CHAPTER 2

MANAGEMENT OF TURNAROUND: EVIDENCE FROM LITERATURE

A research can be evaluated only when its procedures are reported in sufficient detail. The present research is focused on successful turnaround strategies; a comparison between public and private sector organisations is expected to be of use to the economy, country, organisations, managers, decision makers, policy makers. Many strategic management scholars in the West with a management background have exhaustively written about Strategy and Turnaround Management. They have attempted in their studies to analyze strategy, industrial sickness and turnaround management by using the tools and techniques of Management. An exhaustive literature review has been carried to identify the gap. For the sake of clarity and simplicity all the studies reviewed has been categories under public and private sector turnarounds, both successful and unsuccessful.

2.1. Studies on Successful Turnaround Strategies in Public and Private Sector Organisations

James Langabeer II (2008) investigated turnaround strategies of 100 randomly selected organisations from both local community hospitals and major medical centers in US during the years 2002-05. The data was analysed by collecting secondary data for the years from a variety of sources, including hospital annual reports, medicare cost reports, Ingenix’s Financial Benchmarking databases, annual reports of hospital’s, external periodical, local and business newspapers and journals and meta-searches using the EBSCO Business Source Complete investigative reports. In support of this longitudinal lessons of hospital turnarounds, these randomly selected businesses were positioned in one of three largely performance groups which comprise, those that are doing very well these days and whose business basics suggests insistent accomplishment, those that are doing very well nowadays but whose fundamentals proposes a likelihood for prospect decrease and those hospitals that are either doing very well at present nor
are likely to recuperate in the long run. The examination chiefly paid consideration on the third group, which are those hospitals that function currently and would work in the predictable future in rigorous monetary distress. The study categorized financial downturn by means of the Altman $z$ score for service business. The broadly pursued models are that of Edward Altman (1993), who found an MDA founded on industry collapse in the manufacturing segment which has been revised and altered for various other businesses. The findings were that significant characteristic that divides successful and unsuccessful turnarounds seems to be the procedure employed to establish which facilities or amenities are to be removed. Unsuccessful turnarounds entail comprehensive cost reductions and cuts, while successful rejuvenation verified alert efforts to (a) rationalize precise agenda, (b) reduce loss-making service lines, and (c) associate with close by rivals or association partners to in cooperation recommend particular services or other aimed incomes to lessen costs in particular areas. The fewer thriving hospitals usually declared their strategies as wide-ranging cutback or alert on organisation-wide operating efficiencies. Supply chain expense lessening were the principal target in unsuccessful turnarounds, as were efforts to act in response throughout economic reorganization only.

**John A. Pearce II (2007)** examined the view with reference to the worth of financial ratios for considering the stages of corporate downturn and revival among 42 firms encompassing both manufacturing (29 organisations) and services (13 organisations) from yearly reports listed in Compustat data in 2001 for every U.S. organizations during the years 1988-2000. Barely those organisations that went all the way through the understanding associated to the decline period of the Turnaround Model were acknowledged. The methodology involved in the study was analysis of financial ratios. The ratios employed in this study considered the liquidity, activity, and financial leverage of each organization. Then a statistical analysis involving factor analysis and discriminant analysis was done. The finding of this study not only supports the theory on the three phases of turnaround which are decline, redirection and reestablishment but also states the effectiveness of financial ratios for considering the stages of business downturn and revival.

**Joseph Murphy (2008)** theoretically distilled critical insights of leadership in turnaround in the US from both public and private sector organisations on organisational failure and recovery from empirical works and also examined the concept of turnaround leadership outside the educational sector. The study constituted four stages of turnaround that were success stage, disintegration
state, reintegration stage and recovery or death. The methodology followed was that data was collected using internet, books, articles and manuscripts on organisational turnarounds. After the initial period of reading the data, a comprehensive model was developed on organisational turnarounds and incorporated all the central ideas and themes in turnaround literature. The findings relevant to leadership for turnaround in schools were that leadership is the critical variable in turnaround equation. Change of leadership is an essential element in the organisational recovery and type of leadership and not style is important in organisational reintegration. Thus, overall turnaround in an organisation be it educational or corporate sector, effective leadership can bring about a turnaround and help an organisation to recover from a crisis situation.

Rhys Andrews, George A. Boyne and Richard M. Walker (2006) empirically tested strategy content and performance of 119 English local authorities in the year 2001 belonging to public sector. The strategy content comprised two proportions, they are strategic standpoint (the degree to which an organization is a prospector, protector, or reactor) and strategic measures (the relative importance on varying marketplace, services, revenues, outside associations, and internal distinctiveness). Data was collected from a multiple-informant survey. The finding supports that strategy content plays a vital function in hypothesizing and explaining the relative accomplishment or breakdown of public-service supplier. Furthermore, the particulars entail that public managers can craft a significant feature in service principles through the strategies they follow.

