CHAPTER-V

TURNAROUND MANAGEMENT-A PROCESS AND STRATEGY

FOCUS

The concept of turnaround and the significance of turnaround management in the contemporary corporate world are ventilated in this chapter. The framework of turnaround and its implementation is made clear through a detailed focus. Besides, the dimensions of turnaround, the stages in the turnaround cycle and the strategies of turnaround management are detailly dealt with. This chapter is an articulation of the dimensions and intricacies of the Strategies of Turnaround Management in general.

Introduction

The incidences of corporate decline have been increasing globally\(^\text{210}\) causing organizational failure and in this regard turnaround management to be one of the most important topics addressed by business education and research in recent years\(^\text{211}\). A turnaround can refer either to a business firm that faces financial disaster or action taken to prevent the occurrence of that financial disaster. The true nature of turnaround is a firm whose recent past or projected future financial performance unacceptable to the owners / creditors. The turnaround malaise is dissected into its four stages of progressive virulence using the analogy of restoration of physical health to the restoration of fiscal health.


Turnarounds are organizational recoveries from declines. However, there has yet been no agreement on what constitutes decline. In its most severe form, this decline usually culminates in substantial losses that threaten the financial viability of the enterprise. In its middlest form, declining performance may not threaten the financial viability of a firm, but it has some serious negative impacts on market competitiveness, customer confidence, and employee morale. A successful turnaround is achieved when a company has experienced dramatic profit improvement by implementing turnaround strategies for two or three years and successfully rebuilds its position in the market place and motivates its people to complete the turnaround cycle. Achieving turnaround calls for a totally different set of skills to probe into the causes of decline and to formulate appropriate strategies to transform the company for a fresh lease of life.

Global competition, technological turbulence, high costs of capital, and other nettlesome factors will cause more and more businesses to face occasional hard times. Businesses in mature industries face particularly difficult turnaround situations such as demand is flat, customer loyalties are relatively strong, and competition generally is zero-sum.

Khandwalla identifies a corporate decline as a loss situation, and turnaround as equivalent to reaching at least a breakeven from a loss situation. Turnaround

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management is more relevant for mature organizations\textsuperscript{217} as they are likely to experience decline more than the younger ones (as proposed by life cycle theory)\textsuperscript{218}. Slatter\textsuperscript{219} on the other hand argued when a firm whose real Profit Before Tax (PBT) increased in four out of the following six years (since the downturn period), can be treated as successful turnaround firm. O’Neill\textsuperscript{220} stated that successful Corporate Turnaround is achieved when a company’s Net Income (NI) is greater than industry average in two out of the following three years after the period of performance decline.

Szuki\textsuperscript{221}, however, defined the corporate turnaround as a series of rescue efforts aimed at arresting the declining trend of business activities of a firm. Nugent\textsuperscript{222} meant turnaround management as the operational improvement measured in terms of financial results over a sustained period. The improvement may range from turning a losing enterprise into a profitable one, or making marginally profitable one more profitable. Like Suzuki’s study, Nugent supported that every turnaround situation is different and unique. The players are different, the businesses are different, and causes, levels, and cures of underperformance are different.

However, Nugent added that in a higher sense, all turnaround of size or industry and stated that the external and internal forces involved the company’s

failure in the business\textsuperscript{223}. It is very important to recognize and admit the severity of a company’s decline.\textsuperscript{224}

**Significance of Turnaround Management**

Turnaround management is the systematic and rapid implementation of a range of measures to correct a seriously unprofitable situation. It might include dealing with a financial disaster or measures to avoid the highly likely occurrence of such a disaster\textsuperscript{225}.

When firms are doing so badly that failure seems imminent then turnaround management can restore performance and profitability. The increasing competition, rapid advances in technology and rising complexity of the business conditions accompanied by blend of customers and employees, the challenges for any corporate have been rising. Only a timely response to this situation can save organisations.

But, due to management inefficiency, most of the corporate fail to identify the problems and therefore delay in taking precautionary measures affecting the owners, employees, customers, suppliers and the economy. To restore the organisation on its normal course, a corporate turnaround is essential.\textsuperscript{226} Organizational turnaround is influenced not only by good management practices but also by shifts in organization. The impact of such shifts on organizational performance especially in public sector

organizations has neutral or negative effects on performance but the extent of organizational strategy as well as environment influence turnaround success.\textsuperscript{227}

Good management practices, favorable shifts in external environmental variables, and changes in organizational inertia are all contribute to turnaround success besides organizational performance which can be influenced strongly by both organizational choices and external constraints. It is therefore, apparent to study and differentiate the seeds of business decline of the declining firms viz., internal as well as external. While most of the external signals of business failure cannot be fully controlled by the firms on the other hand the internal events are believed to be extremely important because the management has a direct control over them.

**Reasons for Failure and Decline**

The prime reasons of organizational decline have been viewed along two dimensions viz., factors external to the organization i.e., exogenous\textsuperscript{228}, \textsuperscript{229} and endogenous\textsuperscript{230} to the organization. Schendel \textit{et. al.}\textsuperscript{231} initially proposed this dichotomy, arguing that a firm needs to understand the root causes of its decline and respond to its needs, thereafter, to be geared to the nature of the problem that created that decline initially.

However, the decline primarily comes from factors external to the firm. Thus, there may be a changes in the environment that promote new organizational forms\textsuperscript{232},

\begin{thebibliography}{9}
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\bibitem{228} Cameron \textit{et. al.} \textit{Op. Cited.}, p.97.
\bibitem{232} Hannan, Michael T and Freeman John H., The Population Ecology of Organizations, American
\end{thebibliography}
new dominant technologies\textsuperscript{233} or new business models \textsuperscript{234} leading to decline in firms that are unable to adapt to the changes. This view is widely accepted albeit from different perspectives by population ecology research \textsuperscript{235} and worked in industrial economics\textsuperscript{236}.

Population ecology proposes that the survival of organizations in decline facing such environments is problematic since firms are unable to adapt to the environmental niche due to limited carrying capacity of the environment. This view suggests that turnaround is very difficult and heavily dependent on changes in the industry and environment\textsuperscript{237}. An industrial organization perspective also emphasizes the importance of the external environment but firms have much more agility and ability to respond to change by making favorable changes or adapting to their environments. In contrast, the internal causes of firm decline focus attention on the operating problems of companies\textsuperscript{238}.

This implies that firms have internal resources at their disposal and make choices about the application of those resources that impact the success of the business. In addition, operational problems of firms that can lead to decline include excess assets, high costs, ineffective sales and marketing, \textsuperscript{239,240} or unproductive new

\textsuperscript{235}. Hannan, Michael T and Freeman John H., \textit{Ibid.},
\textsuperscript{240}. Hofer.C. W., \textit{Ibid.},

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product development\textsuperscript{241}. However, the external view suggests that managers have a significant amount of control over the business and can respond proactively and directly to environmental change or technological change.

The principal reasons causing the corporate decline involved the internal causes which include internal generated problems, real balance of external and internal factors, and internal problems triggered by external factors. The internal factors for troubled companies have an impact on corporate decline\textsuperscript{242}. This implies that a company should assess its internal strengths and weaknesses in relation to the external opportunities and threats it faces in its business environments.

Nugent\textsuperscript{243} strongly supported that internal factors were the prominent causes of business decline and cited poor management, ignored market indicators, poor operating and financial controls, over-leverage, cost escalation and increase in sales and environmental changes are some of the causes of decline. As a matter of fact, it is very important to differentiate the external and internal causes of business failure in the market. While most external factors for business failure can not be fully controlled by the company, the internal factors are to be extremely important factors because the management has a direct control over them.

Attempts are made to develop a comprehensive framework for turnaround management that could help managers to pre-empt and ameliorate declining conditions\textsuperscript{244}.

