CHAPTER – I

INTRODUCTION

Contents                           Pages
1.1 Introduction................................................................. 2
1.2 Importance of the Study....................................................... 4
1.3 Statement of the Problem....................................................... 4
1.4 Objectives of the Study......................................................... 6
1.5 Hypothesis of the Study......................................................... 6
1.6 Scope of the Study.............................................................. 7
1.7 Methodology........................................................................ 8
1.8 Period of Study ................................................................. 12
1.9 Operational Definitions ....................................................... 12
1.10 Limitations of the Study...................................................... 14
1.11 Scheme of Report.............................................................. 15
References ................................................................. 16
1.1 Introduction

Industrial sickness is a global phenomenon. It adversely affects industrial production, optimum resource utilization and employment (Ministry of Industry, 1993). As companies fail, employees lose employment; other firms that are suppliers or customers are forced to make difficult adjustments to their operations; governments suffer from reduced tax revenues and increased social security costs. The heavy social and economic costs of company failure can be reduced through the implementation of proven company turnaround measures which would reverse sickness and promise a new life to the failing company.

Public Sector Enterprises in India have contributed significantly to the industrialization of the country. Over the years, the Central and State governments have invested substantial amounts in Public Enterprises (PE) but the performance of this sector is highly deplorable. The assumption behind encouraging PEs was that they would create wealth for the nation. The redistribution of wealth thus created would make India a prosperous nation. However, this has proved to be only a wishful thinking. Out of the 240 Central Public Sector Enterprises (CPSEs), 128 are running at a loss as on 31st March 2005 (Department of Public Enterprises, 2006). A study conducted by the Institute of Public Enterprises ([IPE], 1997), Hyderabad, showed that out of 1128 State Level Public Sector Enterprises (SLPEs) in India, about which information is available, 538 units were making losses. The state of Kerala which is having the highest concentration of SLPEs in India also reports a bleak picture. Of the 113 SLPEs of Kerala, only 38 (36.54 percent) are making profits (Bureau of Public Enterprises [BPE], 2006) and the rest are either running at a loss or at different stages of their liquidation or closed. Altogether, they produced a net loss of Rs. 221.69 crores at the end of March, 2005. Huge amount of public money is blocked in these enterprises, which could have been spent for more productive use. Evidently, a turnaround in the performance of PEs would contribute immensely to nation building.

There has been an attempt all over the world to reform and restructure PEs, especially since the 1980’s. In India, an urgency to introduce such a reform was strongly
felt during the economic crisis of the late eighties. The Industrial Policy Statement of July 24, 1991, adopted a new approach towards Public Enterprises. Public Enterprises which were chronically sick were to be referred to the Board for Industrial and Financial Reconstruction (BIFR) for formulation of revival / rehabilitation schemes. Among the states which have taken up SLPE reform, the State of Kerala could be considered a forerunner. From the eighth five-year plan onwards, the State Level Public Enterprises of Kerala have been accorded greater thrust on revival/restructuring. The State Planning Board ([SPB], June 1990), Government of Kerala (GOK), emphasized that the approach of the eighth plan (1990-95) should be towards the revival and consolidation of Public Sector Units by grouping them according to the type of industries and implementing suitable programme of modernization and expansion for their viable growth. More or less the same approach was suggested for the 9th plan (1997-2002) also. The State Planning Board (1997) stated that “for the ninth plan, the objective set is to improve the performance of PE’s through more effective strategies and appropriate investment for the revival of sick units. The role of government as a facilitator rather than a direct financier of industrialization is to be given greater importance” (p. 70). Apart from the Government, others including financial institutions, management, employees, etc., are actively involved in the process of turnaround among the sick Public Enterprises. How far the various measures contributed to PE turnaround is worth exploring as it might reveal the vital elements of PE turnaround.

The process of reversing sickness is called Turnaround. It may be defined as the ‘reversal of a firm’s declining situation’ (Schendel, Patton, and Riggs, 1976). Turnaround management covers all the managerial actions taken to bring back the company to a good sustainable performance from a situation of poor performance. Though sick Public Enterprises of both Central and State governments have undergone reform and restructuring attempts, in academic circles the issue of reform and restructuring is often considered only with reference to Central Government Enterprises (Reddy, 1992). A study on turnaround attempts among the sick SLPEs is likely to reveal the true outcome of the reform and restructuring measures undertaken in Public Enterprises at the State level.
1.2 Importance of the Study

The sickness and closure of a business is a tragic event that has wide-ranging consequences. It affects individuals, firms and the government. The heavy social and economic costs of company failure can be reduced if the government and company management are able to implement proven company turnaround measures. A study on turnaround may provide vital clues as to what constitutes successful turnaround. The present study contributes lots of insights into the working of SLPEs, especially in a turnaround situation, and suggests measures that would bring about successful turnaround. These findings are expected to empower the company management, government and all other stakeholders with proven tools and processes to achieve turnaround in a sick company. It is believed that the study will help all the PE’s to formulate plans on the desired lines and set the industrialization of Kerala on a faster pace.