Francis Owusu (2006) examined the significant distinction in the distinctiveness of poor and well performing public organisations by using reward and hiring criterion. This analysis employs survey data for poorly performing public organization in Ghana for the period between June and August 2003. In the study, a list of forty seven public companies was collected, followed by a list of twenty five knowledgeables and they were examined by employing a survey questionnaire to grade the 47 companies on a scale of one to five, based on their capability to execute their main task. The result suggests that the external aspects are used to determine the major distinction among good and poor performers were the incentive structure. On the other hand, the external actions, that is, consumer demand and lapse, specificity of duty and political intervention, found that there was no major distinction among the two kinds of organisations. With reference to the
internal cause, only one measure, recruitment criterion, was considerably diverse among the two groups.

George A. Boyne and Kenneth J. Meier (2006) reviewed the influence of good luck and good administration on turnaround in public organizations, and recognized the comparative efficiency of diverse turnaround approaches in 150 Texas school districts that were performing on lower quartile on their chief assessment criterion in 1995. The study developed a novel model of turnaround which holds actions of good luck as well as good management. The study also moved further than previous efforts by developing fresh assumptions on the effects of internal restructuring on turnaround, and by examining a variety of turnaround strategies in the similar empirical model. Moreover, the study extended to turnaround investigations to public organizations, and checked whether revival strategies that seem to be thriving in the private sector also work in the public sector. The data on organizational strategies and perspective are derived partially from secondary source and partially from surveys of school administrators in Texas. The study initiated that turnaround is effected by exogenous modifications in environmental munificence and aggression, and by strategies of retrenchment, repositioning and reorganization.

O’Neill, H.M., Rondinelli, D.A., and Wattanakul, T., (2004) explored the effect of different categories of ownership structure on turnaround in a sample of twenty eight Thai organisations. They established considerable variations among state-owned enterprises (SOEs) and privately held enterprises (PEs) in relation to business entrepreneurial actions and in job efforts. SOE’s were less pioneering and proactive in their entrepreneurial dealings than Privately held enterprises (PEs). In circumstances of job efforts (motivation), PEs had superior levels than those in Mixed Enterprises (MEs), whereas job efforts in MEs were superior than those in SOEs. They identified that ownership arrangement have influence on an organisations turnaround, with government held or connected organisations further prone to be controlled in their revival efforts. The writer’s argued that amendments in ownership (for instance, from SOEs to PEs, that is, privatization) may perhaps be a probable means for prompting enterprise changes (O’Neill et al. 2004) as PEs were further more reactive to turnaround and changes.
Boyne, George A., and Richard M. Walker (2004) examined thirteen empirical works of organizational turnarounds in United Kingdom with regard to the private sector. The reason for the study was to report researchers and managers on the strategies that appeared to have succeeded in private organisations, and to incite discussions on the probable influence of similar path to public service turnaround. The study was a primary endeavour to resolve this gap in academic understanding and to help administrators to consider more obviously about the turnaround strategies that might work in their organizations. Support from studies of economically distressed private organisations proposed that turnaround success can be attained by strategies of retrenchment, repositioning and reorganization. Each of these strategies is viable in the public sector, even though some may be more complicated to execute in the private sector. Even if these strategies can be employed, their influence could not be calculated with assurance. There is evidently a requirement for an inclusive and comprehensive examination of the separate and joint consequences of not only these strategies but also other functional level strategies on the reverse of organizational downturn.

Howard S. Rasheed (2005) investigated the alternative among growth and retrenchment as turnaround strategies for 400 companies of small business facing decline in performance taken from the United States Small Business Administration’s (SBA) database of undersized businesses that contract with U.S. federal agencies during the next twelve month period of performance. As, strategic choice the dependent variable was to be calculated dichotomously as growth and non-growth organisations, a hierarchical logistic regression model was used to verify resource availability and financial performance that has a joint influence on strategic choice. The result indicated that the choice between growth and retrenchment strategy depends on the interaction between perceived performance and resource availability. The contractors of the small business opted growth strategy when their perceptions of resource availability and past financial performance were both high and when both were small, signifying small business owner/managers remain aggressive when faced with difficult conditions.

Alexander Daniel Falkenberg (2005) examined rigorously Straussian Grounded Theory research approach to explain the turnaround process in South East Asia and elucidated turnaround strategies for analytical turnaround situations. The findings were derived from around 100 interview contact hours held in Thailand, Malaysia, Singapore and Hong Kong with 46
individuals. The study found that in situations of firm-based decline with high availability of resources, turnaround success is related to strategic renewal. If available resources are low, strategic renewal in combination with portfolio and/or financial restructuring is related to turnaround success. In industry-contraction-based decline situations, turnaround generally involved a strategic investor, a merger and/or capacity reduction to a sustainable demand level. This study has only looked into a strategic management perspective and has paid less attention to behavioral aspects of a distressed organisation. The methodology was limited due to statistical generalisability.

