CHAPTER 1

THE NEED FOR FRESH LOOK AT TURNAROUND

1.1 Industrialisation

In the backdrop of the fast moving changes taking place in the economic and social scene in our country and increasing competition facing the corporate sector, industries have been compelled to introduce new processes, develop new technology and improve the existing systems. Consequently, the scenario has become highly specialized in certain sectors, having to work on sophisticated machines, creating new work environments, new demands and increased responsibilities. As the environment kept advancing, corresponding changes in the social and economic scene was observed. Change can be significantly defined as strategic shifts in guidelines and principles that govern every industrial sector. Corporate define these changes as significant influenced to their decision making process. Factors that have influenced these changes in the economy are market erosion, worsening financial performance, and improper decisions by management which are contributing largely to growth of the organizations by way of affecting the decision making process.

In this pursuit to better map such inadvertent factors managers suggests regular supervision and progress of its systems and procedures, and the lack of such monitoring system leads to relentless cash crisis or steady fall in its net worth or operating profits, leading to insolvency. The fall cannot be expelled unless suitable actions, both internal and external, are instigated to transform the future prospects. This course of bringing a revival in the firm’s destiny is what is termed as turnaround. Turnarounds are portrayed as an outcome, or finishing state, of triumphant strategic actions, as portraits of organisations that have upturned their decline (Oviatt and Bruton, 1994).

Corporate failure is one of the major socio-economic problems of developing as well as developed nations. Growing incidence of sickness is seen both in public and private sector. During the pre-liberalisation period, it was generally believed that public sector organizations are more prone to sickness rather than large units in private sectors (Manimala 1991). This is because there was a tendency for public sector organizations to delay turnaround actions because of stakeholder sluggishness or budgetary support. Post liberalization in India since 1991, there
was considerable transformation in the business setting of the country. The reason being there is a change from a regulated environment to a free market environment which has direct implications for business performances in India. Thus, in the post-liberalisation period, due to liberalisation, privatisation and globalisation, it is seen that both public and private sector organisation, operate in a similar environment. Indian organizations and the managers are dealing with concerns of industrial sickness and turnarounds. Turnarounds, reengineering, realignment of systems, structures, tasks and technology have all become crucial. The impact of turnaround, the economic transition to an open market, as well as increased competition from internal and external sources has put pressure on all functions of the organizations. There has been evidence of a general need among the managerial cadre to adopt turnaround strategies to revive the organisations. Thus, this study is relevant due to changes in the Indian economy and the resulting effect of turnaround strategies in both the public and private sector organisations in relation to the general and functional areas of management. And it is on this basis that the study proceeds. This discussion begins with introduction to industrialisation related to perspectives of organizational decline and definition of sick units, followed by discussion of turnaround strategy which will help in better understanding of the concepts of sick units and the relevance of turnaround strategy in both public and private sector organisations.

Industrialisation is one of the most important means to steer economic and social transformation in the developing countries. More so when agriculture cannot sustain the burden of the population growth, it is the industry and service sector which have borne the responsibility to sustain as well as to accelerate the path of growth. Thus, Industrialisation is indispensable for survival and growth.

Industrialisation results from the interaction of technological change, innovation, entrepreneurial growth, specialization and trade. Good transportation, efficient communication system and an educated labour force helps to promote the rapid development of industries. Well-defined rules reduce the costs of transactions as specialization increases and economies become more complex. The most significant structural change in the economy of the world is accompanied by a fall in the share of agriculture and rise in the share of manufacturing which is the index of economic development of a country. Developing countries are seeking, therefore to achieve more rapid industrialisation and accelerated economic development. India inherited a weak industrial
base, underdeveloped infrastructural facilities and a stagnant economy at the time of independence. So the political leaders were in great confusion as to the type of economic systems to be adopted by India for its rapid development. They thought about the capitalism wherein all the industries were owned by private individuals and also about socialism wherein all the industries were owned by the Government. At last they came to a conclusion, by adopting a system wherein public sector and private sector could exist side by side. Such a system is called mixed economy. The period from Independence till 1980, was recognized as inward-looking policies and the period from 1980 till today, is recognized as reformations and opening up of the Indian economy. Thus, due to the opening up of the economy both public and private sector organisations in India were thrown open to competitions.

