REGENERATION OF STRATEGIC ORGANIZATIONS

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Abstract

One way of increasing the social responsiveness of OB, especially in the Third World, is to increase its contribution to the effectiveness of strategic organizations, that is, organizations set up to, or desiring to, achieve social priorities, such as public enterprises. These strategic organizations have pioneering missions but they are often subjected to severe regulatory pressures because of their dependence on or control by the government. They tend, therefore, to malfunction. In this paper the successful regeneration of an international sample of a dozen public enterprises is analysed and compared with the regeneration of an international sample of 30 private enterprises. The study indicates that even very sick public enterprises can be regenerated with the right kind of management. While there are some commonalities between the management of regeneration of public and private enterprises, there are also sharp differences, with the former exhibiting much more of a participatory, Theory Y orientation. The tools of action research, OD, behavioural science can, therefore, be more easily and successfully employed in regenerating public enterprises. OB should devise additional tools that can help the managements of sick public enterprises to turn around their enterprises. Also, OB experts wishing to contribute to the regeneration of public enterprises should enlarge their familiarity with tools of the management sciences to avoid over-reliance on just behavioural science tools and a behavioural bias in diagnosing the ills of the organization.

An important finding of the study is that relatively novel, creative, innovative ways of regenerating contribute significantly to regeneration. The tools of creative thinking such as brainstorming, and interventions that can usher in a climate of creativity in the organization can therefore usefully supplement Theory Y approaches to turning around strategic organizations. It would be productive for behavioural scientists to integrate creativity in such tools as action research, confrontation meetings, interpersonal competence labs, survey feedback, job enrichment, participative re-design of work, team building, etc.

Need for Socially Relevant OB

Several reviews of OB in India have bemoaned the mimetic quality of OB research and application in India - endless replications of Western job satisfaction models, the Herzberg two - factor theory, to a lesser extent of McClelland's need for achievement and Maslow's need for self-actualisation models, OD, action research, and quality of life models as conceptualised in the West, and so on.[1] The point is not that they are irrelevant; but that we have not orginated to the extent we should, theories, models, intervention and training strategies etc that are anchored in Indian reality and address themselves to our critical problems. Few OB scholars in India have anchored their models on such staples of Indian reality as dependency, stratification, degrading poverty, gross social inequality, pervasive governmental control, corruption, or poor work ethic.[2] Still fewer have aligned their thinking to the vast surge of developmental activity in the country after independence, or to the tasks of socio-economic transformation.[3] How many OB scholars have based their models on Gandhi's or Nehru's change agentry, the entrepreneurial motivation and skills that have powered the Tatas, the Birlas, the Ambanis, the Mafatlals, or the two million obscure Indians who have preferred to set up small scale manufacturing units to taking jobs? How many OB scholars have looked closely at Indian excellent organizations and how institution building has taken place in them?[4] Or equally, why great institutions in the country, like the universities, have been declining, why the government does not work effectively, and how to make organizations set up for poverty alleviation function well?[5]

Strategic Organizations

One way to make OB socially relevant in any country, and especially in Third World countries like India, is to focus on the people and operating problems and design and development issues of strategic organizations. Strategic organizations are those that are set up to, or aim at, achieving social priorities. In the Third World context these are organizations that aim at or contribute significantly and directly to the process of social development.[6] Three forms have been identified: the nationally or sectorally apex strategic organization with developmental missions and also regulatory responsibilities (such as major ministries, the planning commission, sector-specific regulatory agencies, apex industry and trade associations, etc); the spearhead strategic organizations with major developmental missions in their sectors of operation but no regulatory responsibilities (many public enterprises, IIMs, IITs, NDDB, etc); and catalytic strategic organizations (mostly voluntary organizations) that locally catalyse social development by networking with or energising other organizations that can contribute to local social development, such as Tilonia, Aga Khan Foundation, BAIF, SEWA, PRADAN, etc. If OB could contribute to the more effective functioning of these three types of strategic organizations, there could be strong multiplier effects on the process of socio-economic development.

In the Third World, many of these strategic organizations ar government owned, funded, or controlled, and hence subject t contrary pressures. As government owned or dependent organizations they are subject to powerful pressures for bureaucratisation on account of public accountability. As missionery, pioneering, development oriented organizations they need to operate in an entrepreneurial and organic mode. The organizations resort to many strategies to cope with these contradictory pulls,[7] but often fail or sicken because of their inability to cope. These organizations are rife with people management problems relating to motivation, conflict and collaboration, conformity and creativity, socialisation, enculturation, leadership, etc., as also problems of design relating to decentralisation, control and coordinatory systems, form of departmentalisation, differentiation and integration, etc.[8] They are not only fascinating research sites and fruitful sites for developing new OB tools and techniques, but any contribution OB could make to their effective functioning could materially speed the process of social transformation.

