CHAPTER-II

Review of Literature
CHAPTER 2

REVIEW OF LITERATURE

While the terms Business Failure and Business Sickness have both been freely used in literature and in common parlance it is noteworthy that the usage of ‘sickness’ has been overwhelmingly greater.

In the case of Industrial/Economic/Financial sickness, as in human sickness two dictums are extremely important:

1. Treat the disease and not the symptoms:
   Akin to the procedure followed by the medical doctor, who first provides relief to the patient from the symptoms e.g. by bringing down the fever of the patient or in the severest of cases even amputation but then immediately sets about investigating and medicating for the root cause—the disease, the turnaround doctor too does the same. He may provide immediate relief to the organization e.g. by infusion of funds/capital, cutting away a cost centre etc but then get about investigating for and treating the underlying causes of sickness.

2. Prevention is better than cure:
   Borrowing once again from medical procedure it becomes imperative for the ‘economic doctors’ to be fully acquainted with the reasons for failure of the various enterprises so that adequate remedial measures can be taken in time.

   As, detailed in Chapter 1, RBI has formulated such a policy and given clear, unambiguous and quantified ‘triggers’ for monitoring the health of the Indian Banks.

   Thus, any Turnaround would have to have its foundation in the study of the reasons of failure.
2.1 CAUSES OF FAILURE

While different studies assign the causes of failure to different factors, Dun & Bradstreet compilations assign these causes as follows.

<table>
<thead>
<tr>
<th>Causes of Failure</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Incompetence</td>
<td>44.4</td>
</tr>
<tr>
<td>Lack of Managerial Experience</td>
<td>16.8</td>
</tr>
<tr>
<td>Unbalanced Experience in Sales, Finance, Production and the like</td>
<td>15.8</td>
</tr>
<tr>
<td>Lack of experience in line</td>
<td>14.9</td>
</tr>
<tr>
<td>Neglect</td>
<td>1.1</td>
</tr>
<tr>
<td>Disaster</td>
<td>0.6</td>
</tr>
<tr>
<td>Fraud</td>
<td>0.6</td>
</tr>
<tr>
<td>Reason unknown</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table II-1: Causes of Failure of organisations

A number of other studies of failures can be generalized into the following groups:

<table>
<thead>
<tr>
<th>Causes of Failure</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Incompetence</td>
<td>60</td>
</tr>
<tr>
<td>Unfavourable industry trends</td>
<td>20</td>
</tr>
<tr>
<td>Catastrophes</td>
<td>10</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Table II-2: Causes of Failure of organisations

Both classifications include the effects of recessions but place the resulting failures in the category of managerial incompetence. This method is logical; managements should be prepared to operate in environments in which recessions occur and should frame their policies to cope with downturns as well as to benefit from business upswings. (Fred Weston, 1982)
D P Mehta (2003), MD Mangalore Chemicals and Fertilizers Ltd, says, “The signs of sickness manifest themselves in many ways and could be different for different types of industries and businesses the most common are:

- inability to adapt to change
- declining profitability
- shift in customer preference
- working capital problems like (a) inventory buildup; (b) dumping products on dealers; (c) increasing customer outstandings
- inability to plough back into the business
- no clear plans for the future
- frequent labour unrest
- regular plant breakdowns.

Bhushan Raina (2003) stresses on the need for cause and effect analysis of why organisations decline. He says, “A few reasons, which are quite apparent, are in the domain of declining markets with the product becoming too expensive to produce or probably a sudden change in the business environment as a whole. All said and done, a timely diagnosis of the problem leading to appropriate prescriptions which arc proactively deployed remains the only way of stopping the decline. But, most of the time, it is a wiser after the event kind of a situation.

There are clear indications of a declining organization which must not be overlooked. For instance, if an organization has started losing money from an operating profit standpoint, what is called ‘cash losses,’ one can reasonably get alarmed. However, most of the time, such a situation will be attributed to ‘victim phenomenon.’ The companies that suffer from precipitous drop in operating profit on a quarterly or an annual basis may reason that they are victims of uncontrollable circumstances which can range from an unseasonal weather to a tough economy, declining market or retailer de-inventory. Rarely does the senior management team of a company that exhibits declining profit trends practice introspection; rather: it deludes itself into believing
the circumstantial explanation which, over a time, becomes a self-fulfilling prophecy. It is critical for the success of any turnaround endeavour that the management team vested with the responsibility of developing and/or executing the overall plan assesses the situation realistically and removes personal feelings from the equation.

Another typical reason for companies to get into decline is when the company's market share is allowed to decline unchecked over a period. By definition, the entity is facing a shrinking core and the inherent cost of doing business automatically becomes excessively high. This in turn, pushes up the cost of production per unit of the product making it an unviable proposition to keep producing and selling in a small market much below the capability of the manufacturing plant.

Pradip Chanda (2003), Chairman, MMS India Private Ltd., says that, “In any business, there are three key drivers of success: vision, resources; and organization. They determine the stage of lifecycle a corporation is in.

Growth requires fuel by way of monetary and managerial resources and a prudent growth plan can attract both. Stagnation is the result of the inability to access more resources as the investing community and the management talent pool lose confidence in the firm's ability to grow—a reflection of its stakeholders' perception in the firm's game plan. Decline is the result of resource crunch. Turnaround is mandated when the resource crunch becomes severe.

2.2 CHANGE AND TURNAROUND MODELS

Rosabeth Moss Kanter (2003), says, it may be true, to paraphrase Tolstoy, that every unhappy organisation is unhappy in its own way, but once we set aside the details, the fundamental dynamics of decline—and recovery from it— in these three companies turn out to be remarkably similar. Indeed, across a wide variety of situations, in banking, consumer products, retail, industrial products, software, education, and media in North America and Europe, I’ve found the same pattern. Organisational pathologies—secrecy, blame,
isolation, avoidance, passivity, and feelings of helplessness – arise during a difficult time for the company and reinforce one another in such a way that the company enters a kind of death spiral. Reversing that down trend requires deliberate efforts by the CEO to address each of the pathologies.

The ultimate pathology of troubled companies takes hold in ‘collective denial’. Rather than volunteer an opinion that no one else seems to share, people engage in collective pretense to ignore what they individually know. It’s a phenomenon known to psychologists as ‘pluralistic ignorance’.

The only way a CEO can reverse this corporate decline is by:

1. Promoting Dialogue
   Companies compound their financial and strategic woes when they keep their information secret from their employees and public. The cover-up is often worse than the mistake. So the first task of turnaround leaders is to open channels of communication starting at the top.

2. Engendering Respect
   Open dialogue exposes facts and tells the truth, but a successful corporate turnaround depends upon relationships as well as information. It is very tempting for a new regime to exact revenge and punish those responsible for past mistakes. But, that would only guarantee that organisational pathologies- the company’s blame culture would continue.

   Turnaround leaders must move people towards respect; when colleagues respect one another’s abilities, they are more likely to collaborate in shaping a better future.

   To turn around his Country, Nelson Mandela, established a Truth and Reconciliation Commission. Reconciliation helps people move beyond assigning blame for problems; it helps them regain respect for one another while becoming more personally accountable.
3. **Sparking Collaboration**

Turnaround leaders know that problem solving requires collaboration across departments and divisions - and not just because innovations often come from these projects. Changing the company's dynamics requires collective commitments to new courses of action lest local decisions, taken in isolation, undermine that change. New strategies are possible when new kinds of conversations are held about combining organisational assets in new ways.

4. **Inspiring Initiative**

Once turnaround CEOs establish the structures that allow people to collaborate, they need to empower their employees to initiate the actions that will improve the company's financial or strategic position.

It needs to be borne in mind that 'learned helplessness' is a disease that even top executives can suffer and that initiative is not automatic even in those assumed to have power.

At Invensys, the company created INVEST (Identify, Nominate, Validate, Evaluate, Start, Track), a program to find improvement projects already underway in the organisation; as well as new ones, and give them a disciplined project management process to make success more likely.

All of the above implemented at well known companies such as Invensys, BBC, Gillette resulted in reversing their downward spiral and becoming behemoth corporations.

**Stephen A Laybourne (2006),** says that the management of change projects is accommodating a rise in improvisational working practice. He offers a number of lessons that assist in stimulating effective improvisational practices when implanting strategic change within organisations.

Given the unique set of circumstances of each organisation he stresses upon the need for improvisation practices over project managed change.

