Indian Railways. Secondly, roads connecting the Port to the National Highway

Network and to Navi Mumbai are being upgraded by doubling the current width to fulfill four lane traffic requirements. Thirdly, land plots have been earmarked for tank form operators, vehicle operators and warehouses for the storage of cargo including containers, workshops, petrol stations and other ancillary facilities. Fourthly, a

Special Economic Zone (SEZ) is being planned by City and Industrial Development Corporation of Maharashtra Ltd (CIDCO), near JNPT area at Dronagiri Node, for development of the region with relaxed foreign exchange, excise and customs regulations along with investment friendly labor laws. JNPT is considering the idea of contributing 300 hectares of its own land towards the proposed SEZ.

THE GLAXO STORY

Introduction to the company

Renamed, Glaxo-Smithkline (GSK) Pharmaceuticals India, this was just after the merger of Glaxo's operations with SmithKlineBeecham (SKB). Glaxo, at that time was the biggest pharma company in the domestic markets, a position it had held for 28 years and SKB was an equally well respected though smaller company.

The announcement of the product patent laws coming into force in 2005 also induced the company to move into the fast lane.

The Industry

The pharma industry is distancing itself from the commodity manufacturing business to move up the value chain, to the more desired and fancied domain- the research-based knowledge industry.

Wockhardt, the fifth largest pharma company, boasted of operating margins of 23% in FY2000. Ranbaxy virtually was on par with Glaxo in the mid 1990's and trebled its turnover by 2001. With the industry booming throughout the world, the need for a turnaround was felt.

Why Turnaround?

Despite being a dominant player, holding the largest share (6.6 %) in a highly fragemented market, Glaxo was clearly slipping in terms of growth – top line and also profit. The PBIDT was less than 16% between 1997 and 2001 and cumulative top line growth during the period was 25%. PBT in relation to sales in 2000 was below 10%, the lowest in five years since 1995.

All this was happening at a time when the pharma industry was booming worldwide. At that time, Glaxo was contended with a bulging portfolio range. There were more than 250 brands mainly in anti-infectives, respiratory and anti-ulcerants, with the top 20 brands contributing to over 50% of the sales. It had to grapple with high Multinational Overheads, monitor over half a dozen production sites across India and manage aspirations of a diverse workforce of more than 7,300 people, post merger. The legacy of bureaucratic colonial past was also well-preserved, with more than 400 employees in the administrative department housed in one Office (in Worli, Mumbai).

Also additional factors included the fact that there drugs priced at over 60% were under the purview of the DPCO (Drug Price Control Order). The process patent regime, which had fostered the growth of Indian companies like Ranbaxy, Cipla, Nicholas, Wockhardt, Sun Pharma and Dr Reddy's was already eroding the diminishing overall share of MNCs like Glaxo. The market share of all MNCs together had fallen to 35% in mid-1990s, from 80% in 1970. An insider confides, "Some medicines were sold below the price of a chalk, thanks to the rigid price controls and import restrictions."

Challenges encountered

- The main mantra on which the restructuring blueprint was drawn was that profit growth should outpace sales growth and reach 25% of sales.
- Product portfolio review with emphasis on profit was one of the primary tasks undertaken. The product portfolio at Glaxo was large with product life ranging from over 50 years to less than six months
- Extremely high overheads because of too many PEOPLE
- Tackle low-cost competitors

The Process of Revival

- ✓ In order to reduce the less profitable brands, the brands under the purview of the DPCO (Drug Price Control Order) was reduced
- ✓ Five brands were sold and about 45 SKUs (Stock keeping Units) discontinued between 2000-05
- ✓ Focused attention on 30 lead brands hence, saw their contribution rise from under 40% to nearly 66% in 2003
- ✓ A sales team that had been established with high investments over the years facilitated Glaxo to penetrate across interiors.
- ✓ There was hence, a change from sales-driven to a marketing-driven approach

The Dual-approach used to improve profitability and growth

Promotional <u>Expenses</u> Of Power Brands

<u>Prices</u> Of products with high demand

Hence, this meant increase in prices of large brands with high demand like Augmentin, Iodex, Ceftum and Neosporin

Example: Although Augmentin is expensive it's in high demand because of GREAT BRAND VALUE.