1.2 Public and Private sector organisations

Industries are divided into broad classes according to the nature of the industry, the use made of the product, and the amount of services obtained from the product before it is consumed or become unfit for further use. Within the field of industrial enterprise we see hundreds of thousands of producing units at work. These units vary in the form of ownership and in the way they are organized for operation. A knowledge of this basic industrial structure is essential to successful management of an enterprise, because it largely determines the conditions of production. Ownership is a legal term, applied to an industrial enterprise it means title to and ownership of the assets of an enterprise, the power to determine the policies of their operations, and the right to receive and dispose of the proceeds. When an enterprise is attached to political bodies, i.e., to municipal, state or central government, or to any agencies created by them it is public sector. When an enterprise is so organized that individuals exercise these rights in their own interest, the ownership is said to be private.

The role of public and private sector in the economy is enunciated in the industrial policy of the government. Industrial Policy refers to the rules, regulations, principles, programmes and priorities formulated and followed by the government for guiding the development of industries in the country. It includes the determination of the respective roles of public and private sectors, the relative importance of large scale and small scale industries, location of industries, attitude towards foreign capital, industrial relations, fiscal and monetary policies.
Public sector organizations are established with the objective of public welfare and necessity of a country. There are three levels of government in India—Central, State and local—of public-owned enterprises. These are mainly of the public-utility and public-service types and when established are operated very much like private enterprise. Whenever, an enterprise is started, by individuals or families with the objective of making profit, they fall under the ambit of private sector organizations.

With growing industrialization of the Indian economy, the incidence of industrial sickness has also been on the rise and a huge amount of scarce resources of banks and financial institutions remain locked up in the sick unit. (Singh B.K. 2007). Industrial sickness is seen both in public as well as private sector organizations (Manimala, 1991; Khandwalla, 2001). Public sector industries are owned by the Government. Heavy and basic industries were kept under public sector as per the industrial policy resolutions of the government. Public sector has paved the way for the industrial development of India. The public sector was made a vehicle for establishing industries on a priority basis. The capital intensive industry was started under public sector.

Many of the economic activities of the country are in the private sector. The industrial policies of the government considered the development of private sector also. Mostly consumer goods industries were left to the private sector. Many industries producing intermediate products have also been allowed in the private sector. This includes industries connected with chemicals, engineering, cement, rubber products, paper and paper products, printing, etc. Recently, the importance of the private sector has been increased to a great extent as a result of liberalization. An organisation be it public or private sector, faces the challenges in the economy.

1.3 Industrial sickness

Rapid industrial growth has brought in its wake incidence of sickness in the industrial sectors. Industrial sickness is so widespread that it is found both in public and private sector organizations. In a vibrant set up business units that are not aggressive, uneconomical and unproductive become ailing and pass away when new and more productive units arrive to take their place.
The incidence of industrial sickness has been growing in India during the last decade. Not only some of the traditional industries like cotton textiles, jute and sugar have been afflicted with sickness, but even some other important industries like engineering, chemicals, rubber, cement, electrical and paper have been affected. According to one approximation there are 5 lakh sick units in SSI (Small scale industries) and one lakh in medium and large scale industries. And over Rs.75,000 crores of financial institutions funds and funds of the banks are locked upon in these industries (Kumar A, 2003). According to Board for Industrial and Financial Restructuring (BIFR) in the year 2009, the total number of registered cases with industrial sickness in private sector is 5,399 and in Central PSU’s it is 93 cases and State PSU’s it is 124 cases which has affected 25,76,884 workers and an accumulated loss of 1,46,934.41 crores.