\textsuperscript{242} Bibeault Donald. B., Ibid., p.98.  
Turnaround Plan – The Salient Ingredients

The phenomenon of turnaround has different dimensions both in the West as well as in India. Some of the dimensions are based on available secondary data while the others are live focus of case studies. These studies, especially studied the Third World turnarounds, suggest ten principal ingredients of turnaround management and most of the turnarounds are based on various combinations of these. Among the Indian nine case studies, out of which five from public and four from private sector, the salient essentials of turnaround proposed by Khandwalla Pradip.N are: i) a dynamic change agent with a strong sense of mission, preferably from outside the organisation, (ii) credibility building through some outstanding performance, (iii) mobilization of the rank-and-file by getting them involved in the organisation's goals and activities, (iv) quick pay-off projects for some immediate relief, (v) reprieve from serious external pressures, especially those relating to industrial relations, finance, key inputs, stakeholders, etc. (vi) mobilization of external resources and utilisation of environmental opportunities, (vii) strengthening of mechanisms to influence the environment, such as marketing, and public relations, (viii) selective changes in the product mix, concentrating on high pay-off products, (ix) selective strengthening of management functions and systems, especially the financial control system, (x) motivating managers through participation, autonomy, challenging tasks, accountability, example setting, etc. (xi) coordination through regular review meetings and face- to-face interaction and (x) performance control through goal-setting and fixing of responsibility, often creating profit and cost centres.

However, there is a chance of permanent recovery for ailing units from declining which is depending upon three constituents\textsuperscript{247} viz.,

1. A core business has capable of generating cash flow, preferably showing a positive current EBIT and the ability to meet future challenges.
2. A new or sufficient source of finance, preferably long-term.
3. A management team capable of assuming operating control of the firm.

A permanent core business is the quintessential ingredient of a successful turnaround. A core business has (i) a given product, (ii) a pipeline or newer products, (iii) loyal customers or a steady influx of new customers, (iv) a reliable source of material supply (v) sufficient stores of equipment to minimize near-term investment requirements and (vi) a co-operative workforce. A successful turnaround recovery robust plan consists of seven essential ingredients viz., crisis stabilization, new leadership, stakeholder management, strategic focus, critical process improvements, organizational change and financial restructuring. Successful turnaround situations are characterized by significant actions in each of these seven areas. Crisis stabilization is at the top and it plays a critical role in any successful recovery situation. Creating short-term breathing space i.e., new strong leadership is an essential prerequisite and second ingredient for a successful turnaround.

The critical role of stakeholders in the process of recovery is the third component and the other three elements recognize the integrative nature of a business. Successful organization develops viable strategies that is aligned and integrate it with effective business processes and appropriate organization structure. The final ingredient is financial restructuring which addresses the sound financial base and

appropriate funding for the recovery. Each of these core areas of the turnaround plan is supported by a range of generic strategies that address the problems most commonly encountered. These include crisis stabilization, new leadership, stakeholder focus, strategic, organizational change, critical process improvements and financial restructuring.

Framework of Turnaround

A successful turnaround depends on developing appropriate turnaround prescription and implementation of effective turnaround plan. A successful turnaround plan consists of seven essential ingredients and an implementation framework. The implementation framework has seven key work streams. The appropriate rescue plan or turnaround prescription must address the fundamental problems, tackle the underlying causes and be broad and deep enough in scope to resolve all the key issues.

The Process of Turnaround

Organisations have to make a series of action choices during the turnaround process. Effective action choices lead to improvement in performance in terms of productivity and resources. On the other hand, ineffective action choices can worsen the condition, even ending up with the dissolution of the company. Often, the top management arrives at decisions regarding these action choices with the help of external assistance like consultants. Efforts at generalizing action choices have led to the development of a typology of turnaround process.

Khandwalla\textsuperscript{250} identifies four basic types of turnaround processes viz., surgical-reconstructive, surgical-innovative, non-surgical-innovative and non-surgical-transformational. An analysis of sixty-five published turnaround cases indicates that domain initiative, cost reduction and changes in top management are some of the universal activities in the turnaround process. However, Robbins and Pearce\textsuperscript{251} identify two types of courses of action viz., a) efficiency driven with belt tightening and streamlining of operation and b) competitive strategy oriented with changes in technology, products or makers. While Khandwalla reiterates cost reduction as an essential activity in the turnaround process, for Robbins and Pearce it is one of the strategic options.

The series of turnaround actions taken by organizations can be grouped under the following categories. (i) change in the leadership, (ii) forming the team at the top, (iii) change in strategy, (iv) retrenchment of assets and people, (v) upgrading of technology, (vi) financial restructuring, (vii) organizational change and (viii) support of the parent company.

(i) Change in Leadership

The most powerful transformative leaders possess a paradoxical mixture of personal humility and professional will. They are timid and fearful, shy and fearless. They are rare and unstoppable.\textsuperscript{252} Incompetent leadership is one of the prime reasons for organizational decline and restoration of legitimacy is an important step in turnaround activity.

Hence, the process generally starts with personnel change at the leadership position. This has consistently been indicated as a prerequisite to initiate turnaround actions. Changing the leadership and restores confidence of different stakeholders is the foremost aspect in turnaround process. Yet, there are various other reasons, change of leader in the process of turnaround is of vital importance. Though leadership change is an effective turnaround choice, it may not be an effective strategy in all situations especially when the causes of decline are external, leadership change will have no effect on the turnaround process.

(ii) Forming the Team at the Top

The first task of newly appointed CEO is to build a team of managers adept at addressing the complexity of turnaround process. Picking up of right human force and place them in the right is the typical problem of the turnaround leader. Hence, it is essential to attract highly competent managers who were willing to seek the challenge of turnaround and also identify executives at junior and middle levels for important roles in the declining organizations. For evaluation of all possible options of turnaround, the newly constituted team at the top formulates a strategic planning for implementation of turnaround plan. However, the firmness of the CEO on implementation of decisions is crucial in the turnaround effort.

(iii) Change in Strategy

Diagnosing the problem with the support of top management, identifying the root causes, formulation of strategy based on contingency, choice of strategy for implementation are of key elements in turn around process. However, these strategies usually take years to yield results. Therefore, diversification based recovery strategies are assumed significance in turnaround process which are also of less cost-effective.
Diversification strategies require investment of resources that declining organizations often do not possess. Niche strategies are considered most viable strategies for customer segment. However, for organizations characterized by narrow core competence, like air travel, it may be difficult to resort to domain change. Excess and lack of domain change lead to crisis. 

The extent of domain change impact on top management, level of organization resources, severity of decline and level of industry growth. Keeping in view, there is a dire need to find the relationship between decline and innovation. The study by Mone et al points out that innovation reduces with institutionalization of organizational mission, diffused power structure, lack of slack, and the feeling that decline is uncontrollable and temporary.

(iv) Retrenchment of Assets and People

Robbins and Pearce found that retrenchment was a universal stage in the process whereby businesses successfully reverse performance decline. For turnaround to be successful, retrenchment is a necessary response, regardless what kinds of problems caused the need for the turnaround. Retrenchment is a crucial stage in recovery phase of the turnaround process. Retrenchment might be useful for positive change momentum. The three potential benefits of retrenchment are: (1) efficiency restoration, (2) slack generation, and (3) momentum creation.

During downsizing, practices such as allowing employees to leave with dignity, helping them find jobs and avoiding the appearance of inequities in the layoff process can motivate remaining employees to stay and work productively. Retention

of valuable and specific skilled employees while downsizing the organisation is important for effective turnaround. Management of employee motivation in post-downsizing phase helps in turning around organisations effectively.\textsuperscript{256}

Barker and Mone\textsuperscript{257} are of the view that retrenchment may not be always true. Cases from Khandwalla\textsuperscript{258} indicate that organisations may even expand their activity in the turnaround process and retrenchment may not be significant. The effectiveness of various downsizing tactics depends on whether the organisation is undergoing a concurrent strategic reorientation or streamlining operations. Strategic reorientation provides an opportunity for change and therefore facilitates redesigning structures, processes, jobs and tasks across the organisation.