Devising a Country-specific policy

- ✓ The policy meant aiming at the fast-growing chronic diseases segment (that would require regular medication to keep the symptoms under check), which was growing at a 16-24% rate per annum.
- ✓ Hence, there was a requirement of drugs addressing the central nervous and cardio-vascular segments.
- ✓ In conjunction to the country's pricing policies, there was also a requirement for DIFFERENTIAL PRICING POLICY.
- ✓ Getting in-licenses which meant tying up with the original researchers of a drug that would enable Glaxo to sell the product OFFICIALLY by paying royalties to the latter.
- ✓ There were two objectives achieved:
  - ➢ Become a strategic partner for other companies to tie-up with for establishing a base in India
  - ➢ Creating barriers for newer entrants to the country

Greater realigning manufacturing operations and reducing complexities

- ✓ Reducing the number of units from 9 to just 2
- ✓ Streamlining production schedules
- ✓ Workforce reduced from 7300 to 4000 using VRS Schemes after the merger

- ✓ Of this, the strength of the production staff alone was cut to 1400 – 1/3rd of what it was earlier
- ✓ New more efficient and one of the largest plants of the GSK group was established at Nashik fulfilling 50% of the company's requirements.
- ✓ This plant enabled the company to acquire brands beyond their production units

Modernization in logistics and outsourcing

- ✓ Newly created department for sourcing materials
- ✓ E-procurement
- ✓ Bulk quantities at predetermined rates
- ✓ Use of technology and outsourcing reduced the back-office staff cut from 400 to 125

The Result of Turnaround

- Results of cost-containment and strategic policy changes, like aggressively marketing vaccines, which currently account for 8% of the total income, had a beneficial impact.
- In FY2004, sales increased to Rs 1479 crore with PBIDT rising sharply to Rs 436 crore, on a three-fold growth in margins over 2001 due to which, margins surpassed those of Ranbaxy, Wockhardt, Nicholas Piramal, Cipla and Pfizer
- It is still below the 25% target, although analysts are confident that it will be achieved soon
- The purview over certain drugs manufactured by the DPCO, compelled Glaxo to reduce those brands. Hence, the significance of the Regulatory environment was understood.
- The problem of overstaffing was understood with a lesson well learnt: More the people, more the costs. VRS Schemes were wisely used like many other PSUs
- Price differentiation strategy was used to regulate pricing policies
- Product Portfolio reduction: This ensured concentrating on PROFIT MAKING BRANDS.

THE BAJAJ STORY

Introduction to the company

Recently, Bajaj Auto Limited (BAL) has overtaken Hero Honda in net profit sweepstakes. While BAL recorded a net profit of Rs 207.9 crore for the quarter ended June '05, Hero Honda recorded a net profit of Rs 204.5 crore for the same period.

Also, BAL has increased its market share in Q1 '06 to 31%, while the market share of Hero Honda has fallen from 54% in Q1 '05 to 49% in Q1 '06. BAL sales grew at a much faster clip than Hero Honda in Q1 '06. BAL's net sales, in value terms, grew by 33% in Q106. Hero Honda's net sales grew at a subdued 15% over the same period.

BAL's motorcycle sales, in volume terms, grew by 53% as against the industry growth rate of 25% in April-June '05 over the corresponding period last year. Hero Honda's motorcycle sales volume grew by 13% during the same period.

However, it must be noted that while comparing sales growth rates of the two companies, Hero Honda's growth is on a larger base, compared to BAL's growth

The Industry

The two-wheeler Industry in India is dominated by a very few players. The leading among them are Bajaj Auto Limited, Hero Honda (a joint effort of Hero of India and Honda of Japan) with other small players like TVS etc. Bajaj was initially considered giant only in the Scooter segment whereas the motorcycle segment was dominated by Hero Honda. Also, the gearless segment had competition from TVS.

The major players in the domestic two-wheeler industry have announced robust growth in volumes for the month of December 2004. The total motorcycle sales of the top three players registered a 54.1% growth to 437,974 units. The major contributor to the growth was Bajaj Auto, which registered a 100.7% growth in volumes for motorcycles.