The review of literature revealed that though there have been many studies on different aspects of turnaround management in India and abroad, there have been no specific studies that emphasize the turnaround/revival aspects of SLPE’s especially in a typical Kerala setting. The study also contributes significantly to the existing theory on turnaround, especially regarding the applicability of earlier research finding in the SLPEs of Kerala. Hence, the present study is quite relevant and timely from both academic and industrial points of view.

1.3 Statement of the Problem

At present, the industrial scenario in Kerala is marked by a shift towards revival of existing SLPEs rather than establishing new units in the Public Sector (SPB, June 1990; SPB, March 1997; GOK, 2001; GOK, 2003). The growing magnitude of sickness warranted adequate turnaround responses in the external and internal environment of SLPEs. The State Government has set up specialized institutions like the Public Sector Restructuring and Internal Audit Board (RIAB) and the Enterprise Reforms Committee (ERC) to undertake reforms and restructuring on a war footing. At the Central
Government level, the Sick Industrial Companies (Special Provision) Act, 1985 (SICA, 1985) was enacted by parliament to deal with the growing menace of sickness. It contained provisions for setting up of a quasi – judicial body called Board for Industrial and Financial Reconstruction (BIFR) to spearhead the process of revival. Moreover, the State of Kerala is spending crores of rupees every year for the revival/restructuring of her sick SLPEs. During 2001-2002, an amount of Rs. 124.56 crore (Comptroller and Auditor General of India [CAG], 2004) was released to 40 units and in 2002-03, the money released to 45 units amounted to Rs.280.55 crore. Apart from the initiatives at the external environment level, individual SLPEs are also undertaking lots of measures at the enterprise level to reverse the company sickness. In spite of all these measures, the number of companies making profit/loss remains more or less same every year. Compared to 36 units making profit in 1990-91, only 38 companies could make profit in 2004-05, showing only a marginal increase (see Table 3.3, p. 84). In 2004-05, 49 loss making SLPEs reported a total loss of Rs. 501.50 crore. 26 SLPEs were non-working owing to their huge financial losses and unviable businesses and were either closed in the past or were under different stages of liquidation/closure/merger. The continued poor performance of SLPEs has created doubts about the effectiveness of turnaround responses undertaken at both the external and enterprise level. Even though intensive efforts from different quarters failed to turn around the performance of many loss-making sick SLPEs, there are many instances of successful turnaround which completely reversed the loss situation. Hence the researcher found it important to know why some companies achieved turnaround where other companies failed. The present study explores the following relevant aspects that are believed to play a significant role in explaining the turnaround outcome, success or failure.

1. How far the ‘Turnaround Response’ has contributed to the turnaround of SLPEs under sickness?

2. How far the ‘Turnaround Context’ consisting of causes of sickness, triggering events or actions, and stakeholders has contributed to the turnaround of sick SLPEs?
3. Is there any possibility for developing a Turnaround Management Model that would explain successful turnaround attempts among the SLPEs of Kerala?

4. What are the various problems / constraints faced by the Top Management during turnaround attempts?

1.4 Objectives of the Study

The main objective of the study is to evaluate the effectiveness of turnaround attempts in selected State Level Public Sector Enterprises of Kerala. For this purpose, the various aspects that are expected to contribute to SLPE turnaround are explored with the following specific sub-objectives in mind.

1. To examine the influence of ‘Turnaround Response’ in turning around the performance of SLPEs in Sickness.

2. To evaluate the role of ‘Turnaround Context’ consisting of Causes of Sickness, Triggering events or actions, and Stakeholders in the turnaround of SLPEs under Sickness.

3. To develop a Turnaround Management Model that would explain successful turnaround attempts.

4. To identify the various problems/constraints faced by Top Management of SLPEs during turnaround attempts.

5. To make suggestions and recommendations based on the findings of the study.

1.5 Hypotheses of the Study

The hypotheses formulated and tested in accordance with the research objectives are the following.

