



Turnaround Strategy for Sick Organizations

Sushil Khanna



Sick Enterprises

- BRPSE experience – 84 of 295 CPSEs were loss making with more than 50% net worth eroded
- There was clamour for privatization (but BJP government which had privatized several units in 1999-2003 was accused of selling family jewels and defeated)
- The challenge was to revive and turnaround these units, or sell or liquidate them.
- The state was unwilling to pump more money to revive them; unless banks financed them

CPSE - classification

- Though all are classified as “Non-Departmental Commercial Enterprises”, their role and mandate varies widely
 - Some are private sector sick units taken over
 - Others are promotional (NE handlooms , Film Development, Trade Promotion etc.)
 - Still others to meant to channel subsidies to backward groups or regions (SC / ST Finance & Dev Corp; Refugee Rehabilitation Corp)

Taken Over Units

Profit/loss (Rs lakhs_)

<u>CPSE</u>	<u>2011-12</u>	<u>2010-11</u>
HOOGHLY DOCK AND PORT ENGINEERS LTD.	45293	-6225
BALMER LAWRIE & CO. LTD.	13807	12109
NATIONAL TEXTILE CORPN. LTD.	13014	130423
BRIDGE & ROOF CO.(INDIA) LTD.	4580	5768
ANDREW YULE & COMPANY LTD.	1185	4132
BRAITHWAITE & CO. LTD.	689	618
HOOGHLY PRINTING COMPANY LTD.	47	28
BHARAT WAGON & ENGG. CO. LTD.	-867	-999
BIRDS JUTE & EXPORTS LTD.	-1109	-772
CENTRAL INLAND WATER TRANSPORT CORPN. LTD.	-1309	-493
BENGAL CHEMICALS & PHARMACEUTICALS LTD.	-1592	-916
RICHARDSON & CRUDDAS(1972) LTD.	-1626	-2156
BIECCO LAWRIE & CO. LTD.	-2013	375
TYRE CORPORATION OF INDIA LTD.	-2086	-1323
HINDUSTAN VEGETABLE OILS CORPN. LTD.	-2378	-2269
BRITISH INDIA CORPORATION LTD.	-5834	-5294
BURN STANDARD COMPANY LTD.	-7610	116214

<u>Central Cottage Industries Corporation of India Limited</u>	P
<u>Central Railside Warehouse Company Ltd.</u>	P
<u>Central Warehousing Corporation</u>	P
<u>Handicrafts & Handlooms Exports Corporation India Ltd.</u>	P
<u>India Trade Promotion Organisation</u>	P
<u>Karnataka Trade Promotion Organisation</u>	P
<u>National Handlooms Development Corporation Ltd.</u>	P
<u>North Eastern Handicrafts and Handlooms Dev. Corpn. Ltd.</u>	P
<u>North Eastern Regional Agricultural Marketing Corpn. Ltd.</u>	P
<u>Tamil Nadu Trade Promotion Organisation</u>	P
<u>Central Inland Water Transport Corporation Ltd.</u>	P
<u>National Research Development Corporation</u>	P
<u>National Small Industries Corporation Ltd.</u>	P
<u>Export Credit Guarantee Corporation of India Ltd.</u>	P
<u>National Backward Classes Finance and Development Corp.</u>	P
<u>National Film Development Corporation Ltd.</u>	P
<u>National Handicapped Finance & Development Corporation.</u>	P
<u>National Minorities Development & Finance Corporation</u>	P
<u>National Safai Karamcharis Finance & Development Corporation</u>	P
<u>National Scheduled Castes Finance & Development Corporation</u>	P
<u>National Scheduled Tribes Finance & Development Corporation</u>	P



Obsolete Products or Technology

- Some made products that have no market today
 - Hindustan Cables, Bharat Ophthalmic Glass , Tungbhadra Steel, Tyre Corp
- These must be closed down
- Despite BRPSE suggestion accepted by Govt and also approved by Parliament – NOT CLOSED



BRPSE LEARNING

- Many co. sick due to Governments method of funding losses
- Central Govt. insisted on funding losses thru interest bearing loans (opposed to equity)
- Aggravated the losses
- Some had irrational financing (Konkan Railways)
- Financial restructuring was all BRPSE could do
- Done only if a viable strategy was available.