Motorcycle Sales in month of	2004	2003	Growth (%)
April	90,532	71,074	27.4
May	87,663	87,217	0.5
June	97,595	82,239	18.7
July	103,260	77,966	32.4
August	106,745	76,487	39.6
September	126,420	95,680	32.1
October	143,491	107,115	34.0
November	154,137	91,257	68.9
December	143,727	71,623	100.7

Why Turnaround?

Increasing competition by the entry of foreign players with greater quality and more efficient products made turnaround essential.

Five years ago the company was at the bottom of the heap in the mobike market, with Hero Honda, TVS and Yamaha far ahead in terms of market share.

Challenges Encountered

- *Wrong Attitude*

Bajaj was a scooter company and therefore the mobike department was given second-class treatment (it was only 10 per cent of their business in 1996), the quality of the products was poor, and they did not offer fuel efficiency the way the Japanese bikes did.

- *Too many suppliers*

The brothers discovered that they had over 1,000 vendors supplying them components, many of which were plain bad, Rajiv Bajaj decided to prune them down to a realistic 200.

- *Get the right products at the right price*

To bring in Japanese productivity tools to reduce costs just as the competitors were doing. Sanjiv, who had joined the company armed with an MBA from Harvard, says his reading of big companies like Honda, Toyota and Apple had taught him one thing: a successful company needs a good product.

But most workers in the Pune plant did not believe you could bring in Japanese management practices into India; there was stiff resistance to the move.

- *Importance to nitty-gritty details*

The CEO took up the cudgels by personally supervising even nitty-gritty details, from the styling and paint to the design of the console, the right grip and even the spark plug to use.

The Process of revival

In 1997, the Aurangabad was ordered to shut down. Referring to this Sanjiv Bajaj, one of the Bajaj brothers says, "It was unimaginable and against everything Bajaj had stood for. In 40 years we had never shut production anywhere. But we realised that a shock needed to go through the system."

When the brothers discovered that they had over 1,000 vendors supplying them components, many of which were plain bad, Rajiv Bajaj decided to prune them down to a realistic 200. And the labour force was trimmed down from 23,000 to virtually half that through a VRS scheme. "We had studied in the local school within the premises, had played with many of them, some were our friends," says Sanjiv, "suddenly, we had to let them go."

Setting an internal benchmark

They decided to set up a new mobike plant but not at their existing facility in Pune. Instead, they chose Chakan, an hour's drive from Pune. Says Sanjiv: "We realised that sometimes people have to be taught by example. That's what we did in Chakan."

Survey: Need for a Well-priced and a fuel-efficient product

A project for a bike is conceived depending on inputs from the marketing team. The design department then comes up with eight-10 different designs that Rajiv and his team narrow down to three or four. Feedback on the styling is sought through market surveys and, finally, two prototypes of the bike are made. Rajiv & Co work on at least two to three variations of engines, of which one is selected. This takes 24-30 months.

That is how many of their hit bikes were built. Rajiv and Sanjiv found there was a market of customers looking for something more than just a bike for commuting -- they wanted rugged styling and more power. Pulsar (150 cc and 180cc) was born from this market reaction. But Sanjiv notes: "When we conceived the bike, we thought the target audience would be 25-35-year-olds. But when we saw the sales chart, it was being picked up by 35-45-year-old customers."

The Bajajs say they realized the reason when they saw the stance that riders took while driving the bike -- the product was fulfilling the desire of the riders to take on a youthful persona. Perhaps in the same way the formally dressed executive in the US may drive a Range Rover SUV to create the image of a man who seeks adventure.

Rajiv realized that to crack the 125 cc segment where Hero Honda had been ruling the market was going to require a very strong reason. A market survey showed that Honda's bikes provided reliability. But Sanjiv and Rajiv did not miss out on some key revelations: customers thought that the Honda bikes did not have enough power, and would prefer bikes with superior styling.

The mandate to the design department was simple: they would have to build a bike with these two basic qualities without compromising on either price or fuel efficiency. Bajaj Discover was born from this understanding, and the company sells over 25,000 of these bikes every month.

People who made it happen

Rajiv Bajaj, one of the Bajaj brothers who made it possible practically operates from the company's test tracks on the outskirts of Pune, driving new prototype mobikes to test their engines, or talking with his R&D team about the best spark plug to use to improve fuel efficiency. His penchant for perfection too is legendary -- he had vendors make 300 seats for a new bike and sat on each one of them to pick out those with the best grip.