Comparing the modern, improvisation led, thought with the traditional project managed thought given by Foyle and Brech he gives the following elements:
### Elements of management: changes in focus and practice

<table>
<thead>
<tr>
<th>Fayol (1949)</th>
<th>Brech (1975):</th>
<th>Today:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning:</strong></td>
<td>Planning: Managers are still responsible for planning, but ‘emergent’ strategies based on fast changing environmental conditions are becoming more common.</td>
<td>Planning: (but in more turbulent environments)</td>
</tr>
<tr>
<td>This element remains fundamentally unchanged and is still the province of the senior and middle manager.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Organisation:</strong></td>
<td>With scarcity of resources (human, financial and physical), managers are now employing bricolage in the resourcing of work to a greater extent.</td>
<td>Organisation: (of resources based on bricolage)</td>
</tr>
<tr>
<td>There has been a relatively significant level of change, as the rise in flexible working practices and the growth of autonomous team working has moved much organisation of work flows and work design to those teams.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Command and co-ordination</strong></td>
<td>In today’s progressive organisations managers still co-ordinate work (and the project manager is a classic example of this), but much of this activity has moved to the level Co-ordination</td>
<td></td>
</tr>
<tr>
<td>The combination of command and co-ordination is becoming rarer, as decision making embraces consensus to a greater degree.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Review of Literature**

<table>
<thead>
<tr>
<th>Control:</th>
<th>Control:</th>
<th>Control:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Both management models include control and this key element of management was traditionally a large part of the management role. The control of work and employees is still a management concern, but a larger part of the role is now control of the ‘future state’ of the organisation.</td>
<td>Concentration on employees having the skills, expertise and knowledge to meet the challenges of future organisational requirements and challenges. Managers today also have to ‘control’ the boundaries of the improvisational framework.</td>
<td></td>
</tr>
<tr>
<td>Motivation has become a key element of the management role. This was not foreseen in Fayol’s model, which was developed at a time when organisations were built on the bureaucratic model and employees were not encouraged to participate in organisational decisions.</td>
<td>Commitment and trust becoming more important as employees draw on tacit skills! knowledge, intuition and creativity to resolve organisational difficulties using improvisation.</td>
<td>Motivation, commitment, and trust</td>
</tr>
</tbody>
</table>

**Table II-3: Elements of management: changes in focus and practice**
The recommendation thus is that in a near ideal organisation a project-managed approach is suitable, and through the implementation of the improvisation approach that ideal is to be achieved.

Thus, at this point we can use the results of the study to offer an ideal profile of the characteristics of a potentially strong organisation in terms of the implementation of project-managed change. This organisation will have well defined and powerful mechanisms and processes to create, align, guide, monitor and cancel change-related projects, together with effective routines to review project performance and apply the knowledge gained to the improvement of future projects. Project standards and procedures that form a framework for change and controlled improvisation will support these activities. Allied to this, there will be a homogeneous culture that pervades the organisation, in addition to mechanisms that support and develop managers, team members and employees through training, education, communication and support, so they can manage, execute and cope with change. There will be little negative political activity and minimal resistance to change.

As a result of this, there are a number of messages emerging from the research that managers may wish to draw on in order to apply some of the benefits of improvisational working practices within their own organisations. The key elements are encapsulated in summary form in the Table II-4:

<table>
<thead>
<tr>
<th>Lessons for managers</th>
<th>Rationale:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relaxation of control:</td>
<td>Improvisation cannot flourish in an environment where employees are hidebound by restrictive policies and procedures. Temporal space also needs to be provided in order that employees can try new ways of achieving organisational tasks and activities.</td>
</tr>
<tr>
<td>Tolerance of non-optimum</td>
<td>Decision-making within the modern organisation is never going to be based on choosing the optimum solution from an infinite number of alternatives. Turbulent and fast-changing environments mean that 'satisficing' decisions, that meet current needs, are more likely to emerge from improvisational working.</td>
</tr>
<tr>
<td>solutions:</td>
<td></td>
</tr>
<tr>
<td>Dismantling of political</td>
<td>Much resistance to change is the result of political factions stifling change for their own ends. Open communication and the dilution or removal of political agendas will assist in allowing good improvisational activity to emerge.</td>
</tr>
<tr>
<td>coalitions:</td>
<td></td>
</tr>
</tbody>
</table>
Building commitment and trust:
Managers have to build a culture of trust and commitment, in order that employees feel comfortable trying new ways of achieving, and confident that their efforts are appreciated (both intrinsically and extrinsically).

Learning from good improvisation:
As successful improvisation occurs, resulting in the creation of emerging best practice, formal and informal arrangements should exist to capture and codify such routines, in order that they can be shared within the organisation.

Table II-4: Change through improvisation

D P Mehta (2003) recommends, "Some of the important aspects for eventual revival are"
- improving labour relations (do not underestimate the need to carry the workmen with you to succeed in all the initiatives that get implemented)
- maximize productivity of all resources
- managing working capital stringently
- maximising capacity utilization
- leveraging strategic plant and operations and making assets 'sweat'
- war on costs
- streamlining systems through extensive computerization
- ploughing back internal generations.

He adds, "The leader needs to adopt the 'command and control' style akin to that of General Patton, the legendary commander of the US forces in World War II. Speed, Simplicity, and Boldness are the required ingredients. This style requires the team to take hard decisions in the interest of the organization, act quickly, and work with a less than perfect organization that will be comfortable with simple solutions."

"If one wants to do a Patton to revive an ailing organization, he should by all means opt for the command-and-control model of leadership and let the critics be damned!", he says.
Based on a study of five public sector and four private sector enterprises, Pradip Khandwalla (1981) has given the chief characteristics of the turnaround model as:

1. Credible Change agent
2. Mobilisation of organisation’s rank and file
3. Priority to Quick payoff projects over long gestation projects
4. Negotiation of temporary reprieve from pressure groups in the environment
5. Seizing of opportunities afforded by the environment
6. Strengthening of mechanisms for influencing environment
7. Selective change in the organisations’ product mix
8. Selective strengthening of the management systems
9. Motivation of the staff by giving them challenging tasks
10. Participative decision making
11. Operating autonomy coupled with accountability for performance
12. Peer group pressure for excellence and through example set by the change agent
13. Coordination through performance review meetings, coordination committees and emphasis on direct face to face settlement of conflicts
14. Performance control through the setting up of responsibility centres
15. Institutionalization of an organic, entrepreneurial, professional and participative style of management

He, Pradip Khandwalla (1992), later modified this list to 10 elements of turnaround management which need to be gone through:

1. Change in top management
2. Initial credibility building actions by new management
3. Initial control measures
4. Negotiation for support from outside stakeholders and neutralization of external pressures
5. Quick payoff activities
6. Quick cost reduction
7. Revenue generation
8. Asset liquidation for generating cash
9. Mobilisation of the organisation for turnaround
10. Better internal coordination

As Sunil Maheshwari (2003) says, “The turnaround leaders need to take action in the following areas for an effective revival of the companies:

- personnel changes
- diagnosing and troubleshooting
- stakeholder or people-management
- operations management
- management systems and structure
- financial management
- strategic management

Richard Tanner Pascale and Jerry Sternin (2005), believe that rather than digging to uncover the roots of the problem, hiring experts or importing the best-of-breed practices and assigning a strong role to leaders as champions of change there is a better method, one that looks for indigenous sources of change. There are people in your company who are already doing things in a radically better way. The process advocated seeks to bring the isolated success strategies of these "positive deviants" into the mainstream.

They have given a six step positive deviance model:

1. **Make the group the guru**

The literature on change management universally emphasizes the importance of ‘champions’ and leaders. They matter, of course, but too often, these individuals generate unconstructive dependency from their teams. This absolves the community from owning the solutions it must adopt for change to succeed.

In the ‘positive deviance’ model, problem identification, ownership and action begin in and remain with the community. Because, the innovators are members of the community who are “just like us”, disbelief and resistance are easier to overcome.
2. Reframe through facts
Inside-the-box definitions of problems guarantee inside-the-box solutions. Restating the problem shifts attention to fertile new ground and opens minds to new possibilities. If there is an art form to facilitating a positive deviance inquiry it lies in ferreting out and framing the real challenge at hand, as opposed to reverting to tired cliches and pseudo challenges. By casting a problem in a different light and by using hard data to confront orthodoxies, a community can be encouraged to discover whether there are exceptions to the status quo and, if so, how those exceptions came about.

Reframing a problem entails three steps. First, grasp its conventional presentation. Second, find out if there are exceptions to the norm, people in identical circumstances who seem to be coping especially well. Third, reframe the problem to focus attention on the exceptions.

3. Make it safe to learn
People get attached to the status quo, even when it's not good for them. Problems often go unresolved because the path to the solution is littered with potential losses and other risks. It is essential to acknowledge that journeying into terra incognita is a danger sport. Positive deviants may fear being exposed, ridiculed, or subjected to retaliation if their newly enhanced influence challenges the status of others. Authority figures may feel threatened by a process that invites them to learn rather than just have all the answers or, that disempowers them altogether. Likewise, the others in the group may fear that acknowledging a problem implicates them in it. Few hospitals, for example, want to tackle the predictive indicators of malpractice because doing so might be misconstrued as having foreknowledge. What's more, discussions might be discoverable in legal proceedings. Only when people feel safe enough to discuss a taboo and when the community is sufficiently invested in finding solutions can the prospect of an alternative reality appear.

4. Make the problem concrete
Corporations are awash in meaningless discourse. Because of unwritten social codes meant to keep individuals from being put on the spot, people are
A firm grasp of reality obliterates vague assumptions and helps focus attention on what’s really working. Dealing directly with an uncomfortable truth requires stating it concretely so that there is no way to duck the challenge at hand. This is not merely a matter of being specific. It also entails portraying or dramatizing a pivotal issue in a compelling way.