In India, characterized by high rate of unemployment, legal barriers to retrenching and competitive industrial relations make it difficult for organisations to reduce manpower. Under such conditions, other human resource interventions like redeployment and training complement VRS was taking place.

(v) Upgrading Technology

When obsolete technologies and processes have caused the organizations decline upgrade technology in the turnaround process. Yet, this involves huge investments for upgradation, in the long-term it can be very useful as a cost cutting tool. The declining firms often upgrade their technologies, to offer competitive products only in the identified niche. Upgrading technology could vary from


strengthening the current operation to investment in new processes. Selection of proper technology, costs involved, and proper implementation are some of the major issues in the process.

(vi) Financial Restructuring

In many of the cases, the interest burden was one of the important causes of decline. It would not have been possible for any of these declining firms to turn around without adequate financial restructuring with the help of banks, financial institutions and the parent company. These changes significantly reduced the expenses of the companies. Simultaneously, strengthening finance function in the organisation is important. Cash flows need to be closely monitored and financial implications of all important decisions carefully evaluated.

(vii) Organisational Change

Reallocation of people and structural changes to implement strategic changes are essential ingredients of turnaround. Creation of new teams for a series of change initiatives, relocation of staff and stopping some of the non-value added activities, restructured departments to meet the requirements of the market and availability of skilled people are some of the structural strategic changes to adopt. Changes are also required in the organisation to smoothen the information flow.

(viii) Explicit Support of the Parent Company

Long periods of sickness lead to low morale, indiscipline, and obsolescence of technology, internal management systems and practices. Turnaround actions are geared towards reversing these trends and enabling the company to operate effectively. Explicit support of the parent company dilutes these problems. It is essential for organisations to get credible support from the parent companies. This
softens the hostility of other stakeholders viz., banks, financial institutions, suppliers and employees. Organisations in regulated economies are found to be overstaffed. Manpower rationalization is an important but difficult task in these organisations. A supportive parent company dilutes employee fears on job security, retrenchment thus influencing productivity favourably. The parent company also helps organisations to overcome the immediate crisis of funds.

After examining the reasons of decline, stakeholders’ response to decline and the turnaround process, the next step involves developing a conceptual framework of action choices likely to help organization halt the decline and ensure an effective turnaround.

**Action Choice Framework of Organisational Decline and Turnaround**

From the action choice perspective, firms could decline for two reasons:a) lack of action in response to environmental changes and b) faulty action choices. Both these could be operating simultaneously in an organisation. Integrating them, Weitzel and Johnson explained the decline process from a stage theory perspective. They suggested five stages of decline viz., blinded, inaction, faulty action, crisis and dissolution. Two streams of research examine the dimension of action choice process.

The normative stream explores how action choices should be made in different contexts. The descriptive stream explores how action choices are made in organisations and what are the influencing variables. Integrating the variables of organisational decline and turnaround, assumes significance.


The action choices lead to change that could either be worsening or improving the organisational performance. The choice between no action, dissolution and turnaround is influenced by environmental and organisational factors. The most notable environmental factor is instability which could be understood in the context of product-context domain. Shift in the product-market domain allows innovative organisations to survive and prosper. These organisations are able to respond to changes in the environment by adequately incorporating changes in the product design and offerings. The extent of decline determines the degree of hostility of stakeholders which in turn influences the action choice.

The magnitude of decline can be measured along two dimensions i.e., severity and longevity. Severity of decline is defined as the extent of erosion of organisational slack. In a severe decline situation the management is more likely to act, inspite of the existing organisational inertia. This action could be closure of the business or action for turnaround. Similarly, longevity of the decline is likely to be positively associated with the action for either turnaround or closure of the organisation. However, the decline was severe ‘no action’ was primarily driven by the concern for employment in the government and easy availability of funds to managers. If the decline lasted a long time and the turnaround action was late and triggered by change of ownership and leadership.

Declining organizations are likely to have better chances of revival when they have cooperative industrial relations between the unions and management. Competitive industrial relation is likely to prompt management to close the organisation due to perceived difficulty in seeking the cooperation of unions to revive the unit.
Unfortunately, industrial relations are generally at its nadir in declining organisations owing to loss of credibility of the management. Hence, having restored credibility, managers were able to restore cooperative industrial relations. Action choice delineates the actions for turnaround i.e., no action and dissolution.

Khandwalla identified twenty-seven sets of activities to be classified under seven broad groups viz., a) personal changes, b) diagnosing and troubleshooting, c) stakeholder or people management, d) operations management, e) management systems and structure, f) financial management, and f) strategic management.

The typology of turnaround management (surgical reconstructive, surgical innovative, non-surgical innovative, non-surgical transformational) is based on retrenchment of people, upgrading technology and people management and the rest of the activities were common to most turnaround experiences. Zammuto and Cameron (1994) developed typologies on the basis of domain change and cost reduction efforts.

Robbins and Pearce classify turnaround strategy as a) efficiency driven and b) competition driven and opine asset retrenchment efforts in the turnaround process have generated a lot of arguments. It is perceived as an essential activity to ease cash flow problems in the initial stages of turnaround efforts. Barker and Mone are of the view that this may not be always true.

The Implementation Framework

The strategic point for the implementation of the turnaround process is always a diagnostic review to establish the true position of the troubled company and to

determine whether a turnaround is a viable option, as opposed to insolvency, immediate sale or liquidation. Once the decision to proceed with a turnaround has been taken by the stakeholders, seven separate implementation processes viz., ‘work streams’ have to be undertaken to ensure that the seven key ingredients are in place.

The seven key work streams have been identified as: (i) crisis management, (ii) selection of the turnaround team, (iii) stakeholder management, (iv) development of the business plan, (v) implementation of the business plan, (vi) preparation and negotiation of the business plan, (vii) project management. The integration and coordination of the above work streams is the overall management of the turnaround process.

In most turnaround situations the turnaround leader will have to understand all seven work streams, although financial restructuring may be required where the troubled company is a subsidiary of a healthy parent. These work streams are the essential for the implementation tasks of the turnaround process.

**Diagnostic Review and the Business Plan**

The immediate priority of Turnaround Leader is crisis management. He needs rapidly assesses whether the company has sufficient cash to survive in the short-term, and while a diagnostic review is being conducted, he or she starts to formulate the recovery plan. During the later phases the turnaround team will have to develop the detailed intensive business plan. The plan is the ‘Bible’ for the rescue and sets out in detail the specific actions required to restore the business to profitability, together with associated trading projections.
The implementation phase comprises an emergency phase, a strategic change phase and a growth phase. The financial restructuring is probably the last work stream to be undertaken. The key inputs for the financial restructuring are the operating cash flow forecast and funding projections for the business, and are usually contained within the business plan. The diagnostic review needs to combine the elements of a conventional strategic and operational review with those of a corporate recovery / insolvency analysis.

In a turnaround process the first task that the Turnaround Leader has to commence is an analysis of the situation described as strategic review, diagnostic review, business assessment etc., The review will need to consider the various options available to the company which are typically, sale of part / all of the business turnaround, insolvency or closure/liquidation and evaluate the financial outcome for the stakeholder under each scenario. The techniques for the review phase follow conventional consulting methodology, i.e., analysis of financial and operational data, interviews with management and staff, tour of facilities, discussions with suppliers, customers and industry experts, and industry and competitor analysis.