Karnataka, fundamentally a farming economy, has progressed into an industrial one. Karnataka has become one of the country’s global economic players owing to its various industries in the field of electronics, software, biotechnology and other small and medium scale industries. It has today about 978 large and medium scale industrial units with a total investment exceeding Rs. 1,56,545 crores employing more than four lakh people. In addition to this, there are industrially sick organisations in Karnataka accounting to 292 as on August 2009, with accumulated losses of Rs.5527.57 crores and affecting 1,18,372 workers. Thus, there is a requirement to identify the causative factors of industrial sickness and design appropriate strategies to turnaround sick organisations in Karnataka which are both in the public and private sectors. Situations as these described, has higher incidence in today’s economic context, therefore, it is necessary to understand the concept of sickness of business or industrial unit before we discuss the theory.

Industrial sickness being a technical concept means differently to different people; to the common man, it means an unhealthy unit; to stockholders, it means a reduction in their dividend earnings and a fall in the market value of their securities; to creditors and financiers, it is a risk to the security of their debt; to the technocrats, it means a victim of technological advancement; to employees, it is a threat to their employment; to consumers, it means a rise in prices and deterioration in the quality of products; to exchequer, it is a diminution in the contribution to the public revenue; and to the society, it means a fall in its wealth. With such varied meanings, neither the specialists of management science nor the experts from the industrial world have evolved a concrete and systematic definition of industrial sickness.
Corporate sickness has been viewed severally. It is termed as technical insolvency particularly when a firm is not capable to meet its maturing obligations. It is also termed as failure. Western researchers like Weitzel and Jonsson (1989) explained downturn as the reverse of successful adjustment to the surroundings. They opined that while the organization fails to understand and adjust to internal or external difficulties that intimidate the organizations long term existence it gets into a state of decline. Decline is understood as significant decline in performance, a state that generates further troubles and often minor disaster in the organization (Cameron et.al.,1988;Weitzel and Jonsson 1989). If the decline is unchecked or not responded to appropriately, the decline continues and comes to such a stage, where the organizations performance would be failing. It therefore, becomes clear that the failure to identify sickness in time is one of the symptoms of sickness.

In India, consequent upon a number of companies falling prey to sickness, different institutions have tried to define industrial sickness.

The Varshney Committee, constituted by the State Bank of India, in its report on small-scale industrial advance, (1975) defines sick unit as, “a unit that fails to generate internal surplus on a continuing basis and depends for its survival upon a frequent infusion of external funds”.

According to Reserve Bank of India (RBI), “a unit is sick if it has incurred cash losses for one year and in the judgment of the financing bank, is likely to incur cash losses for current as well as for the following years, and/or there is an imbalance in the unit’s financial structure, that is when the ratio of the current assets to current liabilities is less than 1:1 and debt-equity ratio(total liabilities as a ratio of net worth is worsening” (Singh 2007).

Finally the operational definition for the use in industry is provided in the Sick Industrial Companies Act, 1985. According to the Act “The sick industrial company is a company which has at the end of any financial year accumulated losses equal to or excluding its entire net worth and has also suffered cash losses in that financial year and in the financial year immediately preceding it.” This is established as the solid definition of industrial sickness which can be acknowledged in the Sick Industrial Companies (Special Provisions) Act of 1985 (SICA henceforth) which came into being in 1987. This Act pertains equally to public and private sector
organizations, which have been registered for at the most five years, and employs at least fifty employees and do not fit into the small scale or ancillary units. Any such company is declared sick if its accumulated losses exceed its net worth position. SICA also gives clear guidelines on how to proceed with potentially sick or ‘weak’ companies. By definition, a company is regarded as weak if its accumulated losses have resulted in the erosion of 50 percent or more of its peak net worth during the immediately preceding four financial years.

Sick Industrial Organisations Act (SICA), defines “a unit first as the weak unit, and then, if the unit continues with the worsening trends, is the sick unit” (Singh 2007).

Under the new dispensation for addressing industrial sickness, that is a part of the Companies Act, 1956 itself, no moratorium period whatsoever seems to have been given as would be evident from the definition of `sick industrial company' given there under: According to the Companies Act,2002, Sick industrial company means-

"`Sick industrial company' means an industrial company which has:

i) the accumulated losses in any financial year equal to 50 per cent or more of its average net worth during four years immediately preceding such financial year; or

ii) failed to repay its debts within any three consecutive quarters on demand made in writing for its repayment by a creditor or creditors of such company. (Source: Report of National commission on labour -2001-2002).