5. **Leverage Social Proof**

The old adage “Seeing is believing” has particular potency when it comes to change. Take Alcoholics Anonymous. In 1930s, two positive deviants stumbled unto the notion of holding weekly meetings to help keep themselves sober. Others joined in. An inductive process of reflection and learning gave rise to the 12-step program- a protocol that was decades ahead of any intervention that had been devised by social psychiatry.

Social proof is the life blood of the support group movement.

6. **Confound the immune defense response**

Newton was right: Every action has an equal and opposite reaction. In organizations, that reaction comes in the form of avoidance, resistance, and exceptionalism. But when you fan the embers within a community rather than rely on firebrands from headquarters or outside the group, change feels natural. Internally developed solutions circumvent transplant rejection, since the change agents share the same DNA as the host. The trick is to introduce already existing ideas into the mainstream without excessive use of authority. Why use a sledgehammer when a feather will do?

However, the authors themselves ask, “Should the positive deviance approach be applied to every change initiative? Of course not. When there are proven remedies to technical problems-the Salk vaccine to polio, supply-chain management practices, hardware and software solutions-companies can use them to work harder, faster, or smarter. And problems that rely on brainpower but that don’t require major behavioral adjustments, as in the case
of portfolio rebalancing, are unsuitable for the positive deviance approach.

The method works best when behavioral and attitudinal changes are called for— that is, when there is no apparent off-the-shelf remedy and successful coping strategies remain isolated and concealed. In such cases, change from within, discovered, celebrated, and implemented by the people who need to do the changing, is a surefire win.

The Taoist sage Lao-tzu captures the essence of the positive deviance approach with eloquent simplicity:

Learn from the people, Plan with the people

Begin with what they have, Build on what they know

Of the best leaders, When the task is accomplished the people all remark

We have done it ourselves

Traditional change efforts are typically top-down, outside in, and deficit based. They focus on fixing what’s wrong or not working. They also assume a reasonable degree of predictability and control during the change initiative. Unintended consequences are rarely anticipated. Once a solution is chosen, the change program is communicated and rolled out through the ranks. The positive deviance approach to change, by contrast, is bottom-up, inside out, and asset based. It powers change from within by identifying and leveraging innovators. This method diminishes the social distance that often blocks acceptance.

<table>
<thead>
<tr>
<th>TRADITIONAL APPROACH TO CHANGE</th>
<th>POSITIVE DEVIANCE APPROACH TO CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leadership as Path Breaker</strong></td>
<td><strong>Leadership as Inquiry</strong></td>
</tr>
<tr>
<td>Primary ownership and momentum</td>
<td>Leader facilitates search; community takes ownership of the quest for change</td>
</tr>
<tr>
<td>for change come from above.</td>
<td></td>
</tr>
<tr>
<td><strong>Outside In</strong></td>
<td><strong>Inside Out</strong></td>
</tr>
<tr>
<td>Experts identify and disseminate best practices</td>
<td>Community identifies preexisting solutions and amplifies them.</td>
</tr>
</tbody>
</table>
### Table II-5: POSITIVE DEVIANCE APPROACH TO CHANGE

At a more operational level the eminent Journal *Management of Change* gives **TWELVE PRINCIPLES FOR MANAGING CHANGE**

1. Thought processes and relationship dynamics are fundamental if change is to be successful.
2. Change only happens when each person makes a decision to implement the change.
3. People fear change - it "happens" to them.
4. Given the freedom to do so, people will build quality into their work as a matter of personal pride.
5. Traditional organisational systems treat people like children and expect them to act like adults.

6. "Truth" is more important during periods of change and uncertainty than "good news."

7. Trust is earned by those who demonstrate consistent behaviour and clearly defined values.

8. People who work are capable of doing much more than they are doing.

9. The intrinsic rewards of a project are often more important than the material rewards and recognition.

10. A clearly defined vision of the end result enables all the people to define the most efficient path for accomplishing the results.

11. To change the individual, change the system.

12. The more input people have into defining the changes that will affect their work, the more they will take ownership for the results.

**Overview of the Change Process**

<table>
<thead>
<tr>
<th>Present State</th>
<th>Desired Future State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managing Change</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Preparing for Change</strong></td>
<td><strong>Beginning the Change</strong></td>
</tr>
<tr>
<td>Major Issues:</td>
<td>Major Issues:</td>
</tr>
<tr>
<td>1. Why do we need change?</td>
<td>1. What is our change strategy?</td>
</tr>
<tr>
<td>2. What is the present state like?</td>
<td>2. How do we best operationalise changes</td>
</tr>
<tr>
<td>3. What will the future state be like?</td>
<td>3. How do we best use our change levers?</td>
</tr>
<tr>
<td>4. What is going to change?</td>
<td>4. How do we position change as a challenge?</td>
</tr>
<tr>
<td>5. What is not going to change?</td>
<td>5. How do we minimise impact of losses experienced by those</td>
</tr>
<tr>
<td>6. Where are we most vulnerable in making this</td>
<td></td>
</tr>
</tbody>
</table>
7. What will be the key success factors in the future state?

- Play a part in planning and implementing change
- Acquire new behaviours

**Change Levers**

<table>
<thead>
<tr>
<th>Clear understanding of the need for change</th>
<th>Quality of leadership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitment of sponsors</td>
<td></td>
</tr>
<tr>
<td>Clear vision of future and strategy</td>
<td></td>
</tr>
<tr>
<td>Change structure</td>
<td></td>
</tr>
<tr>
<td>Education and training</td>
<td></td>
</tr>
<tr>
<td>Effective two-way communication</td>
<td>Measurement systems</td>
</tr>
<tr>
<td>Infrastructure aligned</td>
<td>Reward systems aligned</td>
</tr>
<tr>
<td>Organisational structures aligned</td>
<td>Skill of change agents</td>
</tr>
</tbody>
</table>

**Maxims to Live By**

<table>
<thead>
<tr>
<th>Communicate, communicate, communicate</th>
<th>Think outside the box, experiment.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous improvement is critical to survive</td>
<td>Create ownership/ involvement</td>
</tr>
<tr>
<td>We’ll keep trying until we get it right</td>
<td>Walk the talk</td>
</tr>
<tr>
<td>Celebrate success</td>
<td>Hold people accountable</td>
</tr>
</tbody>
</table>

**Source: Journal of Organisational Change Management**

Table II-6: PRINCIPLES FOR MANAGING CHANGE

Dexter Dunphy (2003), however gives Ten steps to creating a successful transformation programme:

1. Know where you are now
2. Develop the vision- the dream organization
3. Identify the gap
4. Assess the readiness for change
5. Set the scene for action
6. Secure basic compliance first
7. Move beyond compliance
8. Establish the performance criteria for 'compliance plus'

9. Launch and manage the transformational change programme

10. Maintain the rage

**Capital Restoration LLC**, (management consultants) give a very clear and well defined **Matrix** to facilitate Turnaround, which is reproduced on the following page:
## Turnaround Matrix

<table>
<thead>
<tr>
<th>Turnaround Stage</th>
<th>Management Change</th>
<th>Situation Analysis</th>
<th>Emergency Action</th>
<th>Business Restructuring</th>
<th>Return to Normal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective</td>
<td>1. Select top management team</td>
<td>1. Causes of distress</td>
<td>1. Enhance profitability through operations</td>
<td>1. Institutionalize emphasis on profitability</td>
<td>1. Institutionalize Training &amp; Mgmt.</td>
</tr>
<tr>
<td></td>
<td>2. Work out implications</td>
<td>2. Identify strategy</td>
<td>2. Restructure business for increased profitability and retain on costs</td>
<td>2. Reduce fixed costs</td>
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### Table II-7

Compliments of Capital Restoration, LLC
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http://www.capitalrestoration.com/
According to McKinsey, in the turnaround of a Bank, "There are seven actions required to enhance the chance for success. First, new management must be installed. Second, the credit processes and portfolio strategy must be
Review of Literature

completely revamped. Third, the treasury function must be tightly managed to preserve cash flow. Fourth, typically, the bank must be downsized before it can grow on a sustained basis in the future. Fifth, a relentless focus on results and performance without excuses must be instilled throughout the company. Sixth, new capital must be added, sooner rather than later. Finally, nonperforming loans (NPLs) must be segregated and managed aggressively, freeing up the rest of the bank to focus on a return to profitability, customer service, and shareholder value."

Fahrholz Bernd, Chairman of the Board of Managing Directors of Dresdner Bank, presented the key points of its turnaround program and its five sub-projects to the press on September 26, 2002, saying: “Our main aim is to be operating profitably by next year and to record an operating profit.” In order to achieve this, Dresdner Bank has set up the “Turnaround 2003” program with the following concrete goals:

- Operating income for 2003 to reach 2002 levels at least.
- Administrative expenses to be reduced to 6.5 billion euros in 2003, as against 8.7 billion euros in 2001.
- Loan loss provisions to be halved.