Michael Harker and Bishnu Sharma (1999) studied the organisation turnaround process and associated leadership and management of the turnaround process. Four companies involved in the heavy engineering industry experiencing the shift from organisational failure to revival were studied exhaustively during the period 1980-1996. Both quantitative and qualitative aspects were studied. The study approach considered the preparation of four case studies bounded by the context of turnaround. The four companies were chosen by scrutinising stock exchange information, company reports, industry press and scholastic writings. Out of the four organisations, two were successfully revived and two were unsuccessful. The study of the failed turnarounds along with successful turnarounds, gave greater understanding into the whole rejuvenation experience and the responsibility of leadership in the process. The companies concerned were Walkers Limited which was started in 1884, Austoft (Holdings limited) started in 1947. The failed turnarounds were Southern Cross Corporation Limited started in the year 1874 and Southern Cross Machinery. The investigation has given proof on the performance of the companies through turnaround and has established the linkage between turnaround success and leadership. Besides, the forces on business knowledge, future enlargement and organisational augmentation were more noticeable in the turnaround organisations than in the company which failed in its turnaround endeavor.

Bowman, E. H., Singh, H., Useem, M. and Bhadury, R (1999) investigated 25 articles based on firm performance with regard to portfolio restructuring, financial restructuring and organisational restructuring. The study concluded that financial restructuring has the highest positive impact on performance, Portfolio restructuring has a positive impact, but lower impact on performance and organisational restructuring has inconsistent impact on performance. In
spite, of summarizing the impacts of restructuring, the contribution did not explain the restructuring efforts in performance decline situations; therefore the study seemed to be only partly applicable.

**Barker, V. L. III and Duhaime (1997)** conducted a study on 120 US manufacturing firms which were exclusively turnaround firms. The study aimed at understanding the strategic change index to performance during turnarounds based on absolute ROI, industry growth rate and top management, excessive resources, diversification and company size (as Sales). The study established a positive relation between strategic change and top management replacement, excess resources, diversification and company size. The study also established negative relation between strategic change and performance during turnaround and favourable industry events. While the study only focused on solely turnaround and did not test the finding against non turnarounds. The study concentrated on one turnaround action that is strategic change and this made the study incomparable to previous researches.

**Barker, V. L. and Mone, M. A. (1994)** examined 32 firms in the US textile industry from S&P compustat data based and selected financial data of firms. This study was a replication of Robbins and Pearce (1992). The study aimed at turnaround success based on absolute ROI levels, cost reduction and asset reduction. The study concluded that retrenchment was not integral to turnaround and that retrenchment as consequence of lower absolute performance levels of retrenching firms and resource scarcity. Retrenchment was not significantly related to turnaround success. The study did not seem to integrate emerging literature on negative effects of downsizing and missing survey and missing mediator.

**Pearce, J.A. and Robbins, D.K., (1994)** investigated a sample of 32 firms in the US textile industry during the period 1976-1985 based on Barker and Mone (1994) studies. The study aimed at turnaround success based on cost reduction and asset reduction. The study identified that retrenchment was the first state of turnaround and second stage is recovery and should be equally investigated. Thus, there was an emergence of two-staged turnaround process. The study stated that retrenchment was positively related to turnaround success. However, methodological
concern of change in Return on investment (ROI) versus absolute ROI remains. There was no acknowledgement of differences in perspectives on turnaround.

Keith D. Robbins, Pearce A. John (1992) explored 32 textile companies which were publicly held in the US during the period 1976-1985 to investigate retrenchment as an integral component of the overall turnaround process. The data was collected from objective data like the annual reports and subjective data through executive survey. The study used turnaround process model, Altman’s Z score, efficiency and liquidity ratios, simple regression, ‘t’ test and ANOVA. The study intended to understand turnaround success, turnaround strategy and turnaround situation. They concluded that retrenchment (asset reduction and cost reduction) is universally positively related to turnaround success and the severity of the turnaround situation positively moderates the effect on retrenchment in turnaround success. Turnaround situation externally positively related to entrepreneurial strategy while internally it positively related to efficiency/retrenchment strategies. This study had operationalised the turnaround success based on ROI changes, the time frame of ten years seemed to potentially produce unobserved noise and also generalization of retrenchment considered as indispensable since negative effects of retrenchment that are discussed in the literature received less attention.

The study concluded that the companies which were governed by external environment were less likely to retrench. On the other hand, the companies which were governed by internal environment were more likely to retrench. The findings also indicated that turnaround success was much more strongly related to a sustained retrenchment effort than to the implementing of analysing ensuing strategy.