**Phasing of Work Streams**

The turnaround process is characterized by considerable overlap of the planning and implementation phases. There are four distinct but overlapping phases in the implementation process viz., (i) the analysis phase, (ii) the emergency phase, (iii) the strategic change phase, and (iv) growth and renewal (beyond turnaround). Exhibit -5.1 illustrates how the work streams are phased through out the turnaround process.
(i) **Analysis Phase**

This phase encompasses more than just the diagnostic review. Diagnostic review itself is the starting point for the development of the business plan. This phase begins with generic strategies such as cash management, change of CEO, strict financial control etc., to be implemented in the analysis phase.

Source: Stuart Slatter *et al.*, Leading Corporate Turnaround, Jossey Boss, June, 2009, p.36.
(ii) Emergency Phase

This phase consists of those actions necessary to ensure survival and therefore tends to focus on those generic strategies that can most easily be implemented in the short-term. Cash generation, cost reduction, increased selling effort as the principal generic strategies used in this phase of recovery. The emergency phase is often characterized by surgery i.e., divesting subsidiaries, closing plants, making employees redundant, firing the competent managers, reducing surplus inventories, selling obsolete inventories, eliminating unprofitable product lines etc., all of which are designed primarily to improve the cash outflow and stop the losses. It is during the emergency phase that the firm may seek additional financing to implement its recovery strategy and therefore overlap the financial restructuring work stream. The emergency phase will, typically, last from six months to one year, but may be longer if appropriate recovery strategies are not adopted or not well implemented.

(iii) Strategic Change Phase

While the emergency phase tends to emphasize operational factors, the strategic change phase emphasizes product / market orientation. However, product / market change usually takes time to implement and may require some investment, which may not be possible in the early phase of recovery.

It is at this strategic change phase that management and / or shareholders may realize that the long-germ viability of the firm looks doubtful, or that the investment of money and time required to achieve sustainable recovery is not worth the risks involved based on low Return On Capital Employed (ROCE), operational inefficiency and organizational knock down.
(iv) Growth Phase

This is the final phase of turnaround process and it is also called as corporate renewal. Before this can begin, the firm’s balance sheet must be improved. Once it has, the firm can start to grow, either organically through new product development and market developments, or via acquisitions or both. However in some cases high technology, a rapid return to growth may be pre-requisite for a successful turnaround.

Stages in the Turnaround Cycle

Bibeault\textsuperscript{265} delineates just five stages viz., (i) management change stage, (ii) evaluation stage, (iii) emergency stage, (iv) stabilization stage and (v) the return to normal growth stage. The elements in management change stage include spotting the turnaround leader, take charge strategies, motivating the organization. The evaluation stage comprises of the preliminary viability analysis, the detailed viability analysis, evaluation of company’s financial strength, competition position, people resource and putting it all together.

The emergency stage, stabilization and return to growth stage focus on functional areas of financial management, operations management and marketing. Bibeault five stages of a turnaround is capsule into two stage process. It is claimed that the successful turnaround was typically accomplished through a retrenchment and recovery stage. The retrenchment stage is defined as the initial response to turnaround situations, consisting of reductions in costs and assets. Its primary objective is to stabilize the performance decline.

As for the recovery stage, it is to describe a company achieving stability it begins to emphasize a set of activities that represent the implementation of the firm’s

long term strategy. If the problem of the company arose from poor strategic health, businesses would concentrate on entrepreneurial moves during the recovery stage. Thus, the companies may accomplish the turnaround process if they know what (internal or external factors) situation caused the business failure. While Slatter envision seven stages including (a) crisis management, (b) selection of the management for the turnaround, (c) project management for the turnaround, (d) stakeholder management, (e) business plan development, (f) implementation of the business plan, and (g) preparing and negotiating the financial plan (financial restructuring). These stages may overlap and work may be done on more than one stage at a time.

Chowdhury identified four stages viz., decline, response initiation, transition and outcome, which are seen in both successful and unsuccessful turnarounds. Neil Harvey elucidates the stages of turnaround as (i) recognizing the need for a turnaround, (ii) rapid appraisal of the situation, (iii) crisis management and emergency actions, (iv) the stabilization phase, (v) recovery stage and (vi) rehabilitation or return to normal processes.

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### Exhibit-5.2: Bibeault Stages of Turnaround

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<tr>
<th>Stage (s)</th>
<th>Description</th>
<th>Actions</th>
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| 1        | Management Change Stage         | 1. The board of directors or senior management decides a transition in necessary.  
|          |                                 | 2. The turnaround agent, either internal or external, is selected and given some degree of authority. |
| 2        | Evaluation Stage                | 1. The nature and extent of problems are diagnosed.  
|          |                                 | 2. The type of turnaround, strategic or operational, is chosen.  
|          |                                 | 3. An action plan is prepared. |
| 3        | Emergency Stage                 | 1. Companies on the brink of failing must do whatever is necessary to survive. |
| 4        | Stabilization Stage             | 1. Immediate problems are resolved.  
|          |                                 | 2. Plans are put in place to improve operating and strategic performance.  
|          |                                 | 3. Results are evaluated for acceptability.  
|          |                                 | 4. When results are insufficient, the liquidation, sale or merger options are explored. |
| 5        | Return-to-normal growth Stage   | 1. Normal corporate operations |


**Two Additional Stages besides the Existing Six**

There are two additional categories of activities that encompass all six stages. They are the management of stakeholder relations, as well as implementation and delivery or getting it done. Stakeholder relations and implementation are crucial for the success of turnarounds. The above six stages and two additional categories are partly illustrated in **Exhibit -5.2.**
Stage -1: Recognizing the Need for Turnaround

Bibeault\textsuperscript{269} describes this recognition as the organization’s moment of truth. At the point where a company reaches its moment of truth and decides to make fundamental changes, it has gone from absolute decline to positive turnaround. People and management are often avoid facing up crisis issues. A crisis is therefore, often the trigger in recognizing the need for a turnaround. Recognition may also come from dissatisfaction with below average performance or even from far-sighted management anticipating problems before they arise.

Stage -2: Rapid Appraisal of the Situation

It is crucial to assess the seriousness of the situation and the potential viability of the organization as quickly as possible. The availability of reliable information will often determine the speed is another essential part of the rapid appraisal plan which suits the needs of key stakeholders, especially customers, suppliers and key employees. The key to success in the majority of turnarounds is analysis of both product line and customer profitability at this stage. Komatsu South Africa and Conlog (Consolidated Logic – An Electric Company) are relevant examples of successful turnarounds with rationalization of customers and product lines.

Slatter and Lovett\textsuperscript{270} believe that the viability of an organization depends on the combined effect of six major factors viz., (i) causes of decline, (ii) severity of the crisis, (iii) stakeholders attitudes, (iv) the organisation’s historical strategy,(v) internal environment and (vi) cost-price structure.

\textsuperscript{269} Bibeault, Donald B. \textit{Op. Cited.}, p.98.
While Bibeault states that the four principal keys to a turnaround are: (i) new and component management with full authority to make all the required changes, (ii) an economically and competitively viable core operation, (iii) bridge capital from external and internal sources to finance the turnaround, (iv) a positive attitude and motivate people so that the initial turnaround momentum is sustained.

**Stage -3: Crisis Management and Emergency Action**

The actions of organizations will depend largely on rapid appraisal of the situation. The severity of the situation, as well as the time and money available to resolve it will be the key factors. There could be turbulent and chaotic situation. Evaluating recognizing and replacing managers and people where ever necessary are important outcome in the success of the turnaround.

Slatter, Lovett and Barlow \(^{271}\) state that while there is a wide range of leadership styles viz., (a) quickly develop clear, short-term priorities and goals, (b) exhibit visible authority, (c) set expectations and enforce standards, (d) implement decisive decisions quickly, (e) communicate continuously with all stakeholders, (f) build confidence and trust by being transpiring and honest and (g) adopt an autocratic leadership style during crisis stabilization.