Dresdner Bank set out 5 sub-projects which in essence:

1. About 4700 jobs were cut
2. 300 branch offices were amalgamated
3. Restructuring of the functions was done to ensure, “greater transparency and responsibility for profits”
4. A 3-tier project organization, comprising a steering committee, a project office and project teams, was set up to ensure that the individual sub-projects are kept under tight control, and that the Bank achieves the goals it has set itself.
5. Substantial cost cutting exercise was initiated

According to Pearce Douglas (2004) et al, “There are critical conditions for success when working with state banks going through a management-led turnaround or setting up a specialized unit/department.
The government, board, and management of the state bank must be committed to introducing micro- and rural-finance good practices, and must agree to refrain from political influencing bank decisions on micro- and rural-finance operations.

This includes strict loan repayment, separate staff incentive and monitoring systems, full-cost interest rates, and appropriate reporting and portfolio management practices.

Patience and commitment to long-term engagement is required from donors, including the World Bank, as well as from the state bank and government.

- Be prepared for substantial technical assistance and systems investment. Funding will likely be needed to update systems and procedures, improve external public image, enhance customer service, and train staff. This will ensure good-practice operations and quality financial services. Such investment is critical to success and should not be seen as optional. If suitable funding is not available, the less ambitious option to link with an established institution should be considered.

- Proceed ambitiously but cautiously. Banco do Nordeste decided to scale up the CrediAmigo pilot program too early and too fast. It grew from 5 branches to 50, and to 100,000 clients within the first year of operation. The heavy loan losses that resulted temporarily slowed down expansion and required an intensive loan recovery program.

- Support development and introduction of new financial products. Market research linked to product design and piloting can result in products that better suit the diverse financial needs of rural clients, that are appropriately priced, that attract more clients, and that increase branch transaction volumes.

J. Michael Feeks gives 10 success factors underlying most turnarounds of operations and earnings in the Banking sector:

How do some community banks manage to go from near-failure to above-average ROAs and ROEs in a matter of a several years? How do mediocre
performers achieve top-tier financial performance in similar timeframes? Generally speaking, there are at least 10 success factors underlying most turnarounds of operations and earnings.

1. Planning pragmatically

Turnaround plans are qualitatively different and more urgently implemented than typical business plans. Effective turnaround plans share a number of attributes:

A clear vision—If some members of the board and management envision a “full-service, high-performance community bank” and others have in mind an approach to “sell the bank,” it is unlikely that either strategy will be implemented successfully. With the managerial workload and intense pressures involved in a turnaround, it is clear that all concerned need to be pulling in the same direction.

Detailed financial plans—In his bestseller The 7 Habits of Highly Effective People, Stephen Covey counsels us to “begin with the end in mind.” He cites the example of building a house where details are blueprinted before the first nail is hammered.

At a community bank, beginning with the end in mind means developing pro forma, multiyear financial statements showing what the bank should look like when the turnaround is complete. Management then works backward to determine what is needed to make that vision a reality. For example, to achieve a target ROA of 1.50%, the bank may need to establish a number of supporting goals such as an efficiency ratio of 55% or a ratio of non interest income to assets of 2%.

Once such goals have been established, alternative strategies for reaching them need to be considered, then translated and tested in financial terms. In so doing, management learns: What can we afford to do? How soon? What are the best opportunities? As strategies are finalized, the next steps involve the creation of detailed implementation plans.

Clear priorities—With so much to be accomplished in a turnaround, emphasis
must be placed on doing the right things, as well as doing things right. For example, exceptionally high priorities may need to be established for fully complying with regulatory orders, reducing nonperforming assets, or improving management in key spots. A bank with serious problems can ill afford to squander precious resources on “nice-to-have” projects or activities.

Clear accountabilities—Since many turnaround tasks are complex, interdependent, and need to be accomplished with great urgency, managers throughout the bank need to know who is doing what with whom and when. For example, loan officers need to know the types and volumes of loans that are consistent with the plan; branch administrators need to know how much and how soon direct expenses must be reduced. Accountabilities need to be firmly fixed, in writing.

An inclusive process—Plans should not be developed or monitored entirely on a top-down basis. The best strategies and results are achieved when managers throughout the organization are involved in the planning process and buy into what needs to be done.

2. Assuring the needed commitment from directors

Especially in turnarounds, both management and regulators look for clear direction, active involvement and strong support from an undivided board. Where directors are not unanimously committed to a well-reasoned turnaround plan, management’s focus and morale inevitably erode and regulators’ surveillance and controls increase. Regardless, beyond the requirements of normal corporate governance, directors need to be prepared for regulators to mandate higher levels of involvement and responsibility, especially if the bank is required to enter into some form of supervisory agreement.

3. Building and empowering a team

There is no place on a turnaround team for marginally effective players, micromanagement or bureaucratic processes. At the outset, the board and top management need to assure that there are highly capable managers in each key position and that the team is empowered to move decisively.
4. Keeping good relationships with regulators
Far too many regulatory relationships turn adversarial when a bank encounters serious problems, thereby slowing the turnaround process and making it more stressful. Bank management needs to understand that examiners are charged with higher levels of surveillance in troubled situations and are required to develop more detailed knowledge of the bank’s operations. Considering their stake in the bank’s health as well as their expertise, regulators should be treated as partners in the turnaround process. Cooperative compliance is imperative.

5. Accelerating workouts
Savvy turnaround managers know the real cost of nonperforming assets (NPAs). In addition to creating net interest income shortfall, chargeoffs, and an expensive workout department, sizable NPAs consume management attention and detract from the bank’s reputation. Banks need tailored workout plans for each sizable exposure, a capable workout staff, a sense of urgency, and the courage to take decisive action—including the possible sale of some portion of the portfolio at discounts beyond those already taken.

6. Maintaining policies, procedures, and controls
When fighting fires, it is easy to forget that failure to maintain sound policies, procedures, and controls can be devastating to a bank. We have all seen situations where failures in these disciplines have resulted in substantial writeoffs, assessments of monetary penalties, special regulatory agreements, and management shake-ups. For example, banks have been penalized in recent months for inadequate anti-money-laundering programs, accounting irregularities, and failure to maintain appropriate risk management practices. Such events tarnish a bank’s reputation through adverse publicity that continues for months. Considering the severe penalties for failure in these disciplines, banks need to assure that their policies, procedures, and controls are thoroughly reviewed on a regular basis and are maintained at best-practice levels.
7. Monitoring relentlessly
Board and top management need to be committed to a thorough, ongoing process for tracking and reviewing results compared to the plan and assuring a disciplined execution of strategies. In addition to regularly making sure plan implementation is on track, the benefits of these reviews include raising the confidence levels of regulators, directors, and employees. This approach also is effective in managing their expectations and galvanizing day-to-day support.

8. Selling persistently
In addition to developing and implementing turnaround plans, the most effective management teams regularly “sell” the plan to the people involved in making it happen—directors, employees, shareholders, customers, and the community. These constituencies need to be reminded frequently of what the bank is determined to accomplish and how important their strong support is to the cause.

9. Communicating constantly
Typically, there is no shortage of rumors in an organization with problems. We recommend preempting the grapevine, acknowledging the problems, and communicating to the point of near overkill. Morale will be better; so will productivity. In addition to keeping employees informed on the turnaround progress through frequent meetings, e-mails, and newsletters, many banks have benefited from devoting similar attention to regulators, customers, and other members of the bank’s community. At every opportunity, management needs to point out the milestones and celebrate the victories.

10. Assuring adequate resources
Most banks are staffed for normal operations. If management is dealing with regulatory orders and implementing a turnaround plan, it will need additional help. Directors and management tend to underestimate the resources needed to simultaneously run the bank, fix the bank, meet additional regulatory requirements, and communicate with all constituencies to address concerns about the bank’s problems.
There is no One-Minute Manager for turnarounds. In our work with banks, we have seen that such efforts require vision, leadership, teamwork, and unremitting dedication to implementing a plan. We also have seen that the 10 success factors above are the common threads in management practice for nearly all the successful turnarounds. We strongly recommend them as a checklist for any board or management targeting dramatic improvement in bank performance.

Gouillart & Kelly have laid the holistic approach of business transformation in a four part framework based on 4 Rs:

(a) Reframing the company's conception of what it is, and what it can achieve. It addresses the corporate mind. Corporations often get stuck in a certain way of thinking, and lose the ability to develop fresh mental models of what they are and what they could become. Reframing opens the corporate mind and infuses it with new visions and a new resolve.

(b) Restructuring the corporate body to bring it to a competitive level of performance. Restructuring is the domain where payoffs are fastest and cultural difficulties are greatest, often making layoffs and the anxieties associated with them an avoidable side effect. The payoffs, however, if invested in revitalization and renewal, can be used to heal the wounds, if not lessen their severity.

(c) Revitalizing the company's relationship to the competitive environment, igniting growth in existing businesses and inventing new ones. Everybody wants to grow, but the sources of growth often are elusive, making the process of achieving growth more challenging and protracted than restructuring. Of all the four Rs, revitalization is the single greatest factor that clearly distinguishes transformation from mere downsizing.