Mathew J. Manimala (1991) conducted a study on 28 western and over a dozen Indian turnarounds. The author developed a model of turnaround stages and the actions that go with each other and identified four additional stages which are arresting sickness, reorienting, institutionalization and growth, in addition, to the five identified by (Bibeault 1982). This study intended at conceptual separateness and not chronological uniqueness. The stages did not appear different from Bibeault’s study in terms of turnaround actions. But emphasis of the study was on human resource development, communications and culture change, as well as on reorganization,
which was worth noting. Nevertheless, successful and unsuccessful organizations and turnaround actions based on sectors were not looked into.

**Grinyer, P.H., Mayes, D.G. and McKiernan, P. (1988)** examined the turnaround situation caused for multiple interconnected with internal and external source analysed 25 companies in UK on different industries. The study looked at turnaround situation cause from multiple interconnected internal and external sources and complexly interrelated with approached strategies. The study aimed at organisational change and sharp bending based on sense of crisis, external events, internal events, performance decline, functional responses, cost reductions, strategic changes and strategic analysis. The study found that turnaround situation cause was from multiple interconnected internal and external sources and complexly interrelated with approached strategies. The positive relation of organisational change is based on perception of organisational crisis, external intervention of banks and others, takeover threats, top management replacement, problem perception by top management and declining performance. There exists a positive relation of sharp-bending with functional response, cost reductions, top management replacement, strategic changes and diversification. The analysis of sharp bending is partially applicable to turnaround situations, methodological problems result from short overview of methods applied.

**Robbins, D.K. and Pearce, J.A., (1992)** conducted a longitudinal study on 33 small market share firms in turnaround situation in the US in textile industry based on surveys and financial data during 1976-1988. The study aimed to understand turnaround success, turnaround situation severity, cost retrenchment, asset retrenchment and reinvestment. The findings of the study stated that retrenchment (both assets and costs reduction) is universally positively related to turnaround. The study regarding retrenchment was made based on company operating above and below the breakeven point. He identified that companies which are operating below breakeven point there is a positive relation of asset retrenchment and turnaround performance. While, companies operating above breakeven point there is a negative relation of cost retrenchment and turnaround performance. Hofer (1980) suggested cost retrenchment for companies below or near breakeven point, which is not discussed in the study.
Donald C. Hambrick and D’Aveni, R.A., (1988) empirically analysed 57 matched pairs of survivors of performance decline and bankruptcies to understand the dynamics of major corporate failure in private sector corporations during the period 1972-1982 in the US in different industries. The selection of companies was based on domain initiative, environmental carrying capacity, slack and performance. The data was gathered from secondary sources. The methodology was based on T test, F tests and multiple logistical regression (LOGIT) for each year to assess the independent and combined effects of the variables on failure. The study sheds new light on the dynamics of failure of large firms. However, a sample of successful turnarounds was not examined, due to which no detailed observations could be made. The central finding is that weakness in these firms shows up relatively early. Thus, all subsequent behaviors must be taken potentially as both causes and effects of decline. This is perhaps best portrayed as a “downward spiral”, a term used by previous theorists. The main conclusion of the study was downward spiral of organisational decline through capability deterioration and extreme action taken has a positive relation to survival based on sustained performance and slack resources. While, there was no relation to survival due to domain initiative and environmental carrying capacity. However, in this study a sample of successful turnarounds was not examined, due to which no detailed observations can be made about avoiding failure. The study analysed organisational decline and therefore fits only partially into turnaround topic.

Donald C. Hambrick and Steven M. Schecter (1983) analysed 260 business units from PIMS database for four years solely on mature industries in the US. They aimed to identify strategic turnaround gestalts, positive and negative relationships with reference to return on investment. The study concluded the strategic turnaround gestalts were asset and cost surgery strategy, selective product and market pruning strategy and piecemeal strategy. In addition, the study also aimed at finding out the positive and negative relationships with Return on investment(ROI). It seems realistic to affirm that the focus on mature industries reduces generalisability and also operationalisation of turnaround used only two years of insufficient ROI, a very short time period compared to other studies. They used multiple variables to represent strategy provided empirical verification of efficiency-orientated activities (asset/cost surgery) and entrepreneurial activities, selective product, market and technology refocusing) which was significantly associated with successful turnarounds.
Bibeault, D. B. (1982) surveyed 81 turnaround firms and conducted over 100 interviews in US and UK in 1970’s to find in a business turnaround how managers turn losers into champions. The focus of this study was causes of turnaround situation, types of turnarounds and key success factors in turnaround management. The methodology used in this study was descriptive statistics. The study concluded that internal problems are predominant origin of turnaround situations and turnaround types in decreasing order of appearance were management process turnaround, business cycle turnaround, competitive environment turnaround, product breakthrough turnaround and government support turnaround. The key success factors of turnarounds are institutionalization of tighter control, ability to change mindsets, improved understanding of mindsets, improved understanding of business models and control in management hands. This study solely focuses on turnaround and did not examine whether these characteristics found are also applied to non-turnarounds.