Business malfunction has been comprehended as an existence-threatening drop in the performance of the industry (Pandit, 2000) except for that collapse may be unexpected or expected, and can be caused by internal actions or inactions or by external circumstances and environmental concern. It promptly turns out to be evident that organizational failure is indicative rather than a suggestive term. In other words, it explains a state of affairs facing a business but does little to help us know how that circumstance was caused or came about, or what could or ought to occur subsequently (Walshe 2004). If the decline is unchecked or not responded to appropriately, the decline continues and comes to such a stage, where the organizations performance would be failing. It therefore, becomes clear that the failure to
identify sickness in time is one of the symptoms of sickness. Symptoms are an indication of sickness as they provide warning to all concerned parties about the presence of the problem. These warning signs are in play throughout the process of decline (Ford 1995).

An industrial unit may become sick for a variety of reasons as the causes or factors which lead to sickness are varied and numerous. It is difficult to give an exhaustive list of such causes or factors of sickness. However, attempts have been made to develop a list of these factors by different scholars (Barker 2005).

**Internal and external characteristics of failure:** Various causes and factors of industrial sickness may be divided into two broad categories, that is, external and internal causes (Barker and Duhaime, 1997 and Panicker, S. and Heggde, G., 2010). Certain authors state that both sources of decline may overlap. This demands a complex managerial response in terms of operating solutions such as retrenchment and strategic solutions like asset reconfiguration, market re-positioning (Igor Filatotchev and Steve Toms 2006).

Internal causes of decline may be due to non-availability of resources, inefficiency, past management errors, sluggishness leading to mal-adaptation, lack of competitiveness, and so on (Barker and Duhaime 1997, Pearce and Robbins, 1993, Bibeault 1982). (Panchali, 2005) states that the causes of sickness which are internal are major product failure, poor diversification, poor control systems, cost slippage. Other internal causes of sickness are finance, production, marketing/distribution, accounting, and advertising. Management has direct control over these aspects, yet 80 percent of business failure arises due to management’s inefficiency to control the internal elements of business (Scherrer, 2003). One of the commonly mentioned indication or causes of malfunction are mostly internal to the business, such as poor leadership (Balgobin and Pandit, 2001, Walshe, 2004).

The external causes are political hindrance, commodity price shock, key technology change, low cost foreign competition (Panchali, 2005), adverse governmental or controlling authority behaviours, adverse market environment, industrial unrest, insufficient or excessively costly inputs, others (natural calamities). The major external causes of business decline are external market changes, unforeseen competition, financial market instability and technology changes
(Khandwalla1992, Pearce and Robbins1993, Scherrer 2003). While other external causes are concerned with its environment, such as augmented struggle, product or service improvement, or change in consumer outlook (Balgobin and Pandit, 2001,Walshe 2004) also, decline can be caused by changes in technology, recession, moves of competitors or numerous other causes that hurt the organization’s ability to achieve its mission (Barker 2005).

In the business world the only thing that actually matter is an organization's performance. In addition, we see organizations, for a variety of reasons, are not demonstrating performance that is acceptable to stockholders, analysts, vendors and employees. When this occurs, there is only one thing that should be done which is to develop a turnaround strategy. Achieving turnaround, calls for totally different skills to probe into the cause of a decline and formulating an appropriate strategy to transform the company for a fresh lease of life (Prasad, 2006). Corporate failure is one of the major socio-economic problems of developing as well as developed nations. Growing incidence of sickness is seen both in public and private sector. It is generally believed that public sector organizations are more prone to sickness rather than large units in private sectors (Manimala 1991). This is because there is a tendency for public sector organizations to postpone turnaround actions because of stakeholder apathy or budgetary support, such apathetic wait which cannot continue forever. It is worth noting that even though the problem of industrial sickness has found serious propositions in the economy, there appears to be lack of unanimity on the concept of industrial sickness. The reason being both researchers and practitioners consider the term from different perspective and thus the term gets defined from different viewpoints (Singh 2007).