(d) Renewing individuals and the organization, enabling them to become integral parts of a connected and responsible world community. Renewal deals with the people side of the transformation, and with the spirit of the company. It is about investing individuals with new skills and new purposes,
thus allowing the company to regenerate itself. It involves creating a new kind of metabolism, the rapid dissemination of knowledge inside the firm, and it involves the cultivation of a reflex of adaptation to environmental changes. Renewal is the most subtle and difficult, the least explored, and potentially the most powerful of transformation's dimensions.

John Kotter (1995), in HBR, gives the eight sequential steps for Turnaround as:

1. Establishing a sense of urgency:
   Most successful change efforts begin when some individuals or groups start to look hard at the company's competitive realities, market position, technological trends and financial performance.

2. Forming a powerful guiding coalition
   In successful transformations, the Chairman or President or Division General Manager plus another 5 or 15 or 50 people come together and develop a shared commitment to excellent performance through renewal.

3. Creating a Vision
   In every successful transformation effort the guiding coalition develops a picture of the future that is relatively easy to communicate and appeals to customers, stockholders, and employees. A vision always goes beyond the numbers that are typically found in five-year plans. A vision says something that helps clarify the direction in which an organization needs to move. Sometimes the first draft comes mostly from a single individual. It is usually a bit blurry, at least initially. But after the coalition works at it for 3 or 5 or even 12 months, something much better emerges through their tough analytical thinking and a little dreaming. Eventually, a strategy for achieving that vision is also developed. In one midsize European company, the first pass at a vision contained two-thirds of the basic ideas that were in the final product. The concept of global reach was in the initial version from the beginning. So was the idea of becoming preeminent in certain businesses. But one central idea in the final version
- getting out of low value-added activities - came only after a series of discussions over a period of several months. Without a sensible vision, a transformation effort can easily dissolve into a list of confusing and incompatible projects that can take the organization in the wrong direction or nowhere at all.

4. Communicating the Vision

There are three usual patterns with respect to communication, all very common. In the first, a group actually does develop a pretty good transformation vision and then proceeds to communicate it by holding a single meeting or sending out a single communication. Having used about .0001 % of the yearly intracompany communication, the group is startled that few people seem to understand the new approach. In the second pattern, the head of the organization spends a considerable amount of time making speeches to employee groups, but most people still don't get it (not surprising, since vision captures only .0005 % of the total yearly communication). In the third pattern, much more effort goes into newsletters and speeches, but some very visible senior executives still behave in ways that are antithetical to the vision. The net result is that cynicism among the troops goes up, while belief in the communication goes down.

In most successful transformation efforts, executives use all existing communication channels to broadcast the vision. They turn boring and unread company newsletters into lively articles about the vision. The guiding principle is to use every possible channel for communication.

Probably more important is that the leaders 'walk the talk' and become role models, consciously attempting to become the living symbols of the new corporate culture.

5. Empowering others to Act on that Vision

The guiding coalition empowers others to take action simply by successfully communicating the new direction. But communication is never
sufficient by itself. Renewal also requires the removal of obstacles. Sometimes the obstacle is the organisational structure: narrow job categories can seriously undermine efforts to increase productivity or make it very difficult even to think about customers. Sometimes compensation or performance appraisal systems make people chose between the new vision and their own self-interest.

In the first half of a transformation, no organization has the momentum, power, or time to get rid of all obstacles. But the big ones must be confronted and removed. Action is essential, both to empower others and to maintain the credibility of the change effort as a whole.

6. Planning for and Creating Short Term Wins
Real transformation takes time, and a renewal effort risks losing momentum if there are no short, term goals to meet and celebrate. Most people won't go on the long march unless they see compelling evidence within 12 to 24 months that the, journey is producing expected results. Without short term wins, too many people give up or actively join the ranks of those people who have been resisting change.

When it becomes clear to people that major change will take a long time, urgency levels can drop. Commitments to produce short term wind help keep the urgency level up and force detailed analytical thinking that can clarify or revise visions.

7. Consolidating Improvements and Producing Still More Change
After a few years hard work managers may be tempted to declare victory after the first clear performance improvement. While celebrating a win is fine, declaring the war can be catastrophic. Until change sinks deeply into the company’s culture, a process that can take five to ten years, new approaches are fragile and subject to regression.

Instead of declaring victory, leaders of successful efforts use the credibility afforded by short term wins to tackle even bigger problems. They go after the systems and structures that are not consistent with the transformation vision and have not been confronted before.
8. Institutionalizing the New Approaches

In the final analysis, change sticks when it becomes “the way we do things around here,” when it seeps into the bloodstream of the corporate body. Until new behaviours are rooted in social norms and shared values, they are subject to degradation as soon as the pressure to change is removed.

Two factors are important in institutionalizing change in corporate culture. First is a conscious attempt to show people how new approaches, behaviours, and attitudes have helped improve performance. Second factor is taking sufficient time to make sure that the next generation of new management really does personify the new approach.

THE EIGHT CHANGE LEVERS

Nilakant (1998), on studying Crompton Greaves, Premier Automobiles, Ahmedabad Textile Industry’s Research Association, Carpets International and RPG Group has concluded that:

1. CEOs must avoid the trap of losing the larger overall goal in one’s pre-occupation with short-term issues
2. Contact must be maintained with authentic feedback and important information
3. Communication must be maintained with the various stakeholders to negotiate mutually beneficial outcomes.
4. The leader has to give a credible and compelling vision that is achievable and make this vision apparent and meaningful through effective communication

He proposes that Organisational change need to pay attention to eight change levers. These eight aspects together constitute the levers of organizational change. They should not be viewed as eight separate dimensions but as eight interrelated dimensions of change.

Organizations differ in the extent to which they include all the eight aspects in a change process. Large scale highly intensive changes such as
discontinuous, transformational changes will include all the eight dimensions. Small scale low intensity changes may involve a few of these aspects. But unless all the eight aspects are involved over a period of time, the change process will remain incomplete. Organizations may also differ in the relative emphasis on different content dimensions. The extent to which each content area is emphasized in a change process depends upon nature of business and type of strategy that is adopted.

- Leadership
- Strategy
- Structure
- Human Resource Management Practices
- Technology
- Marketing
- Quality
- Costs

Being comprehensive and definitive these are the levers that provide the structure to this study.

a) Leadership

It is the principal driver of change. It is the basis or foundation on which change is built. It is important to be able to distinguish between transactional leadership and transformational leadership. Transformational leadership is the powerful trigger for organizational change.

Visionary leadership facilitates the shaping of an appropriate strategy for change.

Hannessian, in The McKinsey Quarterly, talking to the ‘turnaround’ CEO Allan Loren of D&B (formerly Dun & Bradstreet) gives us Allan’s views on Leadership during the turnaround,
The leadership action plan is an individual's road map for becoming a better leader. Specifically, each team member maps out his or her strengths and areas for improvement, on the premise that you leverage your strengths and work to improve the areas you need to get better at. Team members get guidance in laying out these self-assessments—they are reviewed and revised with each individual's leader on an ongoing basis.

The leadership action plan is a "live" document that should be referred to daily in order for individuals to remain focused on becoming better leaders.

Leadership development is an ongoing process, just like reengineering.

We also have a more formal leadership development process, which is done quarterly. Progress is measured against the individual's goal and leadership behavior. Both the leadership action plan and the leadership-development process provide for feedback to help people become better leaders'. With the leadership action plan, the feedback is immediate. For instance, if a leader is working on becoming more decisive at meetings, that person's "buddy" will give feedback directly after a meeting, and provide insight on what went well or how things could have been handled differently. Most team members have buddies—even me. We know what we need to work on, and we seek out people who are good at what we're not and get their help.

Larry Bossidy (2001), who turned around an ailing Allied Signal, echoes a similar sentiment when he says, "I devoted what some people considered an inordinate amount of emotional energy and time—perhaps between 30% and 40% of my day for the first two years—to hiring and developing leaders. "I knew it was essential. I'm convinced that Allied Signal's success was due in large part to the amount of time and emotional commitment I devoted to leadership development."

Pradip Chanda (2003), appraises us of a debate in the leadership required to steer a company through the turnaround phase. He says, "Studies across the world have identified the induction of a new CEO as an essential ingredient in successful turnarounds. This is universally true for the American models of
turnaround. Unfortunately, this is easier said than done in family-managed corporations in India. Recent studies have established that the owners’ resistance to distance themselves from the management is a pan-Asian phenomenon reflecting family and social values very different from the American management mindsets.

According to Sunil Maheshwari (2003), “The various stakeholders in an organization respond to decline through:

- disengagement
- reduction in quality of participation
- bargaining for more favourable exchange of relationships
- denigration via rumours
- denigration via confrontation

Such reactions enhance the chances of closure of an organization. Hence management of relationship with stakeholders outside the organization becomes an important task of turnaround management. However, in subsequent stages of decline, when the initial efforts prove to be futile, these managers lose credibility. This necessitates a change of leadership at the top characterized by a benevolent autocratic behaviour and vision which would help in producing positive results to turnaround efforts. Essentially, these leaders will have to convince all the stakeholders that decline is temporary and controllable. This process would reduce the hostility of different stakeholders.