The five key leadership tasks identify for stabiling crisis are : (i) grab the control levers (establish controls, set targets, measure results, continuous vigilance), (ii) take tough decisions, (iii) maintain visible leadership, (iv) deliver quick wins and (v) deal with dissent. The emphasis should be on identifying significant actions that

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will make the most difference. This often means that the CEO must stem the deteriorated cash flow position by taking control of cash disbursements and approving all purchase orders. Working capital management, with actions to collect debts more quickly and pay creditors later, is crucial. The product line and customer profitability analyses, value analysis in the rapid situation appraise the cost effectiveness and crisis management can include negotiations with stakeholders such as shareholders, banks, creditors, management, employees, unions and customers.

**Stage -4: Stabilisation Phase**

Stabilization as the critical factor in any successful recovery situation, hence, the turnaround leader secures a short-term future for the organization and thus creates the time space within which it can formulate and implement survival strategies and plans. The importance of predictability and communication with stakeholders in the stabilization stage as a key feature of crises shake external stakeholders’ confidence. It is vital that stakeholder confidence be rebuilt, and that can be done through the crisis stabilization phase.

Turnaround actions must make adequate provision for restructuring and reducing costs. Extreme conservative provisions not only provide a contingency against unexpected problems, but will also leave an amount to be written back to future profits. An appropriate strategy is needed to make conservative provisions but not to the extent of losing credibility. Contingency provisions should be clearly identified as such.

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Stage -5: Detailed Analysis and Development of a Recovery Plan

It is a distinct stage although some turnaround experts include it either in the crisis management stage or in the stabilization stage. In practice, it often occurs in both stages. The sick companies have serious problems that can be tackled only through fundamental, holistic plans. They have almost never encountered a turnaround plan that was too drastic. It is crucial to have a framework and checklist for gathering the necessary information to provide a detailed analysis leading to the recovery plan. Porter and Ohmae are the strategic profounders and expound that the industry or sector in which the troubled companies operate evaluate strategic alternatives in turnaround process.

Dimensions of Turnaround

There are different dimensions to turnarounds based on different circumstances within which the declining firms operate. The principal types of turnarounds are: (i) the management process turnaround; (ii) the economic or business cycle turnaround, (iii) competitive environment turnaround, (iv) product break through turnaround, and finally, the government-related turnaround. By far the most important type of turnaround is the management process turnaround.

(i) The Management Process Turnaround

It means that the principal factors that were changed to accomplish the turnaround were management process. Since the reason for decline was management problems, the principal reason for turnaround must be correction of management weaknesses that caused decline. A management process turnaround, to be successful,

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must include something much more fundamental than correcting management declines. Fundamentally, the whole culture of the organization must change.

(ii) The Economic or Business Cycle Turnaround

The second major type of turnaround is the economic or business cycle turnaround which affects cyclical industries such as real estate. Economic improvement, however, can be a big boost in an otherwise dismal scene. Good management processes, rather than economics or industry trends, are the key.

(iii) The Competitive Environment Turnaround

The market forces i.e., demand, supply and the competition is the basis for this type of turnarounds. Although economic and competitive factory definitely affect the performance of the company, the economic cycle good performers astonishingly outperform the laggards.

(iv) The Product Breakthrough Turnaround

Product breakthroughs can take two major forms: (a) breakthroughs in consumer tastes and (b) technical or scientific breakthroughs. In both cases, timing is critical and reliance on a product can make or break.

(v) Government-Related Turnaround

Usually, these turnarounds account for only a small fraction of total turnaround. These are related to a major change in government procurement policies i.e., the dissolution of contracts; a major shift in regulation, such as environmental controls; or direct government assistance.
Pradip.N.Khandwalla\textsuperscript{274} classified the types of turnaround as (i) Surgical reconstructive turnarounds, (ii) Surgical productivity / innovation oriented turnaround, (iii) Non-surgical innovation oriented turnaround and (iv) Non-surgical transformational turnaround. Both types of non-surgical turnarounds emphasized the essentials of turnarounds viz., management change, cost cutting, aggressive marketing, product-mix realignment, restructuring and so forth.

But, non-surgical transformation turnarounds were focus on collective diagnosis of factors of decline, the role of human resource and management systems. These consider institution building, transformation of the organization.

**Debtor and Creditor Led Turnarounds**

Stuart \textit{et.al.},\textsuperscript{275} opine there are two more dimensions to turnaround viz., debtor-led and creditor - led. The debtor-led turnarounds emerged as a result of under-performing companies being acquired by more aggressive competitors in their own industry or by conglomerates and then being turned around. However, creditor-led turnarounds are initiated by banks, bondholders, credit guarantee companies, asset backed financiers and even unsecured creditors can play a major role in creditor - led turnaround process.

**Public and Private Turnarounds**

Turnarounds are multi-faceted.\textsuperscript{276} Public enterprises usually initiate the process of turnaround by firing the CEO or by reviewing the business plan according to the strategy it perceives. The public sector turnarounds are characterized by much

strong human resource development, team effort, participative management, motivational and inspirational tilt. There was a much stronger emphasis in the private sector turnarounds on divestiture, innovation, and fresh managerial blood. Private enterprises also resorted to retrenchment more frequently but the difference was not statistically significant.

**Turnaround Management – A Strategic Perspective**

The French acronym ‘Strategy’ means a plan that is intended to achieve a specific reason. The term strategy was described by Porter\(^{277}\) as a category consisting of three general types of strategies that are commonly used viz., cost leadership, differentiation, and market focus emphasizing the need of efficiency, uniqueness, and effectiveness respectively. Turnaround strategies refer to the steps adopted for coming out of a serious setback, such as substantial erosion in sales or market share, often leading to financial losses and inability to meet one's basic obligations to lenders and other stakeholders. A number of turnaround strategies are identified and these are categorise as strategic and operational strategies\(^{278,279}\), entrepreneurial and efficiency strategies\(^{280}\). The former takes the form of cost cutting and asset reduction, and the latter include the revenue generation and product/ market refocusing strategies. Thus, the formation of a strategy is one of the important tools in the decision-making process and is formulated keeping in view both external and internal challenges.

This managerial process requires the art of matching and balancing between resources, skills, opportunities, and constraints. Hence, management should make better forecast of possible developments and formulate a proper strategy which indeed effective to achieve the following:

(i) formulating vision and mission statements of the organisation, (ii) defining organizational goals and objectives, (iii) diagnosing the organizational problems, (iv) optimum utilisation and allocation of resources, (v) coordination and integration of different departments of an organization, (vi) imparting training and development to the managers, (vii) assessment and forecasting of future performance, (viii) performance evaluation of management, and (ix) broadening the reflections of top management in the process of decision-making.

The pioneer scholars (Hofer and Schendel, Schendel, Patton, and Riggs) claimed that adopted strategies and management actions during the recovery process could successfully influence performance outcomes. A comparison between firms that recovered and did not recover revealed that successful turnaround management strategies included changes in management and organization, marketing, new investment expenditures, diversification of products, efficiency increase (e.g., firing and cost control), divestiture, and vertical integration. Turnaround management with reference to public sector has gained popularity (Cornforth and Paton, Jas and Skelcher, Joyce, Mordaunt, Turner et. al., Walshe et. al.). Hofer

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categorised these strategies broadly into revenue increasing, cost-cutting, and asset reduction.

**Revenue Generating Strategy**

A revenue generating strategy is an attempt to increase sales by some combination of product (re) introductions, increased advertising, increased selling effort, and lower prices. Once the resources have been identified, the decision regarding the type of operating turnaround strategy is to be followed depending on the firm’s price / cost structure and its financial situation.