H₀₁. There is no significant difference between turnaround and non-turnaround SLPEs with regard to various turnaround responses.
H$_{02}$. There is no significant difference between turnaround and non-turnaround SLPEs with regard to turnaround context consisting of causes of sickness, triggering events or actions, and stakeholders.

H$_{03}$. The turnaround response factors do not significantly depend on turnaround context during the turnaround attempt.

H$_{04}$. The turnaround context factors do not significantly depend on each other during the turnaround attempt.

H$_{05}$. There is no significant difference between turnaround and non-turnaround SLPEs with regard to the various problems/constraints faced by the Top Management during the turnaround attempt.

1.6 Scope of the Study

The SLPEs in Kerala are engaged in a wide array of activities including manufacturing, welfare, public utilities, trading etc. Owing to time and resource constraints, the present study covers only the SLPEs in the manufacturing category which has the largest collection of SLPEs with 64 units. The manufacturing segment is also characterized by the higher proportion of commercial enterprises (for profit) compared to non-manufacturing category which has the largest concentration of social or non-commercial (not for profit) SLPEs. Out of the 64 units in the manufacturing category 59 companies were commercial enterprises whereas out of the 49 units in the non-manufacturing category, only nine units were commercial.

A common approach to study the performance of commercial SLPEs mixing up with SLPEs of social orientation is likely to give diffused result owing to basic differences in their working. Further, the present study makes use of profit as a measure of turnaround performance, it holds good only in the case of companies with a commercial character. Hence, in order to set the study more focused, the SLPEs with a commercial orientation in the manufacturing category alone could be considered. The scope of the study, therefore, was limited to Manufacturing SLPEs of a commercial character.
1.7 Methodology

The study makes use of both primary and secondary data. The secondary data for the study were collected from the published reports of government, reports of various committees and task forces appointed to study PEs, annual reports of individual PEs, research journals, books, magazines, newspapers, websites, etc. The primary data were collected using structured interview schedule. The variables identified through the review of literature were screened with the help of experts to see that only relevant variables were included in the interview schedule. The interview schedule prepared was further tested for its validity and reliability through a pilot study covering five respondents. The interview schedule was redrafted based on the feedback received. The dominant approach to study turnaround is to compare the companies that turned around with the companies that failed to turn around. This approach would bring out the factors that distinguish turnaround and non-turnaround companies. However, one of the key issues in turnaround research is the selection of right candidates of turnaround and non-turnaround companies. For this, the researcher had to ensure that companies selected for study had really faced a sickness situation and had taken measures to reverse the same, resulting in either success or failure. While selecting the sample turnaround and non-turnaround companies, the researcher has followed a set of criteria which ensured that the companies selected had really gone through the situation of sickness and turnaround/non-turnaround.

The present study surveys the experience of top management people in turnaround and non-turnaround companies during the turnaround attempt. The top management is categorized by BPE, Government of Kerala as ‘Senior Executives’ (BPE, 2006) consisting of CEOs and other senior managers in the level of heads of department and above. The population of the study, therefore, is the ‘Senior Executives’ of the Turnaround and Non-Turnaround SLPEs of Kerala selected as per the criteria. The following procedure was adopted for selecting the sample companies and respondents.

The selection of sample companies and sample respondents was done in different stages. In the first stage, out of the 113 SLPEs (BPE, 2005) of Kerala, the manufacturing group was selected. The manufacturing group was selected because of two reasons. It had
the largest collection of SLPEs with 64 units and had the largest concentration of commercial enterprises with 59 units. As the focus of the study is SLPEs with commercial character, only 59 SLPEs under the manufacturing group could be considered for the study. Further examination of 59 manufacturing SLPEs, however, showed that 19 of them were not working or remained closed during the survey period. Hence, the five non-commercial or social SLPEs and 19 non-working SLPEs in the manufacturing group were excluded from the manufacturing list and only the remaining 40 working SLPEs of a commercial character were considered for further examination.

In the second stage, the financial data and other secondary data relating to 40 such SLPEs since 1990 – 91 were considered for the selection of likely turnaround and non-turnaround candidates using the following criteria.