1.4 Concept of Turnarounds

Schendel et. al(1976) initiated the attention of reason of the turnaround situation into the selection of right turnaround strategies. The author employed the strategic-operating opportunity to distinguish among decline that resulted from ineffective strategy and decline that resulted from unacceptable procedure or unproductive discharge of an or else efficient strategy. They acknowledged that a substantial fraction of decline were due to ineffectiveness. Hofer (1980) initially established the idea of harshness of the turnaround situation into the selection of appropriate turnaround strategies. He professed the relationship among harshness of the
descending spiral and the level of cost and asset cut down that a business must include in its revitalization arrangement. He associated asset and cost reduction procedures as operating turnaround strategies, supporting the expression from Schendel, et al (1976). Both Schendel et al.(1976) and Hofer(1980) studies were based on case descriptions of falling businesses as their major methodology. They leaned to divide and classify revival response as either operating or strategic. In arrangement the main conclusion was those strategic shifts were responsible for additional spectacular turnovers that resulted from enhanced market share. Grinyer et.al (1988) considered the reasons of decline, measures activating transformation, procedures taken and performance uniqueness among twenty five businesses in the United Kingdom, the sharp bent from stagnation or decline relative to their industry competitors. To sharp bend was to accomplish a stridently improved level of performance. They integrated turnaround situation reason, management perception and schemes and resultant strategic procedures into an arrangement for organizational transformation.

Arogyaswamy, Barker, and Yasai-Ardekani (1995) in an analysis of decline and turnaround literature view that decline and turnaround are strongly connected as successful turnaround effort have to manage together the decline and alter the firm’s strategy, and internal procedure to secure fresh resources to deal with the causes of decline.

Turnaround lessons characteristically presume that the amount of performance improvement differ with the content of managerial strategies. It states that no business that is performing badly is destined to failure. Thus, it is the organizational leaders who attain revival from failure by choosing appropriate strategies that are generally successful, or by adjusting their strategies to market situations. This point of view suggests that turnaround is determined by internal choices rather than external threats. Success is attributed to excellent management and failure can be blamed on bad management.

The recognition of suitable managerial reply to financial decline has become progressively more imperative. There is an increasing support that conventional turnaround efforts lead to failure than in success. Research till date suggests that for organisations facing dropping financial performance, the solution to successful turnaround primarily rests in the efficient and capable management of retrenchment actions (Bibeault, 1982)
Pandit (2000), in an examination of turnaround study, remarks that rationally, any definition of turnaround must address issues: the meaning and measurement of performance; and, the meaning of a turnaround cycle, that is, a phase of poor performance (the decline phase) followed by a good performance (the recovery phase). Pandit (2000) also states that the accounting-based figures are erratic, as they are vulnerable to managerial manipulation. Further studies employ human judgment to supplement accounting-based description of bad or good performance. Thus, it necessitates agreement among stakeholders: shareholder, board members and managers. Robbins and Pearce (1992), on the other hand, call for only agreement from a company manager that a turnaround has come about. While the latter approach has the benefit of being able to take into account differences in context (whether, for example, is the organisation a high performer in a weak industry, or a weak performer in a strong industry), its limitation is that such an remote judgment has the possibility to be extremely prejudiced (Schendel et al. 1976, cited in Pandit 2000).

1.5 Turnaround strategies

Management actions are engaged in an effort to rescue these organisations by employing turnaround strategies (Hofer, 1980, Slatter 1999). Corporate turnaround has acknowledged much deliberation in the strategy literature and, more and more, in finance. These two streams have, nonetheless, distorted in their focus, i.e. type of strategies, in their outlook, i.e. whether descriptive or prescriptive and in the description of performance decline. A range of strategies has been approved for their efficacy in corporate revival.

Turnaround researchers have acknowledged a number of turnaround actions/strategies. These actions are categorised into strategic and operational actions (Schendel, Patton and Riggs 1976, Hofer 1980), entrepreneurial and efficiency measures (Hambrick and Scheter, 1983). Khandwalla’s (1992), study of the turnaround measures lead to four broad premise under the functional areas that are found across studies- Human resource strategies, Product/market strategies, Financial strategies, Production/operations and Technology strategies.