Hofer, C. W. (1980) investigated 12 firms in the US from different poorly performing organisation in the 1970’s and found that strategic solution for strategic problem and operating cures for operating problems. He adopted a case study approach to identify strategies for turnarounds depending on the sales and market share reversal. He also identified strategies for operating turnarounds to be cost cutting, revenue generation, combination of these two strategies and asset reduction strategies. However, the dichotomy of operating and strategic turnaround in practice was not given and also the suggestions for strategic turnaround were problematic in practice.

2.2 Studies on Unsuccessful Turnaround Strategies in Public and Private Sector Organisations

Pearce John (2007) analysed the association of managing turnarounds with the help of financial ratios. A sample of greater than thirty companies from fifteen industries of U.S. organisations during the period 1988-2000 which were big and publicly held business organisations. These organisations return on earnings were taken from the S and P Research Insight Database for 2000. Business averages were computed by merging the data from the individual organisations. Yearly reports scheduled in Compustat 2001 for each and every companies were included in the sample. However, it was also necessary for the company to have familiarity of at least two
consecutive years of above industry average return on earnings, pursued at once by three quarters of return on earnings lower than the business standards. Evaluation of company’s performance to industry average was made to aid sort out industry cyclicality as a reason of downturn. Therefore, just those companies that went through the decline stage of the Turnaround Model be considered, following in a final sample of forty two companies. These companies came from twelve industries, considering twenty nine manufacturing and thirteen service companies. Each of the 42 organisations was then categorized as either a turnaround (TA) or a non-turnaround (NTA) organisations, based on whether it was capable to return to its earlier high level of, monetary performance for at least four successive quarter by a first quarter 2001 end. To locate the four time periods for all organizations, the sample firms' financials were examined to find the precise year ends. The findings provided proof of worth of financial ratios for consideration in the stages of corporate downturn and revival. The consequences of the suggestions tested proposes that financial ratios offer a practical foundation for improved deliberation of the turnaround process.

**Ashay B. Desai and John D. Francis (2005)** considered the concurrent consequence of both organisational and environmental character on turnaround result alongside with a variety of internal resources and strategies that can facilitate a company to recover from downturn. A sample of 97 companies of which 49 were turnarounds and 48 non turnarounds companies in the US was considered in the study. The study accepted multiple discriminant analysis (MDA)) to evaluate the potential of the pertinent variables to differentiate among the turnaround results. This statistical method is applied when the dependent variable is definite and the independent variables are continuous. Fisher’s Linear Discriminant Analysis (FLDA) permits us to access the capacity of applicable variables to classify among the two results which were turnaround and non turnarounds. The outcome shows that contextual factors such as the importance and severity of downturn, company’s efficiency and the accessibility of slack resources, and companies retrenchment can decide the capacity of sample firms to turnaround. Largely, factors under the control of executives add more to successful turnarounds than situational distinctiveness. Thus, the study has provided supplementary insight into the relative significance of different determinants of turnaround results.
Michael Harker (2001) examined the company turnaround procedure and connected marketing strategies and management of the turnaround process. Four companies involved in the heavy engineering industry experiencing the evolution from business downfall to revival were considered exhaustively during the period 1980-1996. Both quantitative and qualitative elements were studied. The investigation process concerned the development of four case study surrounded by the context of turnaround. The four companies were chosen by scrutinising stock exchange news, organisational reports, the industry press and scholastic pieces. Out of the four organisations, two organizations were successfully revived and the other two were unsuccessful in their revivals. The investigation of the unsuccessful turnarounds besides successful turnarounds provided superior insights into the entire restoration experience and the importance of leadership in the process. The companies concerned were Walkers Limited which was started in 1884, Austoft (Holdings limited) started in 1947. The failed turnarounds were Southern Cross Corporation Limited started in the year 1874 and Southern Cross Machinery. The study had offered proof on the performance of the company during turnaround and has established the connection between turnaround success and marketing strategies. Market penetration and niche positioning turned out to be the important strategies for successful organisation. While, failed turnarounds pursue an undifferentiating strategy of selling basis casting to the mass automotive market and found it competing against the leader. Additionally, market organization and destiny development were further evident in the revived companies than in the companies which were unsuccessful in its revival endeavor.