**Criteria for the Selection of Turnaround Companies**

The turnaround units were selected on the basis of the following criteria:-

- The company selected should have gone through a sickness period prior to its turnaround, i.e., the company should have incurred a loss (PBT) for at least two years continuously or should have incurred a loss (PBT) in two out of three years immediately preceding the turnaround period.
- It should have received funds for reforms from the government/financial institutions
- The company should have achieved turnaround, i.e., the company should have made profit (PBT) for at least two years continuously after the sickness period.
- It should have commenced business at least 10 years immediately preceding the turnaround period, to avoid the effect of newly started companies that normally show a few years of initial loss followed by a few years of profit.
Criteria for the Selection of Non-Turnaround Companies

Companies under non-turnaround category were selected as per the following criteria:-

- The company selected should have gone through a sickness period, i.e., the company should have incurred a loss (PBT) for at least two years continuously or incurred loss (PBT) in two out of three years.
- It should have received funds for reforms from the government/financial institutions.
- The company should not have achieved turnaround or should have remained in sickness even after the turnaround attempt. The turnaround occurs when a company makes profit (PBT) for at least two years continuously after the sickness period.
- It should have completed at least 10 years prior to the turnaround attempt to avoid the effect of newly started companies that normally show a few years of initial loss.

The examination of financial data (Appendix - IV) since 1990-91 and other secondary sources relating to 40 Manufacturing SLPEs using the above-mentioned criteria provided 21 companies which could be considered for detailed study. For this, the researcher had made use of the information contained in the published documents of the Government of Kerala, such as White Paper (GOK, 1998) published by the Industries Department, annual reports of companies, annual reviews of public enterprises published by the Bureau of Public Enterprises and the annual Economic Reviews published by the State Planning Board. Of the 21 companies identified, 14 belonged to the turnaround category and seven to the non-turnaround category.

In the third stage, from the list of 21 companies which were identified using the criteria, around 50 percent (approximately) companies from both groups were randomly selected for detailed analyses. Hence, seven companies from the turnaround group and three from the non-turnaround group were randomly selected for the detailed study. The number of ‘Senior Executives’ (BPE, 2005) of the sample companies is given below along with the number of people contacted and interviews conducted.
Table 1.1

Senior Executives in the Selected Companies and the Number of Senior Executives Contacted and Interviewed

<table>
<thead>
<tr>
<th>SL. No.</th>
<th>Name of the Company</th>
<th>No. of Senior Executives</th>
<th>No. of senior executives contacted</th>
<th>No. of executives interviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turnaround Category</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>KMML</td>
<td>18</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>KAL</td>
<td>10</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>SIFL</td>
<td>9</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>KELTECH</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Form Mattings Ltd</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>KAIC</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>TELK</td>
<td>9</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>59</td>
<td>42</td>
<td>33</td>
</tr>
<tr>
<td>Non -Turnaround Category</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>KELTRON</td>
<td>95</td>
<td>15</td>
<td>4</td>
</tr>
<tr>
<td>2</td>
<td>SILK</td>
<td>52</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>AUTOCAST</td>
<td>7</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>154</td>
<td>31</td>
<td>16</td>
</tr>
<tr>
<td>Grand total</td>
<td></td>
<td>213</td>
<td>73</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: BPE (2005)

The total number of ‘Senior Executives’ of the 10 sample companies (BPE, 2005) was 213, with 59 from the turnaround group and 154 from the non-turnaround group. The number of ‘Senior Executives’ contacted for interview was 73, consisting of 42 from the turnaround group and 31 from the non-turnaround group. However, interviews could be conducted only with 49 respondents, 33 from the turnaround group and 16 from the non-turnaround group. The response rate was high for the turnaround category (79%) compared to non turnaround category (52%). This is consistent with the experiences of past research on sickness where respondents of failing companies have more resistance to share information (Hambrick, and D’Aveni, 1988). The data collected using interview
schedule were analyzed using appropriate statistical tools such as Mean, Cross Tabulations, Independent Samples t-test, Factor Analysis, Discriminant Analysis and Step-Wise Regression. All the analysis was done using the statistical package, SPSS.

1.8 Period of Study

The present study covers all the State Level Public Enterprises of a commercial character in the manufacturing category that made a turnaround attempt during the period 1990-01 to 2004-05 meeting the selection criteria. Therefore, secondary financial data pertaining to a period of 15 years (Appendix - IV) relating to 40 such SLPEs were considered for the selection of turnaround and non-turnaround companies. The primary data were collected during the period 2005 to 2007 through an interview schedule measuring the experience of respondents during their sickness and turnaround period.