1.5.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 (Prasad Vara, 2006). Literature on human resources strategies has a lot written on cut back efforts, specially those implementing a top-down approach, simply focus on reducing the number of workforce (Cameron 1994, Cascio 2003). Organisations experiencing depressing development of performance generally resort to cutback as the feasible turnaround strategies (O’Neill 1986, Pant 1991, Smith 1995). According to a research by Mishra and Mishra (1994), the downscale, which took place in the early 1980s, was largely an attempt to reduce the number of staff in order to continue viable. That tendency continued into the 1990s with organisations trying to cut costs to stay competitive in the international marketplace (Appelbaum et al., 1987a; Cameron et al., 1991).

Change in top management is another well identified human resource strategy. Leaders are frequently a contributing cause of decline (Arogyaswamy et al., 1995). Management either directly causes the trouble at the heart of crisis or falls short to identify the troubles early enough (Bibeault, 1982). The initial step or primary priority in a turnaround therefore is the discovery that the new management can make the difference (Barker and Mone, 1998, Jacoby, 2004, Murphy and Meyers, 2008). Top management transformation is widely mentioned as a precondition for triumphant turnarounds (Bibeault, 1982; Hofer, 1980, Schendel, Patton and Riggs 1976, Slatter, 1984). The character of the top management team in a company is of superior importance for success or failure than any of the company’s products or talent or physical resources (Murphy, 2008). Empowered employees are energetic, passionate and experience a feeling of ownership over jobs, Performance management leads to better results, employees need to be encouraged and motivated to develop a customer satisfaction mindset (Prasad Vara, 2006).

1.5.b. Financial Strategies

The objective of financial strategy is to use the financial strength of the business as an asset and to restructure the business (Scherrer, 2003) such as reduction in the par value of shares, reduction in rates of interest, postponement of maturity of debt, conversion of debt into equity (Kumar, 2003). Robbins and Pearce (1992) furthermore connected strategic options for declining
businesses to financial performance. They suggested that as ruthlessness of turn down enlarged, retrenchment strategies must go forward from cost reduction to asset reduction strategies. Studies on turnaround suggest that the performance results of asset and cost retrenchment are conditional on industry dynamics (Chowdhury and Lang 1996, Morrow et al., 2004). Turnarounds cannot be sensibly analyzed without taking into account the context of the financial obligations and related governance arrangements. (Igor Filatotchev and Steve Toms 2006, Kumar 2003). Hofer (1980) and Robbins and Pearce (1992) argue that severely financially distressed companies need to make aggressive cost and asset reductions in order to survive. Cutting labour costs, production overheads, selling and administrative expenses, R&D expenditures, and financing costs are common actions of corporate restructurings (Denis and Kruse, 2000, Beixin et al 2008). Nevertheless, as Slatter (1984) highlights, the forceful cutback of costs and assets is no effortless task as there is a habitual organizational resistance to such action.

Asset-reduction strategies have been suggested for failing companies in order to get better cash flow (Hofer 1980, Hambrick and Schecter, 1983, Robbins and Pearce, 1992), as companies with high fixed costs become vulnerable to market changes. Hoffman (1989) also states that cost cutting is the key to successful turnaround. These two strategies are viewed as retrenchment strategies (Hambrick and Schecter, 1985). Studies identify financial restructuring as an essential constituent of turnarounds (Brown et al., 1993, Franks 1997, Igor 2006).