Sudarsanam, S. and J. Lai (2001) assessed the efficiency of 166 monetarily distressed companies in United Kingdom. This was made to contrast the strategies of recovered and non-recovered companies. They observed the occurrence, timing and intensity of utilization of the approved strategies together with operational, managerial, asset, and financial reorganization. The findings proposed to facilitate that high magnitude of non-recovered than recovered organisations reorganized their operations, cut/omitted dividends and restructured their amount outstanding in both of the two post-distress periods. Non-recovered companies appeared to streamline thoroughly than recovered ones in relation to operational reorganization and dividend exclusion. Their examination demonstrated superior points of such reorganization to be linked less with the chance or size of revival. The key variation between recovery and non-recovery
companies was that, with the latter, incompetence of reorganization in the initial year’s lead to greater strengthening of strategies. Nonetheless, when the reorganization strength is accumulated over the post-distress days, these strategies still do not lead to revival. They established that the preference of strategy of recovery and non-recovery companies vary above a point in time. Revived firms choose for savings and acquirement to bring them away from downturn. Therefore, recovery firms accept forward-looking, development and external market linked strategies. Whereas, non-recovery companies, looks at operational and financial restructuring which are related to internal changes. Nevertheless, a contrast with orientation to public and private sector are not made in this study.

**Chowdhury, S.D and J. R Lang (1996)** examined small companies in United States of America which had employees fewer than 500 and whose revival was in four figure SIC business categorization during 1984-87 discovered that 153 of the 1,918 in public held small companies on the Disclosure database were in want of revival as per their criterion, that is, on average, over a two year time, the returns should be a smaller amount than the opportunity cost of capital. While, only 27 (17.6%) recovered whose average return on investment during the succeeding two year period equal to or was bigger than opportunity cost of capital. On the foundation of the study they have tried to ascertain the observed significance of business turnaround. Two outcomes was elicited, they are, initially, the occurrence of revival circumstances is noteworthy and secondly, those companies tormented considerable and/or continued poor performance, a greater number continue to fall short rather than make progress. It appears realistic to affirm that an enhanced consideration of turnaround might show the way to a larger number of moribund firms is successful on the road to recovery.

**Barker, V.L. and Mone, M.A. (1998)** in a broad study of 154 US manufacturing firms, with 45 successful turnaround attempts and 109 unsuccessful turnaround attempts tried to find out the extent of strategic reorientation and extent of mechanistic shift with regard to CEO replacement, unused debt capacity, financial liquidity and firm size. The study concluded that mechanistic structure shifts restrict firm’s ability to change the strategic orientation as a response to decline, turnaround attempts induced by financial crisis were more likely to experience mechanistic shifts and CEO replacement during the turnaround attempt had conflicting and inconsistent effects on the firm ability to perform strategic orientation. The study leverages data set in a multitude of
research studies, which partly induces similarities in findings and makes the generalisability of findings low.

**Slatter, S. (1984)** analysed 30 successful turnarounds and 10 failed turnaround of publicly traded businesses in the United Kingdom (UK) during the time period 1961-76. The study discovered that around 20 percent of the 2,100 companies in the sample necessitated turnaround. In addition, the study also contrasted the frequencies of numerous groups of turnaround strategies. The major difference he found between successful and unsuccessful turnarounds actions were asset reduction, financial/debt restructuring and change of management control. One of the most noteworthy finding is that, on an average one in four of the companies that experienced poor performance for at least three succeeding years essentially coped to revive. The rest moreover became bankrupt, or more often, were bought out. It seen from this study that it has only focused on few strategies leading to successful and unsuccessful turnarounds and there has not been any study made on the commonalities between public and private sector turnaround strategies.

**O’Neill, H (1986)** studied 51 US banks that had faced organizational decline. Of those, 31 banks had turned around and 20 continued to fail. It was found that the successfully turned around banks had efficiently managed their advances, investments, and operations than those which continued to be sick. In another comparative study of nine turnarounds and four non-turnarounds, operating in US, he found over a dozen turnaround action, however, of those, only three actions showed significant difference between the two groups, which are, cost cutting programmes, new definition of business(including a name change) and structural change which was highly used by turnaround organisations. Thus, not enough causes and strategies were evident from this study. In addition to this the study was not contextual in its approach.

**Schendel, D., G. R. Patton and J. Riggs (1976)** in their study of 20 different manufacturing company in the United States (US) made a study between turnaround firms and non-turnaround firms, and identified that turnaround firms used a superior rate of modernization, better use of equipments, better cost control, better use of working capital, greater sales productivity and
better margin on sales. However, the study did not give greater attention on the public and private sector organisations.

2.3 Studies on Successful Turnaround Strategies of Public and Private Sector Organisations with a view to recognize the critical strategies appropriate for both situations.

Khandwalla, P. N., (2000) examined eight crucial turnaround types empirically take out from one hundred and twenty cases based on ten turnaround events. An investigation of the turnaround actions led to four broad premises under the functional areas that were originated across studies-Human resources strategies, Product/market strategies, financial strategies, production, operations and Technology strategies. The four functional areas addresses all the point of views potential for turnarounds-strategic, entrepreneurial, tough, tender, internal, operational and efficiency and functional focuses for turnaround.