In this paper the way one class of strategic organiztions - namely government-owned enterprises (also called public enterprises) - have been regenerated from deep sickness is examined for its implications for new directions in OB.

Sickness in the Public Sector

Some of the most important spearhead strategic organizations in India are the public enterprises set up by the Government of India and various state governments. Some 1000 are in existence, with a total investment and sales in 1990 of upwards of Rs.1000 billion (Rs.100000 crores). They cover an immense variety of sizes, technologies, and products. Many of them are sick. Some 40% of the central government owned enterprises are loss making, and a significantly higher percentage of states owned enterprises is also loss making.[9] Many reasons have been advanced for their poor financial performance, low productivity, etc, such as political interference, bureaucratic pressures, low autonomy, wrong initial choices of technology and location, incompetent management, and so forth.[10] Even a 5% improvement in the productivity of these enterprises would probably double or triple their total net profits. These public enterprises are a prime site for the application of socially relevant OB expertise.

Many are so sick that from time to time, there are calls for their abandonement or privatisation. There are, however, spectacular examples of the regeneration of extremely sick public enterprises, not only within India but also from several other countries. Table 1 profiles a dozen of these turnarounds. Only those turnarounds have been shown that were sustained, that is, there was a sustained improvement in profitability beyond the breakeven year for at least one year (usually for several years)[11]

(Table 1 about here)

Many of the recoveries were spectacular. The average change profitability of the dozen public enterprises from the worst pre - turnaround year to one year after break even was from average loss (as percetage of sales) of 17% to an average prc (as percentage of sales) of 13%, an incredible recovery of percentage points. The average period taken for this v change of fortunes was a shade over 3 years.[24] These figur indicate the enormous potential of effective regenerati management for reviving sick strategic organizations.

How were these recoveries engineered? Through monopoly power Only one of the dozen, Zambia Railways, was a monopoly. Two ha substantial monopoly power with over 50% of the market share, namely SAIL and British Steel. Some others had monopoly power, but in particular products, not overall. Several had rather small market shares, such as SPIC, TCC, Jaipur Metals, and Can Cel. A fairly typical example of drammatic turnaround in a competitive industry situation is afforded by TCC, owned by the Government of Kerala, producing caustic soda and other generic chemicals, operating in a state known for a difficult industrial relations situation and whose politics have been dominated by Marxists.

The Turnaround of TCC

Travancore Cochin Chemicals (TCC) was established as a private sector enterprise in 1950. In 1960 the Government of Kerala took over the management. The company built up a substantial capacity for the manufacture of caustic soda, sodium sulphate, etc., and became a flag ship corporation of the Kerala Government. Between 1967 and 1978 the company experienced frequent changes of cheif executives, and during this period as many as ten members of the Indian Administrative Service were deputed to it as chief executives. The company incurred losses after 1972 because of a variety of reasons including a slump in the market for caustic soda. By 1978 the company was plagued by demoralisation, top management discontinuity, mounting losses, cash shortage, loss of credibility with the suppliers, poor upkeep of equipment, erratic and poor quality production, and loss of customers. The company lost an average of some 40% on sales during 1976-7 and 1977-8. In mid-1978, at the urging of some workers who apprehended a loss of jobs, the Government of Kerala invited Mr. T.N. Menon, then working as a financial controller and administration manager with a metallurgical firm, to take over the management as chairman and managing director. Before accepting the post, Mr. Menon got the appointing minister to agree that Mr. Menon would have complete freedom of action and no political interference in the internal affairs of the company. On his part Mr. Menon agreed to ensure that state policies would be scrupulously adhered to. The company broke even in 1979-80. In 1980-1 it made a profit of 10% on sales and in 1981-2 it earned 17% on sales. In 1977-8 the company's net operating profit to sales percentage was -17%, versus the private sector industry average of 15% (net operating profit is net profit plus interest). In 1981-2, this percentage was 24% for the company and 12% for the industry! A public sector enterprise with less than 10% national market share was earning twice as much as the private sector industry. How was this miracle accomplished ? Mr. Menon took the following steps:

1. As soon as he joined as the chief executive, Mr. T.N. Menon initiated the process of continuing communication with the managers and workers. The letters to the managers were in English while Malàyalam was used for the bulletins to the workers. The very first bulletin dated August 16, 1978, addressed to all the employees, provided an outline of the company's policies and the problems in was facing. It also sought employees' suggestions for improving the performance of TCC. The written communication was followed by the chief executive meeting managers and union office bearers separately and jointly to enable them to ventilate their feelings. Thus, channels of communication were opened up and they helped in building up a culture of free and frank discussion.