Younger brother Sanjiv is the public face of the company and its executive director. Once the country's undisputable scooter czars, the Bajajs saw the ground move away from under their feet in the late 90s when customers shifted dramatically from buying scooters to buying mobikes.

Work between the brothers is clearly divided. Rajiv, 38, is the products man -- scanning designs, meeting his R&D team, opening up imported bikes and going through them with a toothscanner. Sanjiv, 36, is pushing the company's new thrust into exports.

The Result of Turnaround

Bajaj Auto hopes to end this financial year (2004-05) having revved up 1.5 million bike sales, a growth of over 50 per cent in volume over the last year. It has also grabbed a larger share of the market from its rivals, up from 23 per cent in January 2004 to 28 per cent in January 2005. And the yawning gap between its chief rival Hero Honda (its market share dropped from 53 to 50 per cent in the same period) has already been filled.

Complacency: The Bajaj brothers felt the ground move after realizing the importance of mobikes which was only because of the entry of foreign players. However, now the company was ready for the NEXT BIG THING: MOBIKES, NOT SCOOTERS

Operational inefficiency: This was clearly evident from the fact that the Pune Plant was required to shutdown. Hence, Japanese techniques for operational techniques were adopted

Internal Benchmarking: The company had set up internal benchmarking in order to get good quality at a reasonable price. (i.e. the Chakan plant)

VRS Schemes: VRS Schemes were successfully used in a private sector entity for lay off of inefficient labor.

THE LEARNINGS

Profit patterns of Turnarounds

- ✓ Large dominant firms, as well as smaller producers, fail. Size does not seem to be a factor in turnaround success.
- ✓ During the early years of a turnaround, successful turnarounds often experience more pronounced business declines and deeper loss rates than firms that ultimately fail.
- ✓ Improved performance on the part of successful turnarounds is frequently not apparent for about 2 years. From year 2 forward, the successful companies began to emerge as much more consistent and much more profitable.
- ✓ Successful firms accept economic conditions for what they are and reduce cost to existing revenue levels. Unsuccessful firms commonly attempt to sell more to cover existing costs and put less emphasis on cost reduction.

Significance of Operational efficiency

- ✓ Concentrate on efficiency first and then concentrate on marketing and sales. Revenue expansion based upon inefficient operations results in severe operating losses.
- ✓ Successful companies reduce cost to present revenue levels. Unsuccessful companies attempt to increase revenue to cover existing costs.
- ✓ Implement proven efficiencies immediately—but work through people. Achieve scale economies on a component or process basis. Do not consider the size of the overall business unit.
- ✓ Retain and develop managers who know how to achieve efficiencies in the industry being served.

- ✓ Work productively with suppliers to reduce product cost—but do so on the basis of trust
- ✓ Constantly reinvest to sustain and improve efficiency—but understand operational processes well enough to know what really pays off.
- ✓ For Example; in "The Chrysler Story", Operating System made the company a demonstration object for the international business community.

Practical Lessons on Modest overhead

- ✓ Successful companies spend money on important things that relate to what it is the customer is buying.
- ✓ Unsuccessful companies spend money on things unrelated to what the customer is buying.
- ✓ Successful companies systematically withdraw resources to improve operational performance.
- ✓ Successful companies keep inventory efficiency high to preserve cash and to improve operational efficiency.
- ✓ Employees view cash preservation and modest overhead as indices of competence and trustworthiness.
- ✓ Employees are anxious to help save money — if management is too.

Market Continuity of Turnarounds

- ✓ Successful companies nurture, protect, and develop products for historical markets before moving into new markets. Unsuccessful companies often leave historical markets unprotected.
- ✓ Successful companies actively preserve product identifiers, such as names, product colors, advertising, or product attributes that retain continuity

with historical markets. Unsuccessful companies frequently change product identifiers.

- ✓ Successful companies assume that markets are captured on the basis of merit arising from better products and service. Unsuccessful companies overestimate the importance of the strategic selection of markets.
- ✓ Successful companies are able to more accurately gauge the rate of change in markets and provide products that are in phase with changes.
- ✓ Unsuccessful companies are frequently out of phase.
- ✓ In order to preserve investment and field a wide variety of products to cover different circumstances, successful companies are less inclined to totally discard products. Instead, they adroitly stash products and features that they believe will be useful at other times or extend product lines in other ways. Unsuccessful companies time product announcements poorly.