Pant, L W (1991) undertook a study on 42 successful turnaround manufacturing firms and 50 non-turnaround manufacturing firms in the US during 1970-1982. The study focused on turnaround success based on seller concentration, advertising ration, industry growth, R&D intensity, market share, firm size, diversification, financial leverage, gross margin and operating margin. The study identified the industry characteristics of turnaround firms are high R&D density and Firms characteristics for turnaround firms depends on small size, higher gross margins and lower operating margins. However, definition of turnaround reflected only the industry relative performance and turnaround strategies that were analysed such as increases in expenditure that other models disqualified due to low available resources.

Khandwalla, P. N., (1991) explored the significance of humane turnarounds based on analysis of nine public and eleven private sector organisations sick industries in India, US and UK. The study identified ten elements of turnarounds which were change in top management, initial credibility building actions by the management, initial control, negotiation of support of outside stakeholders and neutralization of external pressures, quick-pay off activities, quick cost reduction, revenue generation, asset liquidation for generating cash, mobilization of the organisational turnaround and better internal co-ordination. The study found that the First world countries adopt humane approach to turnarounds and the third world countries find it difficult to
adopt to this approach because of their failure to manage with social, political and economic crises in appealing people to look for authoritarian solutions.

2.4 Studies of Case Studies both in Public and Private Sector Organisations on Successful and Unsuccessful Turnarounds

A.B. Sim (2009) explored seven companies which were publicly listed in Kuala Lumpur Stock Exchange, Malaysia. An investigation on revival strategies and organization using case study approach was performed. The seven case study companies were as of different industrial regions. They were Lion Group, Pernas, Am Bank Group, and companies E, I, L and M. In-depth dialogue with top superior manager and Chief Executive Officers of these companies were carried out to collect data for the case studies. The data gathered during in-depth interviews, via a regular procedure and interview guide was for the period during last part of 2003. Discussion data was complemented and cross-validated using various available resources like yearly reports, company brochures, circulars to stakeholders, presentations to market analyst and bankers, internet sources and other publications was attained through the companies used for the research. Case data was put together, put into a table and analysed. The examination of case study companies showed that the reasons for downturn was primarily of a strategic character, which are market fall and lack of strategic fit among the companies efficiencies and market requirement. The findings provided support for the idea that viewed distinction of turnarounds in East Asian and western situations as seen in existing literature. The variation among the case study companies showed the pivotal function of organisational dynamics, role of government and owner-manager state of affairs on revival of organisations in Malaysian environment. Additionally, it also showed the influence of racial and literary differentiation on turnaround, for instance in conditions of the function of associations (‘guanxi’) the employing of cutback and changes in apex board.

Khandwalla, P.N., (2001) examined 120 companies which were considered as successful and unsuccessful turnarounds in the developed and developing nations. This study gathered case studies from these countries and was analysed using qualitative and quantitative techniques. The study identified around 10 turnaround events which might be used in public and private sector turnarounds. Of which the strategies that may perhaps be used for public sector turnarounds in
common were enhancement of operational efficiency, excellence, efficiency and boost in revenues. While, in Private sector turnarounds the strategies centered around on tighter controls on operation and spending, liquidation of stocks, debts, other assets, etc for paying off debts and other financial mending actions, strategic shifts on cutting back businesses to areas of core competencies or greater market segmentation, or sharper competitive strategy or greater stress on technological innovation, etc. Taking a cue from the above study, similar study can be made for Indian context with reference to public and private sector, successful and unsuccessful turnarounds with special reference to Karnataka. Such studies would enable practitioners and scholars in their decision making process in today’s economy which is highly susceptible to competition.

**S.Chakraborthy and S.Dixit (1992)** did a case study in North India on one State owned pharmaceuticals to identify successful and not so successful turnarounds actions. The writer’s aimed at developing a framework for turnaround actions with a case study. The study aimed at identifying the conditions that affect the outcome of any particular actions. The actions were summarized and a set of 10 strategies covering a wide range of aspects such as change of management, strong financial control, organizational change and decentralization, product-market orientation, improved marketing, growth via acquisitions, asset reduction, cost reduction. The study was confined to quantitative parameters and ignored other attributes which were non-quantitative. Hence, there is need to focus on not only the quantitative attributes but also qualitative attributes of successful and unsuccessful turnarounds.

It is observed from the above mentioned studies that; the researcher has made a preliminary survey of available literature on the subject by scanning the relevant journals and books by visiting reputed management libraries in the states of Kerala and Karnataka and by using various information databases. The researcher also made an exhaustive search on various Internet sites to locate earlier studies.