D P Mehta (2003) endorses the view on change of leadership saying that, “The best approach is to change the person at the top and empower the incumbent to bold decisions with single minded determination.”

Steve Miller, talking about turnaround says, “The first rule is great leadership. It is just incredible what a difference an inspired leader can make to an otherwise hopeless situation. As a corollary, it usually requires an outsider to effect a turnaround. The former management tends to spend too much time plowing old ground. A new manager may not know as much, but at least you
can focus on the future rather than the past. Further, a new manager gives confidence to investors, employees, and customers."

Miller counsels executives in turnaround situations "to be decisive. In a critical situation, people are often paralyzed by fear of failure or confused as to why things got so bad. It is important to make decisions and take action."

b) Strategy
An organizational spells out the direction of change. It is a map that shows the path and goal of change. If a vision statement tells the organization where to go strategies show it how to reach there. It not only sets the context for change but also makes it enduring and permanent.

In order to implement the strategy appropriate changes need to be made in the structure and human resource practices of an organization.

Rick Wagoner (2006), CEO General Motors, stresses the importance of total strategic planning and says, "We did not plan on the basis that a white knight would come in at the 11th hour and bail us out."

'Turnaround' CEO Allan Loren of D&B gives his views to Hannessian, in The McKinsey Quarterly, on Strategy:

"We crafted a strategy in four months, then evolved it. Let's face it you can't think of everything in four months. On the other hand, you can't have a new strategy every year, because if you do people will just wait for the next one to come out. So the objective was to develop the structure of a strategy and adjust it to future customer and economic needs.

We kept the structure simple. The primary focus was to repair the brand; change the business model to get funds to pay for the repairs, and create a new culture. Creating a new culture was fundamental to the new strategy.

The business model we adopted—we refer to it as a "financially flexible business model"—was predicated on constant reengineering and then the reinvestment of the freed-up funds. That meant constant change for team members. We knew we needed a culture that would support continual change, but we didn't have that at all.
The strategy wasn't unique. But we had to sequence it, since we didn't have the ability to do everything at the same time. For instance, we called the strategy a blueprint for growth, and we needed to increase revenues in both our traditional business and our e-business. But we didn't try to grow right off the bat, because we didn't have the wherewithal. We knew that if we create a financially flexible business model, repaired the brand, and created a culture of great leaders, we would have a foundation for growth."

"Focus was critical. We didn't start out by saying, "Let's create the world's greatest strategy, so that the strategy itself will carry us to success." What we said was, "Our market opportunity is great enough, the value of the brand is strong enough, the things we do for customers have value; let's just get focused on the obvious contributions we can make to creating shareholder value and target our investments in a relatively few areas to make a difference." That's why we were able to come up with a strategy in four months. We weren't trying to be all things to all people, we weren't trying to be perfect, and we weren't trying to be brilliant.

Chanda, talking on Strategy during turnaround says, “Too intense a focus in the turnaround phase also leads a company into a strategy trap that turnaround managers are forced to adopt in under-performing and sick companies. In most turnarounds, managers are per force occupied with managing the details and instead of being driven by a well-articulated vision, strategies evolve as the repairs to the corporation gain momentum. And, to a large extent, the strategies adopted are a mix of what Mintzberg and Walters define as entrepreneurial and imposed strategies.

Entrepreneurial because the grand plot for the turnaround is deliberately kept as a personal and partially articulated vision of the turnaround manager; the turnaround manager unfolds the strategy step by step as the organization develops its capabilities to meet immediate objectives and goals and gets ready to tackle the demands for sustainable growth. This approach provides the turnaround manager the flexibility to exploit new opportunities, whenever they come up with utilization of the company's assets as the only discriminating determinant.
Imposed, because the turnaround manager is forced to work with limited resources at hand. Under his direction, the company is more likely to find customers for what the company can make, rather than make what the customer wants. The environment would also dictate his decisions on wide ranging issues. If the social and political climates discourage manpower rationalization the turnaround manager will opt for manpower intensive technology. If relocation of the manufacturing facilities is not an option, the turnaround manager will focus on a product range that is likely to give him a regional advantage. If building brands is too expensive, the turnaround manager will reposition the company as a contracted manufacturing base.”

b) Structure

Strategic changes almost always require change in functions, roles, responsibilities, decision making procedures and coordination mechanisms. As business environments become more dynamic through deregulation, increased competition and technological changes, organizations face increasing pressures to become more organic. There are two aspects of structure: (a) at the organizational level, structure can be functional, divisional or a matrix form; and (b) at the intra-organisational level, structure includes teamwork, decentralisation of decision making and empowerment.

An organic structure is characterised by less of hierarchy and rules and more of teamwork and decentralisation. Therefore, organisations need to move towards increased delegation, decentralisation, empowerment, multi skilling and teamwork. Rigid barriers between departments need to be brought down and replaced by cross-functional teams.

Raina (2003) stresses that in case of business failure the very definition of the product or the business needs a hard relook. He says that, “This does not take away the need for structural changes to be put in place; what needs to be understood is that structural change themselves are not and should not be the starting point.”

c) Human Resource Management Practices

 Liberalisation, deregulation and competition have irreversibly altered the face of traditional personnel management. Today human resource management is
probably the most crucial step in a change process. Organisational changes have themselves demanded transformations in the ways in which people are selected, trained, evaluated and rewarded in organizations.

Most change efforts are unlikely to succeed unless human resource practices create a supportive climate for change.

Hannessian (2005), in The McKinsey Quarterly, talking to the 'turnaround' CEO Allan Loren of D&B gives us Allan’s views on grooming the human resource and also alter the old set in behaviour pattern during the turnaround:

“The culture we've created here is all about leadership. Leadership development is virtually the most important control lever you have for achieving success. You can't 'control customers; there are too many of them, and they are, of course, independent. You can't control the environment; look at all we've been through in the past four or five years. But if you have leaders who are adaptable and capable of leading just about anything, you can be successful. To make better leaders, we have to modify their behavior, not their personality. We 'spend a lot of energy helping team members become better leaders.'

"If you want to modify behavior, you have to communicate where you want a leader to go and ensure that the person will have the tools he or she needs to get there. Feedback is a crucial part of that. Without feedback, you're just kidding yourself about leadership. The reality is that we can't make you a better leader; you have' to do that yourself. But the more feedback you get, the better you become. For example, we do a formal employee satisfaction survey, twice a year, that is designed to measure, among other things, the team members’ understanding of and confidence in our strategy and whether team members are taking steps to improve their leadership. We use the survey results to identify opportunities for improvement and assign teams to address the areas of focus. We have high participation rates, 99 percent-because team members understand the value of feedback."
"Also, as part of our coaching, we have to demonstrate the behavior we want others to exhibit. We may need to help people understand how to manage everything that's on their plate, for example, and to do that we have to demonstrate how you ask for help. At D&B, asking for help is a sign of strength, not of weakness."

He continues, "We didn't put our energy into figuring out how to do strategy. We concentrated on changing the behavior of our team members to help them grow as leaders. It wasn't the strategy that would carry us, it was leadership, created through cultural change, what we call "winning culture." That's why we said, early on, that success is about being better leaders, not about having a perfect strategy. We wanted leaders who were focused and behaved similarly—not identically but similarly so that we could actually get our strategy implemented"

Raina (2003) too stresses on the team building when he says, "It is important to create a venture-team environment whereby traditional inter-departmental barriers are broken and the cross-flow of information is facilitated and encouraged. But, in this case, a high degree of commitment on the part of all the employees is essential. Unhappy or unsupportive workers are like a virus and their negative attitude can be especially contagious to tired, frustrated, and vulnerable co-workers. The time is now ripe for creating a master that will guide the company out of troubled waters and into calmer waters since the turnaround team has been assembled and has the necessary information along with the vision, direction, and a clear understanding of the parameters and time frame associated with the task.

The playbook is the master plan that the organization will use to execute the turnaround. It also lists the critical checkpoints that must be a part of the overall plan. Unless every individual in the company understands what he or she is supposed to do, the plan cannot succeed no matter how well conceived it is.

Perhaps the most valuable asset in successful companies is the ability of the people at all levels to use their knowledge, creativity, and experience to
generate ideas. These companies set up systems that encourage, if not demand, the personnel at all levels to submit topical ideas on a regular (often weekly) basis. Idea generation enables everyone in the firm to believe that he or she has a direct voice in determining the organization's future and also helps in uncovering hidden jewels within the company.

S C Gupta (August 2006), CMD Punjab National Bank says, "Most of the Banks have re-christened their personnel departments as HRD-Division. However, it is merely a cosmetic change and in reality, HRD continues to be the 'Punishment & Reward Department (PRD). I will desist from reeling out statistics as it will not serve any practical purpose in the present context. Instead, I will attempt to deal with the issue at a conceptual level. After the banking reforms, several important changes have transformed the Banking Industry completely i.e. deregulation, competition & focus on profitability, induction of technology driven operations & products. This makes it essential for us to improve the level of skill, motivation and initiative of our human resources. Skill formation includes the entire process of grooming. It involves imparting job knowledge as well as creating future leadership. Besides, persons with specialized knowledge in different spheres have to be trained to provide support to the leadership. In the present competitive environment, the process of decision-making shall require intrinsic job knowledge as well as awareness of the extrinsic business environment. In order to take the benefit of induction of technology in banking operations, it is necessary to disseminate it up to grass root level. A few islands of specialized know-how can kick start a process. However, its acceptance as well as adoption are necessary for consummation and sustenance of the process."