**Cost - Cutting Strategy**

A cost-cutting strategy typically involves cut backs in administrative, R&D, marketing, and other seemingly discretionary expenses. Improvement in management of receivables and inventories also could be considered with in the spirit of cost-cutting strategy. Cost-cutting actions produce results more quickly than revenue generating or asset reduction strategies.

**Asset Reduction Strategy**

An asset reduction strategy involves disposal of assets primarily fixed assets. The current sales are less than a third of its break-even and then the only viable option is usually an asset reduction strategy especially if the business is nearer to bankruptcy.

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The current sales are between 30 and 60 percent of its current break-even point then the most appropriate turnaround strategies are normally revenue generating or asset reduction strategies.

There is no way to reduce costs sufficiently to reach a new break-even point, and the time and resources available to the firm are usually, not adequate to attempt a combination strategy. The choice between revenue generating and asset reduction strategies in such situations depends primarily on the long-term potential of the business. A later work done by Meyer and Zucker suggested cutting expenditures to the bone and is complementary characteristic investment in new areas. These strategies were termed as the combination of slash-and-burn together with aggressive growth.

Though private and public organisations are surrounded by different environments, general organisational cycles could be similar. Cornforth and Paton\textsuperscript{291} noted that as a result of imperfect and erratic market-driven processes, cycles of relative decline and recovery are commonly observed among companies and this has been a major focus of research…similar cycles of decline and recovery occur in the public and non-profit setting - indeed, the rhetoric of turnaround has become commonplace. Therefore, TMS have gained prominence especially in corporate sector.

Schendel \textit{et. al.},\textsuperscript{292} who studied 54 American companies, identified changes in top management, greater R&D, introduction of new products, modernization, expansion and/or diversification, and efficiency measures through cost cutting, cost

controls, and divestment are the major turnaround strategies. Slatter suggested 10 different generic strategies in achieving turnaround success for troubled companies. Both Hofer and Slatter suggested the strategies of turnaround on the basis of causes of decline.

A large sample study by O’Neill was found that turnaround requires change in top management, redefinition of business, changes in major policies, restructuring, and careful planning of the future. It was also observed that growth strategies were less frequently used by companies which were already diversified. A major difference between the Indian and the western cases seems to be that the former had concentrated on the short-term strategies while the latter were keen also on institutionalizing the turnaround by long term strategies, such as strengthening of R&D, introduction of new products, expansion, modernization and diversification, redefining of business, and restructuring of the Organisation.

Khandwalla Pradip N. prescribed ten gestalts based on another large sample which are: (i) change in top management, (ii) credibility building, (iii) initial control, (iv) negotiation with stakeholders, (v) quick pay-off projects and actions, (vi) quick cost reduction, (vii) revenue generation, (viii) asset liquidation for cash generation (ix) mobilisation of the organisation and (x) internal co-ordination.

Zammuto and Cameron identify strategies on the basis of domain change and cost reduction efforts. His argument for matching the turnaround strategy to the changes in the environment niche has received attention of researchers.

Zimmerman\textsuperscript{296} suggested three different types of turnaround strategies viz., cost reduction, product differentiation, and management empowerment to achieve turnaround success.

Robbins and Pearce\textsuperscript{297} classify turnaround strategy in two types (a) efficiency driven, and (b) competition driven. Turnaround management strategies were classified by Boyne\textsuperscript{298} into the 3R’s: Retrenchment, Repositioning, and Reorganisation while studying public utility organisations turnarounds.

\textbf{Retrenchment (Cost Cutting Initiatives)}

Retrenchment as a turnaround strategy has efficiency orientation.\textsuperscript{299} The central element of retrenchment strategy is an emphasis on cutting costs and raising efficiency. The principal strategy consists of several sub-strategies including reviewing parts of business that are not value adding, withdrawing from markets where the firm is performing poorly, selling assets, reducing scale of operations, improving efficiency, downsizing, outsourcing and such other strategies.\textsuperscript{300} However, there is a significant positive relationship exists between retrenchment strategy and organisational turnaround.\textsuperscript{301}

\textbf{Repositioning (Revenue Raising Initiatives)}

\textsuperscript{296} Frederick M. Zimmerman., \textit{Op. Cited.}, p.146
Repositioning is an entrepreneurial strategy\textsuperscript{302} which primarily focuses on generation of revenue, product innovation, product differentiation, re-branding, growth and innovation all these ultimately leading to capturing market share.

It is, therefore, involves several sub-strategies such as moving into new markets, seeking new sources of revenue, developing new products and altering the mission and image of a company. Product differentiation can take many forms. These include differentiating in quality and price of the product from that of rival firms, differences in product design and features, differences in availability of product in terms of time and location etc. It also emphasizes altering the way of customers, suppliers and creditors\textsuperscript{303}

**Reorganisation**

This turnaround strategy consists of all strategies that are supporting the above two principal strategies for turnaround i.e., retrenchment and repositioning. Favourable environmental factors may impact organisational recovery positively. Changes in planning systems, decentralizing, human resource planning, organizational culture are some of the sub-strategies of reorganization. In addition, several macro-economic environmental changes also contributed to its turnaround, principally among these were the general growth of the economy.\textsuperscript{304}

Walshe *et al.*,\textsuperscript{305} suggested a slightly different version i.e., retrenchment, renewal, and replacement. Strategies must be selected with due consideration for the

specific crisis situation, scare resources, time pressure and other relevant factors such as reasons for change, the ways of routine action and the cost of the change.\textsuperscript{306}

Another strategy i.e., restructuring is described by Porter\textsuperscript{307} as a corporate strategy whereby firms acquire businesses having problems, turn those businesses around and then sell them at a profit.

**Turnaround Management Strategies – A Functional Classification**

A turnaround is a doubly entrepreneurial act involving ‘negative-to-breakeven’ and ‘breakeven-to-positive’ phases\textsuperscript{308} which also may have several sub-stages within the two broad phases. Accordingly five categories of functional strategies related to turnaround management, are identified for the present study viz., (a) Human Resource Strategies, (b) Financial Strategies, (c) Marketing Strategies, (d) Production/Operations Strategies and (e) Corporate Planning Strategies. Besides, the functional classification of strategies the growth, competitive, boundary management strategies, strategic and operative strategies are also considered in the ambit of turnaround.

Manimala\textsuperscript{309} who empirically intertwined the four stages in the post-decline phase of turnaround, viz., arresting sickness, reorienting, institutionalisation and growth to the 28 strategies of turnaround. A model of turnaround stages and strategies and the set of actions associated with each stage are presented in Exhibit.5.3.

### Exhibit-5.3: A Model of Turnaround Stages and Strategies

<table>
<thead>
<tr>
<th>Stages in Turnaround Management</th>
<th>Strategies Prescribed For Turnaround</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Arresting sickness</strong></td>
<td>• Credibility building by the turnaround agent&lt;br&gt;• Mobilization of the organization&lt;br&gt;• Reprieve from external pressures&lt;br&gt;• Cost cutting / cost controls&lt;br&gt;• Staff reduction, especially in non-productive areas&lt;br&gt;• Quick-Pay-Off projects and actions&lt;br&gt;• Asset reduction&lt;br&gt;• Inventory reduction.</td>
</tr>
<tr>
<td><strong>Reorienting</strong></td>
<td>• Redefining the business&lt;br&gt;• Changes in corporate identity / image&lt;br&gt;• Rationalization of product-mix to eliminate loss-making ones and to focus on core business.&lt;br&gt;• Shift from production orientation to market orientation.&lt;br&gt;• Tie-ups with reputed companies for marketing.&lt;br&gt;• Focus on quality and customer care&lt;br&gt;• Debt/capital restructuring&lt;br&gt;• Organisational restructuring&lt;br&gt;• Changes in the managerial cadre&lt;br&gt;• Financial incentives for managers / staff&lt;br&gt;• Training / retraining of employees&lt;br&gt;• Information dissemination&lt;br&gt;• Public relations and liaison.</td>
</tr>
<tr>
<td><strong>Institutionalisation and Culture Building</strong></td>
<td>• Culture building through continued training, seminars, focused programmes, slogans, rituals etc.,&lt;br&gt;• Introduction of new structures, systems and procedures including communication and coordination mechanisms.</td>
</tr>
<tr>
<td><strong>Growth and Diversification</strong></td>
<td>• Introduction of new products&lt;br&gt;• Entry into new markets, especially international markets&lt;br&gt;• Related unrelated diversification&lt;br&gt;• Focusing and strengthening R&amp;D&lt;br&gt;• Mergers and Acquisitions</td>
</tr>
</tbody>
</table>

(a) Human Resource Strategies

The human resources have to actively partner with the business leadership and develop strategies to create capabilities within the organization to speed up the execution of corporate turnaround. The strategies of human resource play a vital role in turning around the sick complex organizations. The turnaround action pertaining to human resource necessitates people intervention and involvement at all levels.