On review, it was found that major studies on this topic were carried out by western academicians and practitioners. The previous studies covered only few aspects or components of causes of sickness and successful turnaround strategies and its comparison in public and private sector organisations were done in the context of western societies. Many studies on turnaround
have been done in public and private sector organisations, with reference to either successful or unsuccessful turnarounds. Very few studies have been done taking into consideration both successful and unsuccessful turnarounds in both private and public sector organisations. All of the experimental research on the usefulness of diverse turnaround strategies has been embarked on private sector organizations. However, the factors of turnaround in the public sector have not been hypothesized or checked. This is a surprising and noteworthy gap in the literature.

Khandwalla’s (2001) study was an elaborate study wherein he identified the causes of sickness and strategies for turnaround for about 120 companies both in India and companies outside India before the year 2000. In the absence of such elaborate studies within our national and cultural context, the researcher was quite keen to undertake such a study to fill this gap.

In India not many studies has been undertaken in the recent past, the researcher felt that it would be productive to study the various components of strategies and the nature of the impact of these components on turnaround. Although there may be limitations to cover all the aspects or components in a single study, such studies may give better insights about the successful turnaround strategies which are common and distinct in both public and private sector organizations in Karnataka.

The previous research results are also limited by the scope of the study, which was carried out in a particular kind of industry. They are also based on in-depth case investigations in only two companies, but are supported by a large-scale survey reported elsewhere. Many of the studies have only case surveyed and presented the results; however, illustrating the results of case survey has not been initiated. In this study a sample of 102 cases are considered and analysed and those findings have been illustrated using case studies. Thus, the possibility of using case survey’s results to guide in-depth analysis of eight case studies attempted in this study. Nevertheless, successful and unsuccessful organizations and turnaround actions based on sectors were not looked into. This study has focused on prominent and common strategies of public and private sector organisation.

Thus, this chapter has provided a platform for the case study research in examining the turnaround strategies prominent and common in public and private sector organisations which
are both successful and unsuccessful. Thus, the investigator arrived at the following objectives and hypothesis for the present study.

2.5. Objectives of the study

The objectives of the study are:

1. To identify the internal and external causes of sickness in Indian organisations, understand their major dimensions, and assess their relative importance to public and private sector organisations.
2. To identify the turnaround strategies - pertaining to various functional areas of management - commonly adopted by Indian organisations, understand their major dimensions, and assess their relative importance for public and private sector organisations.
3. To examine using correlation analysis the relationship between the type of causes and the strategies employed.
4. To identify the turnaround strategies characteristic of public sector organisations and compare them with those of the private sector.
5. To identify turnaround strategies characteristic of successful turnarounds and compare them with those of the unsuccessful ones.
6. To illustrate the findings by developing case studies both public and private sector organisations on successful and unsuccessful turnarounds in Karnataka.

2.6. Hypothesis Development

The following are the hypothesis of the study

**Hypothesis-1:** External causes of organisational sickness can adversely affect an organization’s health only if the organisation is internally weak with respect to the systems and competencies in dealing with the developments in the external environment.
**Hypothesis-2:** Multiplicity of causes can be a major reason for turnaround failures; organisations that are afflicted by one or a few causes are likely to experience greater success in turnaround.

**Hypothesis-3:** Lean management strategy is likely to be used more frequently by successful turnarounds than unsuccessful ones.

**Hypothesis-4:** As the most characteristic feature of a sick organisation is the cash crunch, Cost management strategies are likely to be used more frequently by successful turnarounds than unsuccessful ones.

**Hypothesis-5:** Refocussing on core business as well as customers is likely to be used more by all turnaround efforts in an attempt to regain their erstwhile market position. However, finding and developing markets make be more characteristic of successful turnarounds.

**Hypothesis-6:** Strategies for increasing operational efficiencies in the existing operations are likely to be used more or less equally by both successful turnarounds and unsuccessful turnarounds. However, investments in R&D for improving existing technologies and/or developing new technologies are likely to be used more frequently by the successful ones.

**Hypothesis-7:** Corporate restructuring and image building are likely to be used more or less equally by both successful and unsuccessful turnarounds.

**Hypothesis-8:** Sickness in the public sector may be caused more by exogenous factor such as governance structure, stakeholder complexities and resource inadequacy, whereas in the private sector the causes may relate more to internal inefficiencies aggravated by general economic conditions.

**Hypothesis-9:** Employee engagement strategy is likely to be used more frequently by public sector turnarounds than private sector ones.

**Hypothesis-10:** Since public sector organisations often have monopoly positions in the market they are traditionally known to be lethargic about product quality and promotion. However, in a turnaround situation they have to have special focus on these two critical aspects for regaining market acceptance. Hence, we propose that there would be a greater focus on changing product
mix, pricing and promotion in the public sector compared to private which have been active in these matters.

**Hypothesis-11:** Public and private sector organisations are unlikely to differ in the substantive turnaround strategies relating to cost and lean management strategies, focus on core business, investments in markets and R&D and image building.