Focusing on Present Operations

- ✓ Strategic planning at successful companies is rudimentary and near-term. The focus is on operational issues such as improving the product, reducing production cost, and improving product quality and customer service.
- ✓ Successful turnaround leaders center the company's attention on the business it is in at the time, and they scorn diversions. Acquisitions, divestitures, diversifications schemes, and new ventures attract very little attention.
- ✓ Planning at successful companies tends to be an incremental extension of today's small steps rather than a grand plan long into the future.
- ✓ Unsuccessful turnaround leaders are more inclined to forecast the future, but their forecasts are often wrong.

- ✓ Ideals play more of a role at successful companies. People at companies in trouble need something to get excited about. Unsuccessful companies are unexciting.
- ✓ Old values and old beliefs form the basis for new beliefs at successful companies. Unsuccessful companies often discard the past, thereby denying senior organization members a sense of pride.
- ✓ Change is introduced both continuously and sporadically at successful companies. Incremental improvements are made constantly. Radical changes are made less frequently and are interspersed by period of stabilization.

Outfitting the Management Team

- ✓ Successful turnaround leaders clearly articulate ideals, purposes, and procedures using unambiguous language. Unsuccessful turnaround leaders are polite, but vague.
- ✓ Successful turnaround leaders have widespread reputations for honesty and trustworthiness. Unsuccessful turnaround leaders are often shrewd, but mistrusted. Turnaround leaders who are successful over the very long term, share center stage and the credit for success with other members of the organization.
- ✓ Successful turnaround teams include salespeople who know customers, visit customers, and like customer—and who also sell.
- ✓ Successful turnaround teams include financial and accounting people who understand and appreciate the technical and managerial aspects of the business.
- ✓ Special teams are used for one-time projects, in part so that the rest of the organization can remain focused on the main business.

- ✓ Successful turnaround teams rarely include people who drink too much, spend too much, or are indulgent in other ways.
- ✓ Successful turnaround leaders are purveyors of justice, especially during downturns when expenses must be cut. They sustain morale by protecting the conscientious, dedicated worker to the maximum degree possible.
- ✓ People who do not work hard or are not conscientious are usually dismissed.

Strategic positioning for survival

Survival is most likely when a company is a low-cost provider of differentiated products or services and least likely when undifferentiated products are expensively produced. A firm's survival position is enhanced if either product differentiation or low-cost operation is present, but both attributes seem to be necessary to ensure turnaround success.

For Example, ***Aer Lingus***

Among his colleagues and within aviation circles, William M. "Willie" Walsh is known as a miracle worker and a turnaround expert. The 42-year-old former pilot had taken over Ireland's beleaguered airline, Aer Lingus.

As the airline industry went though its largest crisis and posted a record $42 billion in losses globally, almost everyone expected Aer Lingus to follow airlines such as Swissair and Sabena into oblivion. But in less than three years, Walsh brought the state-owned carrier from the brink of collapse to profitability by cutting a third of its workforce and repositioning itself as a low-cost carrier.

Strategic Positioning for Survival

COST OF OPERATION	PRODUCT DIFFERENTIATION: Low	Medium	High
LOW	Marginal Survival Position (3)	Good Survival Position (2)	Best Survival Position (1)
MEDIUM	Poor Survival Position (6)	Possible Survival Position (5)	Good Survival Position (4)
HIGH	Worst Survival Position (9)	Poor Survival Position (8)	Marginal Survival Position (7)

Figure 13-1 Strategic positioning for survival. Survival is most likely when a company is a low-cost provider of differentiated products or services and least likely when undifferentiated products are expensively produced. A firm's survival position is enhanced if either product differentiation or low-cost operation is present, but both attributes seem to be necessary to ensure turnaround success.

THE RECOMMENDATIONS

Recommendations for Businesses Involved in Turnarounds

Find Managers Who Understand the Business

Don't assume that being smart is a qualifying asset in the long term. Successful management during a turnaround is partly a matter of domain. Key people should understand the business and the company's individual business in particular. The most successful turnaround agents were those who had experience in the industry being served.

