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)
<table>
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<tr>
<th>CPSE</th>
<th>2011-12</th>
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<td>HOOGHLY DOCK AND PORT ENGINEERS LTD.</td>
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Central Cottage Industries Corporation of India Limited
Central Railside Warehouse Company Ltd.
Central Warehousing Corporation
Handicrafts & Handlooms Exports Corporation India Ltd.
India Trade Promotion Organisation
Karnataka Trade Promotion Organisation
National Handlooms Development Corporation Ltd.
North Eastern Handicrafts and Handlooms Dev. Corpn. Ltd.
North Eastern Regional Agricultural Marketing Corpn. Ltd.
Tamil Nadu Trade Promotion Organisation
Central Inland Water Transport Corporation Ltd.
National Research Development Corporation
National Small Industries Corporation Ltd.
Export Credit Guarantee Corporation of India Ltd.
National Backward Classes Finance and Development Corp.
National Film Development Corporation Ltd.
National Handicapped Finance & Development Corporation.
National Minorities Development & Finance Corporation
National Safai Karamcharis Finance & Development Corporation
National Scheduled Castes Finance & Development Corporation
National Scheduled Tribes Finance & Development Corporation
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

- 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

- CELEBRATION OF SUCCESS AND BUILDING ON MORE SUCCESSFUL STRATEGIES