1.5.c. Marketing Strategies

Marketing is a very useful strategy for turnarounds (Hofer 1980, Griyner et.al.,1988, Goldston,1992). In the organisational turnaround literature, though a number of writers laid emphasis on the significance of marketing in the rescue of ailing organisations (Goldston, 1992, Grinyer et al. 1988, Hofer, 1980). Little consideration has been intended for the importance of market intelligence and planning in the organisation turnaround process (Harker, 2001). The market-oriented business is client focused and an initiator and disseminator of market intelligence which is extensively used right through the firm (Jaworski, 1993). Such organisations are competent to sense and counter to market forces with superior care than more internal looking competitors (Day, 1994). However, there is inadequate attention in the literature on the function of marketing and sales in the company turnaround process (Goldston, 1992).
Sales function is another key process and involves four important elements which were more apparent in the successful firms such as: 1) environmental comprehension; 2) market selection; 3) innovative market offers; and 4) managed relationships. (Bibeault 1982, Finkin 1985, Harker 1998). Much has been written about marketing orientation in the management and marketing literature (Jaworski 1993, Slater 1999), and customer focus was an important feature of the successful turnaround companies. Customer focus permeated the whole company and was fully supported by top management. The turnaround companies' customer efforts were orchestrated by new key account. Sales personnel who worked tirelessly to build the respect and trust are so essential to a sound relationship (Swan 1988, Harker 1996). Poor quality of product being a reason of failure, thriving businesses compete on quality and not on costs, developing strategies for competitive gain. Repositioning has also been portrayed as an ‘entrepreneurial’ turnaround strategy. Market penetration and niche positioning turned out to be important strategies for the successful companies (Hofer, 1980).

1.5.d. Production/Operation Strategies

Hofer (1980) in a study of twelve cases of badly performing organizations, where he found for operating problems the solution is operating remedies and for strategic problems, strategic remedies. Thus, organisations that are failing due to operational causes opt for operational turnaround strategies and strategic causes opt for strategic turnaround strategies and rarely were operational failure addressed with strategic turnaround actions (Hambrick and Schecter, 1983).

1.5.e. Corporate Planning Strategy

Contraction and consolidation strategies for turnaround are implemented when a corporation’s predicament are not all-inclusive (Pearce and Robinson, 1992). Nevertheless, researchers have essentially disregarded the possibility that organisations may choose a growth strategy the moment they experience declining performance. Chowdhury and Lang (1996) observed entrepreneurial change, which typically necessitated growth strategies, as an option to retrenchment for small manufacturing businesses. Corporate reorganization is a different turnaround strategy which frequently engages refocusing or eliminating non-core businesses. (Beixin et al 2008). Nevertheless, much of the experimental research for big businesses has focused on diversification strategy (Ramanujan, 1989, Rasheed 2005).
Arogyaswamy and Yasai-Ardekani (1997) examined the role that cutback, efficiency enhancement and investment in know-how play in the turnaround process as these measures improve productivity in the short run and permit the organisation to discharge income that may be used elsewhere. They can also play a significant political task in winning back stakeholder support and assist increase external resources to finance other strategies (Smith Malcholm 2005). Having a competitive improvement through the use of ground-breaking technology facilitates a company to achieve market share quickly, and with new product uniqueness protected by patents, substantial research and development costs can be recovered (Kow,2004)

1.6. Turnarounds in Public and Private sector Organisations

Fall of an organisation from a better performance state of affairs to an enormously reduced position on any appropriate performance circumstances regularly points to basic problems with its management and strategies. Nevertheless, recognized that the businesses are deficiently performing, how must a business react? Organization might sit tight in anticipation of an enhancement in its destiny or restructure to recover speedily from inefficient performance (Schendel, Patton and Riggs, 1976; Weitzel and Jonsson, 1989).

The turnarounds in public and private sector organisations are different. Fundamentally, there are distinction in purpose, mission, customs and environment among public and private sector organisations which signify that the transformation of lessons from one sector to another is perhaps not clear-cut (Khandwalla, 1992). The turnaround predicament in public sector organisations is more complex than in a private sector organisation. The key difference between public and private sector organizations that are poorly performing is that the latter will ultimately go out of business, while the former may continue indefinitely (Meyer and Zucker’s, 1989). The public sector organisation usually does not operate in a market situation. Rather, it is the focus of a complex challenging value positions. These social constraints impede the working of economic or economic like forces that would uphold high performing organisations and shut low performers. Consequently these organizations continue in existence until an encouraging decision to the contrary is taken by the relevant source of authority. They dispute that poor performing businesses may be sustained by a blend of contrasting motivation from diverse stakeholders.
Generally speaking, turnarounds are organizational revival from downturn. Nonetheless, an assessment of the literature on turnarounds in private sector reveals that there is little concurrence on what essentially comprise a corporate turnaround (Khandwalla 1992). In an all-inclusive analysis of forty-two comprehensive turnarounds—that is, those businesses that were successfully revived in the private and public sectors, Pradip Khandwalla found the slash and burn type of turnaround, which he labeled as the surgical turnaround to be most prevailing in the West (Khandwalla, 1992). Of the twenty-two surgical turnarounds he analysed, he found that, regardless of the diversity in approach, there were five actions in general which lay at the heart of the course of action. They were, considerable retrenchment (downsizing, layoffs, plant closures), diversification, product rationalization, growth and its associated measures, change in top management, promotion linked actions and miscellaneous cost-reduction actions other than retrenchment.