Chanda highlights a major culture centric debate when he says that, "When a corporation reaches the turnaround phase, one of the issues for debate is whether an Anglo-American model of turnaround is the correct one or whether businesses in India, and indeed in much of South-East Asia, should develop a separate model.

Harsh short-term measures such as large-scale retrenchment and divestment
of unproductive assets, the cornerstones of the American model, are always more attractive to the turnaround manager. Our interaction with many CEOs heading potentially bankrupt companies indicates that they had the desire to have freedom to employ this model, no matter what industry it is or how big or small the firm is. There is no doubt in any of the CEOs' minds that the American model produces results more quickly. All are however aware of the high social costs of such turnarounds and very few are mentally prepared to take the responsibility for the trauma such strategies could cause. As a result, corporations in most Asian and European countries have adopted more 'human' turnaround models. In many cases, arcane laws such as the Industrial Disputes Act 1947 (IDA) requiring that prior government permission be taken before implementing any plans to rationalise, standardize or improve manufacturing processes, have forced corporations into diverting valuable resources to pay large worker compensations to enable restructuring. For example, Telco is reported to have spent Rs.2.4 billion on voluntary retirement schemes, a sum that could have launched several medium sized companies.

Dr D S Sangwan (June 2006) stresses that HRM is critical to the organisation because it can serve to improve overall productivity and minimize penalties to the organization by observing the humanistic laws relevant to the utilization of human resource. The level of satisfaction of internal customer (staff) will decide the quality of services the external customer receives. One cannot expect excellent result/service from a dissatisfied or de-motivated internal customer. His/Her frustration and dissatisfaction with work will obviously get reflected in the way he/she treat the customer. Successful organizations are those, which recognize HRM as a corporate strategic issue rather than simply an outcome of corporate strategic decision. In the present competitive environment, the survival and success of any organisation critically depends on the quality as also on the management of human resources. It is rightly said," As is the staff, so is the institution". Various studies have proved that there exists positive relationship between the HRM/Business strategies or policies and performance. Timely promotion and right placement are essential for the growth and development of the employees.
and the organisation. It is rightly said that an organisation grows if its people grow. Thus the growth of the employees and the organisation are correlated. This is because the higher rate of promotion would motivate the employees to work better which would automatically enhance their performance.

Analysing the manpower profiles and size between Public Sector Banks and the private and foreign banks he says that there is a stark contrast in the manpower profile of new age private and foreign banks. Composition of manpower (ratio of different categories of staff deployment to the total manpower) in public sector banks is; officers (30.73 per cent), clerks (46.93 per cent) and sub-staff (22.34 per cent), whereas in foreign banks, it is 79 per cent, 15 per cent and 6 per cent respectively. The higher officer ratio in foreign and private banks matches with the requirements of modern day business. As a result of higher officer ratio, the business per employee of new private and foreign banks was of Rs.4.22 crore and Rs 8.77 crore respectively in comparison to Rs.2.47 crore of public sector banks. Given the large wage bill, administrative overheads and low efficiency levels, the profit generation per employee among public sector banks is one of the lowest in the industry at Rs.2.20 lacs whereas for private banks and foreign banks, it stands at Rs. 9.23 lacs and Rs. 18.08 lacs respectively.

One can draw a conclusion that the performance of PSBs vis-à-vis private and foreign banks leaves a great deal to be desired. On analysis of factors attributable to the significantly high efficiency ratios of these banks, it would become clear that urgent need for PSBs is to revisit and realign the entire spectrum of HR and technology policies besides ushering in marketing, sales and service culture across their organizations.

Steve Miller talking on the importance of the people in the organisation says: "Companies that have fallen on hard times are not necessarily populated by a bunch of bozos down in the ranks. Instead they typically have cadres of experienced, hard-working people who know their craft and want to do well, but are frustrated by poor leadership and organization. Once new turnaround management is in place, the same troops that couldn't shoot straight often
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... turn into an incredible fighting machine." The main effort thus is to identify, nurture and utilize this resource.

d) Technology

Technology not only refers to tools, equipment and machinery alone. It includes information, knowledge and activities that are involved in the physical transformation of inputs into outputs. The outputs may be products or services.

In the post liberalisation environment characterised by increased global competition, management of technology has become a major area of concern for organisations. Selection and utilisation of the appropriate technology is a key factor for competitive success in the new environment. More importantly, technology has to be integrated with the other aspects of the organization.

The types of changes in the technology area among Indian organizations include technology upgradation, introduction of new products, management of sourcing and logistics and value analysis.

Dr Justin Paul (May 2006) says, "The financial sector, comprising banks, stock exchanges and insurance organisations, have been the backbone of every country. They are the agents to implement and bring about economic reforms. Any changes in this sector through technology would have a sweeping impact on any country. The developments in information collection, storage, processing, transmission technologies have influenced all aspects of the banking activity. Information technology (IT) developments affect banking in two ways.

1. First, they contribute in the reduction of costs associated with the management of information (collection, storage, processing and transmission) by replacing paper based and labour intensive methods with automated processes.

2. Secondly, they modify the ways in which customers have access to bank's services and products, mainly through the use of automated processes such as remote banking. The phenomenon of remote banking is very recent.
Remote banking is currently offered by all the major banks in India. Most of the standard retail banking services are offered through the use of automatic teller machines (ATM's), tele-banking and online banking. Online banking is not generally widespread, yet all the major banks have their online banking portals. Internet banking is expected to have the highest growth potential, incorporating increasingly sophisticated products. The use of electronic money is one such innovation.

Already the situation has reached a stage where implementation of technology has become a measure of its success. As Kaul (September 2006), President Retail; Banking UTI, says, “We have the highest ATM to branch ratio in India. Today 97 percent of bank’s transactions take place in the ATMs. This is probably the highest in the world.”

Such is the role technology in Banking that K V Kamath (September 2006), MD & CEO ICICI Bank says, “ICICI Bank is a technology company that is into banking and financial services.”

Kesharwani (2005) says, “Banking being a highly data-oriented industry offers enormous potential for ERP applications. An ERP system offers wide ranging integration between different banking system modules. ERP integrates users, information, processes, and applications for higher productivity. It facilitates decision making with simulations for enhanced responsiveness and change. It enables banking employees to interact with bank’s top brass for reduced time and effort and reverses the usual communication ‘top-down’ and ‘bottom-up’.

e) Marketing
In a competitive, deregulated environment, customers have a greater choice of products and services. Consequently, they are more conscious of quality and costs. They are demanding in terms of delivery and after-sales service. Therefore, organisational change necessarily has to encompass the marketing function.

A number of companies have had to review their marketing activities in the post-liberalisation environment and introduce changes.
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According to Raina for undertaking turnaround, "The first step which needs to be undertaken is to revisit the marketplace and understand how the product is being viewed by the entire downstream value chain."

Allen Loren tells us that on the brand building front, "Our Brand became 'D&B Decide with confidence.' We threw out all of our old brochures and rewrote the value propositions for each of our businesses. Now we have 1,600 sales people going to market with virtually a single message about the unique value proposition of our DUNSRight quality process. The market's understanding of what we offer and appreciation of it has dramatically improved."

Turnaround artist Steve Miller, who besides Chrysler (along with Lee Iacocca) has several major turnarounds to his credit shares his and Iacocca's first turnaround secret saying "Listen to the customer". A phrase repeated so often it has become an irritating cliché. But when Miller joined the foundering Chrysler Corp. in 1979, he learned that not listening to the customer was killing the company.

g) Quality
Quality is all about meeting or exceeding customer expectations. It is a critical element in any change effort because customers are the ultimate judge of the success or failure of any change effort.

Over the years, Indian organizations have been engaged in a variety of quality related initiatives such as quality circles, value engineering, value-added management and TQM.

Improving quality is a long-drawn process requiring commitment, patience and hard work at all levels. There are no short cuts to either quality or success.

Allan Loren of D&B once again tells us, "We invested several hundred million dollars in improving the quality of our processes for collecting, storing, and delivering data about businesses, because that was our core value proposition to customers. This is what we call out DUNSRight quality process. The process involves five steps in which we ensure that what we provide to customers allows them to make decisions with confidence about credit risk, suppliers, or targeted sales and marketing activities. It’s a proprietary process,
no one else has it, and it's a key competitive advantage. D&B didn't invest adequately in this process during the 1990S, and as a result the database didn't contain information on a lot of new businesses or have the kind of modeling or matching capabilities the company needed to remain competitive. So we began repairing DUNSRight and therefore our brand."