2 The chief executive did a quick SWOT (strengths, weaknesses, opportunities, and threats) analysis and identified the following key result areas for concentration:

(a) Management development and training

(b) Improvement of plant operations

(c) Maintenance management

(d) Financial discipline and cost control

(e) Improvement in industrial relations

(f) Improvement in marketing

(g) Materials management

3 A senior manager who was found to be corrupt was removed from service, and the action was successfully defended by the company up to the high court. This had a salutary effect on the morale of the entire organization and the workers were convinced of the seriousness of the new chief executive's attempt to revive the organization. There was improvement in business ethics. Later, a senior executive found not to be competent in leading his team was persuaded to leave TCC. This action also dramatised the emphasis on competence and performance the new chief executive was seeking.

4 Mr. T.N. Menon continued issuing educative circulars to his managerial colleagues on a whole range of issues, beginning with the "responsibilities of managers". Over a period of time these circulars touched upon topics like organizational effectiveness, transactional analysis, result-orientation, budgeting, planning, and a whole range of other subjects. These circulars were widely discussed among managers.

5 Capsule training programmes in management subjects, inter-personal relations, team-effectiveness and other behavioural aspects were arranged for all the managers including the chief executive. These programmes created a freer and franker atmosphere conducive to mutually supportive relations.

6 By his own behaviour, the chief executive reportedly set an example for punctuality, promptness in taking decisions,

meeting performance demands by agreed time schedules, integrity, resistance to political interference, intolerance of indiscipline, and fair and quick redressal of grievances. Meetings were made serious and result-oriented affairs, and the accountability for action was fixed on individual managers to implement the decisions according to agreed time schedules. In the initial stages, this being a new experience for the managers, the chief executive had frequently to pull up some, or closely to follow-up on their actions. In due course, 'keeping promises' slowly became part of the organizational culture.

7 Overall strategic plans for the company were discussed in open meetings of top managers to give them a broad picture of where the organization stood and where it planned to go. This created not only an awareness in them of corporate-level matters but also a sense of involvement. The organisation was reshuffled to make the best use of available talent.

8 Traditionally, all recruits in the technical wings used to enter the company service through the Public Service Commission, as the latter recruited junior engineers. The quality of personnel supplied by the Public Service Commission was considered inadequate for a high technology company like TCC. Hence, a system of open recruitment for the 'executive trainee' scheme was introduced. The minimal recruitment qualifications for workmen were upgraded to SSLC and ITI.

9 Being an old organization, the senior executives were in their early and mid-fifties and they were quietly awaiting retirement. Hence job enrichment of the third level of executives (i.e. middle and junior level) was carried out, with career and succession plans in mind. These executives were encouraged to go out and acquire qualifications such as MBA, Masters in Engineering, etc. Later, career and succession plans were worked out for these executives, and were implemented.

10 Plant - 1, the old Krebe plant, as well as the auxilliary and peripheral equipment, were in a dilapidated condition, with a majority of cells in a corroded condition. Plant modernisation was taken up, with a little help from the state government and largely through internally generated funds. The plant thereafter ran efficiently.

11 Plant - II, the new Uhde plant, due to poor maintenance, had been operating in a slipshod manner, with only half the cells working. A crash programme was developed to rectify problems and run the plant efficiently.

12 Plant - III consisted of caustic soda fusion plant, sodium sulphide plant and hydrosulphate plant. Due to poor market conditions and acute competition, the hydrosulphate plant was working at a negligible level and the workmen were idle most of the time. The production in this plant was stopped, and workmen were reallocated to other units. Exercising of

such flexibility was unprecedented in TCC, and managers were surprised that the unions yielded without any resistance.

The caustic fusion plant, where it was very important to maintain high capacity utilisation (by fusing surplus lye into solid flakes) was in a rundown condition, with intermittent breakdowns and low capacity output. Because of technical problems and negligent handling, the bags in which flakes were packed were coming out dirty and unattractive to look at; consequently, there was poor off-take of this product in the market. The technical problems were rectified, and problems of casual labour, involved in these operations were sorted out through negotiations. The plant was now able to handle 60 tons of flakes per day, as against 30 tons previously. The machine stitching of bags was introduced. As a result, TCC was able to register among customers a favourable impression for its flakes, on par with those of Standard Alkalies, the market leader.

13 The technical director, who was not able to handle problems, was replaced by an executive from outside. The new executive director (technical) was invited to join the organisation in 1980 from a nearby public sector chemical plant.