Be Respectful of the People Who Were Involved in the Company

People who were involved in the company when the problems developed may have done some things very well. The turnarounds that succeed often involve an appreciation of past accomplishments. The firms that have difficulty often run roughshod over old values and bring in too much new management. Some of the best turnaround agents are from within the company.

Cultivate both Formal and Informal Forecasting Techniques

Either may be wrong. In a situation as chaotic as a turnaround, the cross-checking of forecast information is critical. Ineffective cross-checks on forecasting systems often result in major strategic mistakes in inventory levels, staffing levels, plant locations, or other factors essential to survival. Successful turnaround agents are respectful, but they gather information from more than one source.

Ensure That the Entire Organization Is Part of the Turnaround process

The process of turnaround is one of organizational learning. The entire organization must develop together and in parallel. It is not simply the task of selecting the appropriate leader. Though the leader is important, so are the other members of the organization. The entire organization must progress in order to become an effective competitor in the modern industrial world.

Get Efficient First — Sell Later

Efficiency is crucial to turnaround success. Rarely will higher levels of revenue greatly increase company prosperity if the company is inefficient. Without efficiency, incremental costs eventually consume incremental revenue. In order to succeed, the first priority of the troubled firm should be to improve efficiency, conserve precious resources, and use those resources to differentiate products. After these steps are taken, additional revenue will help restore corporate profits.

Concentrate on the Basic Business

Don't get diverted. The track record of turning around a company by entering a new field is very poor — particularly when the company shows no capacity to manage its old field. If we cannot keep our basic business healthy, what shred of evidence is there to suggest that we can manage anything else?

Make Small, Incremental Improvements, Constantly

Successful companies only rarely attempt bold new initiatives into unchartered waters. They effectively work on myriads of small problems every day, month after month, for years and decades. Turnarounds commonly take several years to reach fruition. Success involved constant programs of incremental improvement.

THE CONCLUSION: A Final Caveat

One caveat should remain. Turnarounds are never permanent. Constant vigilance is required to remain competitive. Several companies managed highly successful turnarounds, experienced high rates of profitability, and enjoyed renewed market presence for several years only to experience a new predicament 15, 20, or 30 years later. The same is true of companies that have not faced crisis. Managers can never rest assured that their companies are out of the woods.

For Example: Daimler Chrysler

DaimlerChrysler is headed into tough times, and it still makes many decisions badly. The corporation has a bloated division in Mercedes, which has managed to lose money despite its high status, thanks partly to a steep decline in quality, and it tries to solve that problem with frequent, trust-eroding, productivity-killing layoffs at Chrysler.

Tangible production is the ultimate source of the standard of living for the entire society. Without strong world-class productivity on the part of agriculture, mining, construction, and manufacturing, the rest of our society can only lose ground economically, socially, and politically. The services, government, and trade segments of our society, though important, cannot produce wealth in real terms. Only carefully nurtured tangible production can ultimately provide for the capital accumulation needed to improve the competitive position of India and provide its population with a meaningful standard of living.

Because tangible production is so integral to the economic well-being and social stability of our citizens, we need to develop better methodologies for the revitalization of tangible producers experiencing decline and stagnation. We must develop the skills to turn around these crucially important contributors to our economy and culture.

Remedial skills will be needed also for those companies providing services to our industrial economy. The providers of needed services must become more cost-effective to obtain business from an industrial economy that is becoming more discriminating as it faces its own competitive pressures. We must recognize that increasing efficiency on the part of service providers is central to the resurgence of our industrial sector.

At the same time, we should develop some basic principles to guide our industrial development programs and our turnarounds. We must employ more refined economic models and a more qualitative form of economics. We must work within a framework of ethics, morality, and self-sacrifice at every level in business and government — and personally. We must promote industrial development programs aimed at improving the competitive edge of our present industries — programs that are more specific, more oriented to the production of needed tangible goods and services, and more commonsensical. We must learn to accomplish far more at far less cost by employing a far greater efficiency. We must develop industrial procedures that are more compatible with our environment.

We must formulate our public, private, and personal policies with the perspective that, in order to provide a stable economy in the future, we must alter our behavior. Our situation is serious. We must systematically appraise our present situation and take those actions that will provide economic stability for those who follow us. We cannot continue to drift.