Firms experiencing negative trends of performance typically resort to retrenchment as their most prominent turnaround strategy. According to Mishra and Mishra downsizing strategy commonly adopted by troubled organisations in the early 1980s to reduce the number of employees in order to stay competitive. Retrenchment was a universal strategy in the process of turnaround whereby business successfully bounces back from decline to recovery. To be successful turnaround, retrenchment is a necessary response regardless of problems. Firms attempting cost cuts through staff-reduction remain competitive in the global market place during 1990s.

The strategies pursued under human resource are: staff reductions, massive re-training of employees, changes in the managerial cadre, including professionalization, financial incentives for employees, information dissemination to

all levels, organisational restructuring, including decentralization, and building a new culture within the organisation.\textsuperscript{316} However, in the context of successful turnarounds long-lasting employee-engagement and culture building strategies are more effective for troubled organisations. Change in top management is another strategy of human resource strategy. Leaders are often a contributing source of decline\textsuperscript{317}. Executives either directly caused the problems or failed to recognize the problems initially.\textsuperscript{318}

The first step in successful turnaround is the top management change which is recognized as a pre-condition\textsuperscript{319} as it tunes the style and tone of management, therefore, can involve and empower the employees of the organisation. Empowered employees are energetic, passionate and experience a feeling of ownership about their jobs, which will encourage and motivate the employees to contribute their innovative best with customer centric focus\textsuperscript{320}. It leads to efficiency restoration, slack generation and creating positive change momentum.

(b) Financial Strategies

The objective of financial strategy in turnaround management is to develop and use the financial competencies of the business as an asset to enhance the competitiveness of the business\textsuperscript{321}. Organisations adopt several such financial strategies as reduction in the par value of shares, obtaining loans at low rates of interest, postponement of maturity of debts, and conversion of debt into equity\textsuperscript{322}.

Robbins and Pearce\textsuperscript{323} have observed that the choice of turnaround strategies pertaining to finance is linked to the company’s financial performance. Howard\textsuperscript{324} opined that as severity of decline increased, the financial strategies for turnaround should use more of asset reduction strategies rather than cost reduction strategies. Hambrick and Schecter\textsuperscript{325} found that asset-reduction and debt-reduction to be the two pillars of financial strategies for turnaround.

Finance is the life blood of any business, hence, financial strategies play a significant role among others.\textsuperscript{326} Financial strategies associated with turnaround are aimed at (i) improving the liquidity, (ii) reducing investment and leverage, and (iii) controlling unproductive expenses.\textsuperscript{327}

Sale of obsolete assets and unprofitable subsidiaries along with divisions, improving short-term liquidity, reducing asset base\textsuperscript{328} and, therefore, lower the break-even point, increase profitability, slashing labor, production selling and administrative overheads besides R&D expenditure and financing costs is a common strategy used in the early stages of corporate turnarounds\textsuperscript{329}. Financial obligations and

\begin{thebibliography}{99}
\end{thebibliography}
related governance arrangements are sensibly analysed in the context of turnarounds.\textsuperscript{330}

To mobilize resources persuade the investors to invest their funds in a declining firm. Obviously, it is not an easy task of raising more equity. Turner\textsuperscript{331} and Radford\textsuperscript{332} suggested tie-up with another cash-rich company which is convinced of the sick company's viability and is willing to invest in it. While asset and leverage reductions constitute one component of turnaround finance strategy, cost reduction is the other. The commonly employed financial strategy is reduction of costs in relate to administrative, especially manpower, travel and telephone overheads, and on special amenities.\textsuperscript{333}

(c) Marketing Strategies

The role and importance of innovative marketing strategies in corporate turn around has been highlighted by several researchers\textsuperscript{334,335}. The marketing oriented business is customer centric, generates and disseminates market intelligence.\textsuperscript{336} Switching from production orientation to market orientation is a critical element in the turnaround because lack of sensitivity towards customer needs and change of tastes were considered to be the major reasons for the decline in sales, fall in market share

\begin{thebibliography}{99}
\footnotesize
\item 333. Hutter J R., \textit{Ibid.},
\end{thebibliography}
and accumulation of losses. Initially, it is an elimination process based on the simple criterion of financial performance.\textsuperscript{337}

Among the product-market strategies, rationalization of the product mix is the most common one because of its impact on the performance of the company. Discontinuance of unprofitable lines and concentrating on the profitable ones is the first step towards recovery. It infers that business re-focus on most profitable divisions which they had a distinctive strength. The effort here is to build on existing strengths, rather than creating new areas of strength.

Sale is the critical function in the successful turnarounds which involves four elements such as: (i) environmental comprehension, (ii) market selection, (iii) innovative market offers, and (iv) managed relationships.\textsuperscript{338, 339} Principal elements of this strategy are: increase in relative prices, direct costs, and product quality, decrease in marketing expenses and inventory overheads, reduced receivables, decline in capacity utilizations because the emphasis was not on volume but on selective high-profit opportunities.

When the markets are customer driven rather than production pushed, the growth strategies are considered to come out of stagnant markets and concentrating on growth markets.\textsuperscript{340} Focus on market niches or specialized markets, reorganisation of profitable divisions or centres, changing from high volume low variety to a low volume high variety strategy, reorientation of research and development to cater the

\textsuperscript{338} Finkin, E., Successful Corporate Turnarounds, New York, Quorum Books, 1987.
market needs with a clarity in targets, preparation of budgets and implementation of techniques of budgetary control, segmentation of the market, differential pricing, product repositioning and an emphasis on customer service are sub-strategies of marketing.\textsuperscript{341} Quality consciousness is one of the sub-strategies of marketing. Successful businesses compete on quality rather than on costs, with a view to developing competitive advantage.\textsuperscript{342} Market penetration, niche positioning and repositioning have been identified as entrepreneurial turnaround strategies for the successful corporate turnarounds.