1.9 Operational Definitions

Turnaround Management

Turnaround management is a management process that reverses a sickness situation and denotes management actions taken to bring the firm back to sustainable good performance levels.

Top Management

Top Management refer to the ‘Senior Executives’ as defined by BPE (2006), Government of Kerala, consisting of CEOs and other senior managers in the level of heads of department and above.

Turnaround Response

Turnaround Response stands for the company’s or government’s or market’s response/actions to reverse sickness.

Sickness

A company is said to be in sickness when it suffers a loss (PBT) for at least two years continuously or suffers a loss (PBT) in at least two out of three years immediately
preceding the first year of turnaround. PBT here stands for operating profit as defined by the BPE (2006), Government of Kerala.

**Turnaround**

“Turnaround is the recovery to profitability from a loss situation” (Khandwalla, 2001, p.73). The turnaround occurs when a company makes profit (PBT) for at least two years continuously immediately after the sickness period.

**Turnaround Context**

Turnaround Context stands for factors like causes of sickness, turnaround triggers, and stakeholders which create a context within which turnaround measures / response were undertaken.

**Turnaround Triggers**

Turnaround triggers are those actions or events that induce a sick company to seriously pursue turnaround. Triggers push a sick company to undertake revival measures seriously.

**Stakeholders**

Stakeholders refer to any individual, group or institution that may affect or be affected by the business activities (Freeman, 1984). They are government, trade unions, employees, customers, suppliers, share holders (owners/government), creditors, general public, etc.

**Public Enterprises (PE)**

Public Enterprises can be defined as institutions/organizations run either for commercial or social purpose or for both, owned, managed or controlled by the government and accountable to the public, but largely autonomous with a separate entity and legal status, covering almost all spheres of human activity including manufacturing, agriculture and services.
Central Public Sector Enterprises (CPSEs)

Central Public Enterprises are those companies in which the Central government has not less than 50% share in the Share Capital.

State Level Public Enterprises (SLPE’s)

An SLPE is defined (ERC, 2001) as a company established under the Companies Act, 1956 with more than 50% investment in equity by the Government of Kerala or a Co-operative Society registered or deemed to have been registered under the Kerala Co-operative Societies Act, 1969 (21 of 1969) with more than 50% investment in equity by the Government of Kerala or a statutory corporation / corporate body established under a Statute / Act of Legislature with more than 50% investment in equity by the Government of Kerala.

1.10 Limitations of the study

1. The present study evaluates Turnaround Management primarily based on the perception of ‘Senior Executives’ consisting of CEOs and other senior managers in the level of heads of department and above. A few of them contacted for the study expressed their little understanding of what happened during the turnaround period/non-turnaround period as they were either on long leave/deputation, or were new recruits. In such cases, some from the executive category were also included in the study based on the recommendations of the Senior Executives.

2. Since the study evaluates turnarounds over a period of 15 years (1990-91 to 2004-05), many respondents had to recall information from their memory which might have resulted in ‘recall bias’. However, care has been taken to ensure that the respondents interviewed were adequately aware of what happened during the turnaround period.

3. The present study also makes use of secondary data relating to PEs, published by various government departments. Lots of inconsistencies were observed in the published data across different departments and even by the same department over different years. However, care has been taken to minimize such inconsistencies.
4. The study covers only SLPEs of a commercial character in the manufacturing category. Hence, the findings of the study may be generalized only across SLPEs of a commercial character in the manufacturing category.

1.11 Scheme of Report

The research report is divided into five chapters, as described below.

**Chapter I** is an introductory one containing a discussion of the problem under study, the objectives drawn and the hypothesis framed. In order to study the objectives provided, how the data were collected and analyzed has also been detailed. The chapter also provides the period of study and the limitations of the study.

**Chapter II** contains a detailed review of prior studies in turnaround primarily to identify the research gap and to develop a theoretical framework for the study.

**Chapter III** is a brief discussion on PEs in general and the State level Public Enterprises of Kerala in particular. It deals with the concepts of PEs, their evolution, performance, etc. The chapter also discusses the sickness and turnaround in PEs with special emphasis on SLPEs of Kerala.

**Chapter IV** deals with the evaluation of data collected through the survey. It contains a detailed analysis of the data pertaining to the aspects studied and a discussion of the results arrived at.

**Chapter V** contains the summary, major findings, discussion of major findings, conclusions, suggestions emerging from the findings and the scope for further research.
References