BRPSE LEARNING

- Many had very low quality managers, incapable of even conceiving turnaround possibilities
- Weak or absent Boards
- Junior ministry officials put on Boards
- Many had obsolete products and should have been closed long ago
- Very few private sector “taken over” units ever took serious technological modernisation; have limped along for 4 decades

- BRPSE managed to turn around about 44 units, of which about 32 are still profit making enterprises



BRPSE Strategy

- Clean up B/S if a viable plan is possible
- Insist on reward to senior managers (longer tenure / cash reward) for turnaround
- Insist on active ministry support (??)
- Insist on complete Board
- Encourage NR / MR to take over where they agreed



Reviving Sick State PSE

- Kerala State Finance Corporation
 - 50 per cent of Assets were non-performing
 - Today KSFC is the best state financial corporation

- Kerala State Road Transport Corp
 - Cumulative Losses of Rs. 6000 crores
 - Unable to pay their salaries and pensions
 - 20 per cent of buses off road; either for crew or spares
 - Workshops with archaic machinery and poor work norms and culture
 - Weak managers
 - Absence of any MIS , even accountshandwritten



What is `Organizational' Sickness?

- An organization unable to meet its stakeholders expectations
- Unable to provide for expenses and salaries for employees – Financial Sustainability
- Assets and Resources are underutilized
- Operational inefficiencies and low morale
- Unable to retain skilled employees and talent
- Poor Leadership



Evolving a Turnaround Plan

- Situation Analysis
 - Survey of assets and facilities
 - Assessment of staff and manpower
 - Review of operations and Financials
 - Leadership and Governance
- Gap Assessment
 - Assets?
 - Manpower?
 - Investment and financial plan
- WHO WILL IMPLEMENT THE TURNAROUND?



Turnaround Plan

- What is the potential `market' / demand?
- What is Competition?
 - Other Charitable hospitals / Government hospitals/ schools etc?
 - Paid hospital/ private schools
 - Nursing homes / coaching centres etc
 - Private Doctors
- **IN EVERY SECTOR / INDUSTRY YOU WILL FIND POORLY UTILIZED ASSETS & INSTITUTIONS**



Why do customers / patients stay away?

- Patient and her social conditions (Domjur HIV story)
- Patients opportunity cost and time
- Her world view and socialization
 - Why do patients not avail of free HIV drugs
 - Free schooling for boys / girls?
 - Free condoms for sex workers?
 - Free rations/ pensions / welfare benefits?
 - Free scholarships?



Key / Critical Resources

u

- WHICH PART OF ASSETS / RESOURCES ARE CRITICAL TO TURNAROUND PLAN
 - KSRTC – Buses and route planning/ workshops and spares management
 - XYZ Management School – faculty and students
 - XYZ Eye care Centre – Doctors and para medics
 - Quality of care
- COMMON TO ALL – LEADERSHIP AND GOVERNANCE



Limitations of Mentoring / Consultant

- **WAS THE MENTORING WEAK / INCORRECT?**
 - KSRTC and Asset utilization – returns
 - Incorrect diagnosis /
 - Social and Cultural Conditions in the region
 - Opportunity Cost of Private Practice for Doctors
 - Affordability – richer patients prefer alternative care



Organizational Weakness

- First – Leadership and Commitment
 - Tenure
 - Motivation
- Support of `Owner' / Board of Directors / Trustees
- Resources to implement strategy



Differences in Social and Cultural Conditions

- Between States
 - Education & Income Levels
 - Hygienic conditions
 - Ability to follow instructions

- Between Countries
 - Institutions & Regulations
 - Public Policies



Strategic / Implementation Failures

- Strategic Failures – changing environment or initial mis-diagnosis
- Change track

- Implementation Failures may require new leadership
- Greater support from Board / Mentors / Consultants

- **CELEBERATION OF SUCCESS AND BUILDING ON MORE SUCCESSFUL STRATEGIES**