Raina also stresses on the quality improvement during the turnaround process and in fact goes a step further when he says, "Finally, no turnaround story is ever complete. After the revival phase one has to bring in necessary robustness to ensure that the organization does not fall back into the same trap. The surest way of ensuring this is by instituting a process of business excellence in the organization at the earliest and getting fully guided by the letter and spirit, of the principles enshrined in such a process. This will especially facilitate an approach whereby all the stakeholders’ needs, could be simultaneously addressed and balanced. Without such an approach, any turnaround effort today will remain inconclusive. Efforts will have to be directed towards making total quality management a way of life in the organization through a well-structured process of deployment and continuous measurements to check the effectiveness of the process: In a fiercely competitive market scenario, the approach of everyday being a new day, is the only approach which can bring about consistent success and growth without which the old glories can take the organization back to complacency and possibly towards disaster."

Steve Miller illustrates how the concept of quality had to be drilled into Chrysler and the importance of it. "The average car we sold was returned to the dealer for 12 different repairs in the first year on the road. In [Lee] Iacocca’s subtle phrasing, ‘We were shipping a lot of crap,’" Miller recounts. Iacocca’s solution? Extend the warranty program from 12 months to five years, an idea that Miller initially hated. "I told him it was crazy; we’d go broke on the warranty bills. The manufacturing guys were apoplectic at the notion of being haunted by their mistakes for five years."
But lacocca was right. And to make sure his management team understood that, he imposed a bonus system that paid zero to every executive in any year that quality didn't improve by the targeted amount. "That got our attention," says Miller. "Defect rates were reduced over time by at least 90 percent."

f) Costs

In today's business environment, customers are very cost conscious and are unwilling to pay for products or services that do not meet their expectations. With increased competition, they have more choices.

Widening the choice has resulted in customers demanding more value for their money. Most Indian companies have realised that in addition to managing technology, markets and quality, managing costs is a key factor of success.

There is, in fact, a great deal of overlap between managing costs and managing technology and quality. Technology management and quality improvement also result in a reduction in costs.

According to Raina, "In almost every turnaround situation, there is a division, product line, operating facility or a 'corporate project' that is losing money or draining cash at an accelerated speed. For a variety of reasons (sometimes political) these situations remain unaddressed while vital functions are dramatically under-funded. The turnaround team must apply the 'tourniquet' and immediately stop the continuous outflow of cash. Therefore, 'stopping the bleeding' is the first step towards getting a handle on the situation and setting a new tone within the troubled company. No corporate asset is more precious than cash. While making a turnaround, strict cash policies must be implemented."

Continuing with D&B's Allan Loren, he says that, "The components of the strategy are all integrated, and a great deal of it rested on changing the culture. For instance, the initial challenge we faced, even before we crafted the strategy, was to get people in the company to understand that we could control our expense base. There was a belief, inside the company, that this was a high-fixed-cost business and that it was difficult to do anything about those costs. This was the mind-set we had and it paralyzed the company."
To break through the paralysis, it was important for our leadership team to understand that there were consequences to what we decided to do—or didn’t do—and that as leaders we “owned” those consequences. Here’s how that played out in this instance. Shortly after I started, I had meetings with the leadership team where we would discuss ideas for growing the business. There were a number of good ideas, but every time I said, “Good, let’s do that, leaders would push back and say “Well, we can’t” because we won’t have the money to make the investment.” After hearing this a few times I said, “If you’re telling me we have such high fixed costs that we can’t invest in the company then we should sell it. If we don’t invest in the company, it won’t grow and improve, and—if it doesn’t get better it will deteriorate, so it’s worth more today than it will be tomorrow.

Nobody liked hearing that, but it got the dialogue on reengineering started. It broke through the notion that as a company we could remain in a static state. We faced up to the consequences of not investing. Eventually, we worked our way forward, identifying opportunities for savings that could then be reinvested in the business.

As Sunil Maheshwari (2003) says, “Changes in the product-market domain and cost reduction are common in most of the turnaround efforts. People reduction has also been one of the common measures of reducing cost in the recent past.

One of the biggest challenges for the revival of the declining companies is to improve operations without much investment in plant and equipment. Because of a lack of available funds, the fullest exploitation of the creative ability of the organization becomes a necessity. The operations management efforts for reducing the cost and improving the quality include initiatives such as stretched targets and suggestion forums.

Financial management requires negotiations with the financial institutions for support during crisis when they are actually hostile towards the management. These institutions require convincing arguments from credible sources that the management is serious about the turnaround process and that the institutions’ interests are best served by supporting the revival initiatives.”
Intended application of the above is evident in the very recent case of United Western Bank. Where Anand Adhikari (Sept 2006), asks, “But why on earth would anybody want UWB, you might well wonder. The Satara-headquartered bank, which had deposits of Rs 6,480 crore against advances of Rs 4,006 crore in 2005-06, had racked up losses of close to Rs 100 crore in each of the past two financial years. The Net Non-Performing Assets (NPAs) stand at 5.66 per cent, which compares poorly with its peer group's figure of just 1.97 per cent. The bank's capital adequacy ratio, too, turned negative at 0.3 per cent as on June 30, 2006.

Yet, ICICI and the clutch of other banks sniffing around UWB have good reasons to do so. The bank has a strong branch network of 230 branches in small towns, a dozen extension counters and 75 ATMs. At a rime when rural, and small & medium enterprise (SME) lending is growing by leaps and bounds, acquiring UWB, infusing capital in it and turning it around makes ample sense. That UWB can access low-cost funds in a progressive state like Maharashtra only enhances its appeal.”

It is evident from above the recipe for UWB is clear: Infusion of leadership and Capital, Inorganic Strategic Growth, Enhanced Marketing presence in Rural & SME segments and lowering of costs with access to low cost funds, just as Nilakan has recommended.

The same is true for the Centurian and Bank of Punjab merger. As Manas Chakravarty (September 2006) says, BoP was a great fit with Centurian Bank. The latter was strong in retail (Marketing) and had a solid management (Leadership) made up mainly of former Citibankers who has turned it around and recapitalized it. It also had lots of capital from an $80 million GDR issue. BoP on the other hand lacked capital and had high NPA levels. It was not good at retail but had good SME credit (Costs) and a strong liability engine.

The two banks had a few things in common. Both were new generation private sector banks, neither had trade unions (HRM), and both used core banking systems (Technology), although the platforms were different.
In the same article, Anil Jaggia, COO CBoP underlines the importance of HRM and says, "People are the key. After the merger with BoP the top management had made a lot of effort to communicate with employees of erstwhile BoP. People had to be reassured. We found a lot of energetic people waiting for direction."

Dr D S Sangwan (June 2006), in The Indian Banker, echoes similar views, "The challenges before the public sector banks are to provide world-class financial services to the clients by using information technology, cross-selling, reducing costs, increasing profits and compete with world-class international banks. The emerging banking scenario is highly competitive, posing challenges in three critical quarters, namely, technological challenges, operational challenges, and challenges on the people front. In order to effectively meet these multiple challenges, PSBs need to take organization-wise transformation initiatives so that they acquire the desired competence to gain substantial financial strength and also the necessary size and skill to compete with the global banking fraternity."

Preeti Patnaik, reporting in The Economic Times (October 25, 2006) says, "The government has also expressed reservations against letting foreign banks acquire these ailing banks, because it would be difficult to justify giving away an entire branch network to a single overseas entity. Both Standard Chartered bank and Citibank for instance, had expressed interest in acquiring sick banks. Weak banks are the best bet for foreign banks that want to expand their foot print quickly in India. According to the RBI, only weak banks specifically identified by it will be available for acquisition by banking entities in the run-up to the opening up of the banking sector."

With this kind of near hectic Merger & Acquisition activity round the corner taking over of weaker entities, turning them around and integrating them would be the norm. Formalised study of the process will aid the success of such ventures.
# Bank Mergers/Amalgamation in Indian Banking Industry

**Bank Mergers/ Amalgamations: 1985 onwards**

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<tr>
<th>Banks</th>
<th>Merged/Amalgamated with</th>
<th>Year</th>
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<tr>
<td>Lakshmi Commercial Bank Ltd</td>
<td>Canara Bank</td>
<td>1985</td>
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<tr>
<td>Bank of Cochin Ltd</td>
<td>State Bank of India</td>
<td>1985</td>
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<tr>
<td>The Miraj State Bank Ltd</td>
<td>Union Bank of India</td>
<td>1985</td>
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<tr>
<td>The Hindustan Commercial Bank Ltd</td>
<td>Punjab National Bank</td>
<td>1986</td>
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<tr>
<td>Traders' Bank Ltd</td>
<td>Bank of Baroda</td>
<td>1988</td>
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<tr>
<td>United Industrial Bank Ltd</td>
<td>Allahabad Bank</td>
<td>1989-1990</td>
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<tr>
<td>Bank of Tamilnadu</td>
<td>Indian Overseas Bank</td>
<td>1989-1990</td>
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<tr>
<td>The Bank of Thanjavur</td>
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<td>Bank of Baroda</td>
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<td>Centurion Bank</td>
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<td>Lord Krishna Bank</td>
<td>Centurian Bank of Punjab</td>
<td>2006*</td>
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**Source:** Indian Banking Year Book 2004; www.banknetindia.com

**Table II-9:** Bank Mergers/ Amalgamations in India: 1985 onwards

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