Exhibit 5.4: Marketing Strategies for Turnaround Stage

<table>
<thead>
<tr>
<th>Marketing Decision Area</th>
<th>Emergency Stage</th>
<th>Stabilization Stage</th>
<th>Return-To-Growth Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business goal integration</td>
<td>Manage for immediate cash</td>
<td>Manage for earnings</td>
<td>Invest for future growth</td>
</tr>
<tr>
<td>Market share</td>
<td>Forego share development for improved profits, protect current franchises</td>
<td>Target efforts to high-return segments</td>
<td>Aggressively build across all segments</td>
</tr>
<tr>
<td>Pricing</td>
<td>Raise even at expense of volume</td>
<td>Stabilise for maximum profit contribution</td>
<td>Lower to build share</td>
</tr>
<tr>
<td>Promotion</td>
<td>Avoid</td>
<td>Invest only as market dictates</td>
<td>Invest heavily to build share</td>
</tr>
<tr>
<td>Existing product line</td>
<td>Eliminate low-contribution products / varieties</td>
<td>Shift mix to higher-profit product categories</td>
<td>Expand volume, add line extensions to fill out product categories</td>
</tr>
<tr>
<td>New products</td>
<td>Add only sure winners</td>
<td>Add products selectively and in controlled stages of commitment</td>
<td>Expand product line by acquisition, self-manufacture, or joint venture</td>
</tr>
</tbody>
</table>


(d) Production / Operations Strategies

Strategies must be selected with due consideration for the specific crisis situation. Scare resources, time pressure and other relevant factors viz., reasons for change, the ways of routine action and the cost of the change influence the type of the strategy. Operating strategies are cures for operating causes while strategic problems should be addressed by the strategic remedies. However, operational failures are rarely addressed with strategic turnaround actions.

A wide range of innovations ranging from modernization of plant and machinery to improvements in systems and procedures give a competitive advantage to organisations and help them to capture the market share quickly, while the investments in research and development can be gradually recovered with new product patented. Investments in technology help to increase profitability in short-run which in turn lead to improve operational efficiencies. There is a relation between cost reduction and efficient management for investments in technology and improvement of operations. Political influences, stakeholder support and cost reduction measures play an important role to raise external resources to fund other initiatives. The introduction of MBO, JIT systems, improvements in the order processing, warehousing and packaging systems, installation of a computerized MIS enhance efficiency and such systems are considered as efficiency measures and treated as cost reduction techniques.

(e) Corporate Planning Strategies

Planning is for future course of action either for short-term (annual planning) or a long-term focus (expansion, diversification, research and development and so on). In the context of turnaround management, sickness and downturn are attributed to improper planning. Pearce and Robinson\textsuperscript{349} found that contraction and consolidation are used when an organization’s problems are not pervasive.

Changes in planning have been considered under long-term when the existing products and services had limited acceptability in the market. Strategic orientation i.e., re-focusing on the core activities, expansion and diversification of business activities are of long-term in nature. On the other hand, to deal with short-term, operational strategies anticipating the changes in the environment are necessary. Manimala\textsuperscript{350} observed that the strategic actions are followed by operational ones which consist of arresting sickness, focusing on the core business and supported by institutionalization.

A study of Chowdhury and Lang\textsuperscript{351} on small manufacturing firms observed that entrepreneurial moves are alternative to retrenchment. Refocusing on the core business may often involve corporate restructuring, as the elimination of non-core activities would involve the redefining of roles and positions\textsuperscript{352}. However, for large firms all strategic actions revolve around expansion and diversification.\textsuperscript{353} , \textsuperscript{354}

(f) Growth Strategies

After diagnosing the causes of failure attention is paid to strengthen the core business, organisations take two routes to revival. The first route is acquisitions and growth while the other oriented towards internal development. Backward and forward integration are the elements of acquisitions, basically, for the sake of synergy. In some cases, the acquisitions were to enhance the brand image of the company and in very few cases, there were movements outside the core business, but that was after the turnaround was achieved.

The internal development strategy is aimed at strengthening and refocusing of Research and Development (R&D). There was neither market orientation, nor any specific targets or time plan. Hence, the effort was to channel the R&D expenses towards exploiting crucial market niches.

(g) Competitive Strategies

Competitive strategies examine the way in which a firm can compete more effectively to strengthen its market position. Usually, segmentation of markets, control of R & D costs, and effective leadership are considered under competitive strategies. History of innovations in product, market, and promotional approach, price over the last three years, strengths and weaknesses of market information and of demand projections are crucial in competitive strategy.

The historical information on sales, profit, market share, reasons (by product, channel of distribution, end-use customer group, and geographic area) for changes in market information are some of the elements which are considered under competitive strategy. It also reflects on future projections of market, product trends, plans for each market and competitive moves.

(h) Boundary Management Strategies

These strategies were meant for public sector to obtain sufficient autonomy from the government and get necessary support and resources from the government. The critical elements this strategy include exhibitions of company operations, periodic meetings and communication with the stockholders, effective use of the media, and special programmes for the groups which can influence the public are under the ambit of boundary management strategies.

Networking through professional associations also influence competitors Thus, the survival of the organisation depends upon other agencies and organisations which were taken initiative in public relations and liaison work. There is a need for private organisations to regain the confidence of the investing public especially the financial institutions.

363. Bellisario M., Ibid.
(i) Strategic Turnaround Strategies

There are two broad types of turnaround strategies viz., strategic and operating. Strategic turnaround refers to a major redefinition of the firm and / or attempts to increase the market share. Strategic turnarounds are usually attempted by declining firms facing emergency turnaround. The primary focus of strategic turnarounds is on the strategy changes sought. Performance becomes a derivative of the strategy change. Strategic moves usually require financial and non-financial resources. The strategic turnarounds embark on the basis of key functional areas viz., marketing, production, and / or engineering.

Usually, the strategic turnaround strategy would segment the market either to protect the firm from its competitors or for increase in sales/market share. Market segmentation and niche hunting play crucial role in formulation of strategic turnaround strategy.

There are four strategic asset-redeployment strategies that can be adopted for deployment of assets or convert unproductive assets into cash i.e., (i) the divestment of operating divisions and substantial operational assets, (ii) shutdown of facilities, (iii) acquisition of companies and operating assets and (iv) transfer of assets.

Divestment refers to selling off business to the profit making units where it will continue as a going concern. A divestment strategy is often an integral part of product/market refocusing. As the firm cuts out product lines, customers or whole areas of business, assets are liquidated or divested.

The focus of divestment strategies is the disposal of significant parts of the business (division or operating subsidiaries), rather than the liquidation of current assets or disposal of surplus plant and machinery that consider to be part of crisis management.\(^\text{368}\)

(j) Operating Turnaround Strategies

Operating turnarounds are oriented towards performance targets to be achieved. Operating turnarounds are usually of four types, none of which require changing the firm’s business-level strategy. These emphasize (a) increasing revenues, decreasing costs, decreasing assets or combination effort.\(^\text{369}\) However, Bibeault\(^\text{370}\) classify the operative turnaround strategies into three basic types. viz., cost-cutting, revenue generation and asset reduction. Projections to cash flows and a cash flow break-even chart are basis for selection of these strategies. Besides, net income break-even point is also considered for quantitative turnarounds.

If the sales are between 60 to 80 percent of break-even and relatively close to its current break-even point or high labour, fixed overheads, with limited financial resources, then cost cutting strategies are usually preferred. On the other hand, the sales are between 30 and 60 percent of break-even then the most appropriate turnaround strategies are normally revenue generating and asset-reduction strategies. However, cost reduction strategies result more quickly than do revenue-generating or asset-reduction strategies.

The use of asset-reduction strategies will depend on the financial position of the concern. The current sales are less than a third of its break-even, the viable option

is an asset reduction strategy, especially if the business is close to bankruptcy. Strong financial position implies the application of revenue-generating strategies that will utilize the resources in intermediate term on the other side, critical financial position. The choice of a particular turnaround strategy would be a function of the business situation, particularly its market share and its capacity utilization.

This chapter is a discourse on the conceptual philosophy, process and phases and strategies of turnaround management. It capsulate the issues like significance of turnaround management, salient ingredients of turnaround plan, diagnostic review, action-choice and implementation framework of turnaround management besides the stages and dimensions of turnaround management. The strategic movers of turnaround management are touched in the context of complex sick organizations in general and transport undertakings in specific. Key insights are drawn from functional as well as operational point of view to explain the complete process and develop insights specific to the context. The move contributes to devise, develop and implement turnaround strategies for organisations especially in the Indian scenario.