Spectacular retrenchment strategies could create good judgment in the private sector, where shareholders put massive demands on corporate managers to make sure a healthy return on their investment, or at most show a return, and where any sizeable losses must be stopped as fast as possible. Whereas very few public sectors can afford to lose any money, they are not driven by the profit-making endeavor. Several retrenchment strategies may be of use, particularly for nonprofits facing repetitive and spiraling shortfall, but even then, organizations would do well to tread vigilantly.

While a few public sector organizations do opt for downsizing. Nevertheless, it is not the reorganization tool of choice, as it appears to be in the public sector. They note that this may possibly be due to the information that government organizations are likely to be much bigger, and have more fat to trim. However, they also note down that this may also reveal the relatively superior participatory function that employees (paid and unpaid) play in a public sector organisations.

The wholehearted adoption of private sector practices in public sector does not seem relevant because of the long-lasting nature of social needs and the worth of public trust, the advocacy-based duty of nonprofits, compared to the profit-based duty of business organizations, call for superior permanence and less extensive alterations. In a comprehensive study of 120
organisations recognized successful and unsuccessful turnarounds in the first and third world countries. This study identified around 10 turnaround actions which could be used in public and private sector turnarounds, of which the strategies that could be used for public sector turnarounds generally were improvement of operational efficiency, quality, productivity and increase in revenues, whereas, in private sector turnaround strategies focuses more on tighter controls on operations 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(Khandwalla, 2001).

This study aims at understanding industrial sickness and the causes of industrial sickness both internal and external in public and private sector organisations. Internal causes of sickness are those causes which are within the control of the organisations, while, external causes of sickness are those causes which are outside the purview of an organisation but has an effect on it’s functioning. To bring an organisation back to health we need to turnaround the organisation. Turnaround involves adopting certain strategies for revival of the organisation. Turnaround strategies refer to all those strategies based on functional classification like marketing, human resources, financial, production and others, which would bring an organisation in its path of success. This study also attempts to identify all those strategies which are prominent and common in both public and private sector organisations. The present study provides a framework necessary for identifying the causes of sickness and turnaround strategies needed for turning around both public and private sector organisations.

1.7. Chapterisation of the thesis

The thesis is organised into ten Chapters. This first chapter has introduced the research problem, stated the objectives and has presented a background of the theoretical frame work. The studies undertaken in this area are reviewed in Chapter 2. The methodology followed for carrying out the research is explained in Chapter 3 which includes Research Methodology and Hypothesis of the study. Chapter 4 presents the evidences from the cases surveyed both from the public and private sector organisations in India. The study findings are also presented in Chapter 4 on
Analysis and Results of cases surveyed. Chapter 5 deals with two developed illustrative cases from successful turnarounds in the public sector organisations in Karnataka. Chapter 6 deals with two developed illustrative cases from successful turnarounds in the private sector organisations in Karnataka. Chapter 7 deals with two illustrative developed cases from unsuccessful turnarounds in the public sector organisations in Karnataka. Chapter 8 deals with two developed illustrative cases from unsuccessful turnarounds in the private sector organisations in Karnataka. Chapter 9 deals with the analysis of the case studies which are evidences for support of hypothesis. The summary and conclusions are discussed and presented in the last Chapter.

The thesis further narrates the recent literature that is relevant to understand the conceptual framework of industrial sickness and turnaround strategy which has provided a view through the literature review in chapter -02.