14 It was found that capacity utilisation was substantially affected by extremely poor, fire-fighting type maintenance. Each plant manager was supposed to be responsible for

operations and maintenance of his plant. Consequently, maintenance received only a casual ad hoc attention. As a result, there were frequent breakdowns. Standby equipment in critical areas was not kept in readiness. Mr. T.N. Menon called in a consultant to review the company's maintenace management practices, to reorganise the set up and train the engineers in modern maintenance engineering methods. The consultant conducted detailed studies and training programmes for the engineers, and made proposals for the revamping of the maintenance function in the organisation. The proposals, with some modifications, were implemented. There was resistance from the TCC Engineers Forum and representations were made in 1980 to Kerala's minister of industries against such changes. After discussions with Mr. Menon, the industries minister refused to intervene and, thereafter, the new maintenance organization started functioning smoothly.

15 Subsequently, furnace oil consumption was considerably reduced. By 1984 a project for the use of surplus hydrogen as fuel for caustic fusion was under implementation. A master plan to reduce considerably industrial pollution, and protect the environment, was also under implementation.

16 The financial institutions and banks were not very happy with TCC for not meeting the interest and instalments due on time. A tripartite meeting was arranged in 1980 between TCC, the financial institutions, and the Kerala government.

The financial institutions and banks agreed to give a number of concessions, including the freezing of accumulated interest, aggregating to Rs.58 million, besides reduction in the rate of interest on loans. In the same meeting the Kerala government agreed to provide certain concessions to TCC to indicate its seriousness in reviving this enterprise. The government granted to TCC a concession in power tariff for four years until 1984 (this was likely to be extended). TCC, in turn, agreed to pay interest due in time, and instalments on past loans at an accelerated pace. TCC started promptly paying annual interest and instalments to lending organisations. During 1978-79 to 1983-84, the payments of principle and interest to the financial institutions amounted to Rs.105 million. This promptness helped TCC regain credibility with the financial institutions.

17 The company did not have proper budgeting systems in 1978. It went in for regular, on-going budgeting on the basis of an integrated plan of action for each year, meshing into a five-year perspective plan.

18 Costing and control systems also were streamlined. Each item of cost was reviewed critically to reduce the cost burden to the barest feasible level, without affecting production or productivity.

19 Periodic direct communication with workers, through Malayalam bulletins, was helpful in establishing a free

atmosphere for exchanging views between the management and labour. Adherence to punctuality, discipline, and prompt compliance with orders was reportedly insisted upon by the new chief executive. Since the workers for many years were used to a laissez-faire atmosphere, in the beginning there was a spate of disciplinary actions. As time went on there were fewer and fewer occasions when disciplinary action was needed; the workers in course of time got used to the new culture.

The unions also got the message in unambiguous terms. They gave up pressure tactics and learnt to sort out problems through open negotiations across the table.

For union recognition the company followed a norm of minimum 15% membership. This considerably reduced the number of unions operating in TCC.

20 A monthly production incentive scheme was introduced, which made the workers production oriented. The annual bonus scheme also was linked to production volume.

21 Marketing effort was on a very low key prior to 1978. The attitude was "whatever is available anyone can come and take it if he wants".

The new chief executive impressed upon his colleagues the critical nature of the marketing function: "The customer is our business; it is the customer who gives us employment. We have to manufacture what the customer needs, and not try to sell what we make". The customer reportedly became an honoured person. Quality complaints were attended to promptly. Supplies became steady.

22 The company increased the production of profitable products like caustic soda and kept the production of relatively unremunerative products like sodium sulphide and sodium hydrosulphate at a low level during the early part of the turnaround.

23 Lye storage capacity was increased to enable the company to cope with occasional slackness in offtake (which was previously met by production stoppage); an additional finished goods godown was constructed to store flakes and thus avoid emergency sales at distress prices.

24 The company was also successful in capturing new business through pro-active marketing strategies. It negotiated and concluded 10-year agreements with Hindustan Paper Corporation Ltd., Vellore, and Kerala Minerals and Metals Ltd., Quilon, for the supply of their entire requirements of caustic soda, chlorine, and hydrochloric acid.

Later, with acute competition in the market, and some of its traditional customers in deep trouble, TCC strove to capture a chunk of major markets like Bombay.

25 TCC did not have a comprehensive stock taking for almost a decade. Assistance of an outside consultant was availed of to streamline the material management function through codification, spare parts planning, and inventory control.

These steps stopped accumulation of excess inventory and, also, plant shutdown due to stockout of critical parts.

26 The purchase function also was reorganised. Five-year agreements were concluded with salt suppliers for ensuring the steady availability of this vital raw material.

A number of features of this turnaround are worth noting:

1. The turnaround effort was a highly energetic effort and required the total involvement of the top management.

2. A wide range of actions was taken. These included efforts to diagnose the causes of decline, efforts at communicating with the rank-and-file, reorientation of managers, efforts at restoring discipline and work standards, example setting, efforts at motivating employees and executives, efforts at plant rehabilitation and modernisation, efforts at securing the support of external stakeholders to the turnaround, efforts at strengthening marketing and other functions, efforts at changing the product mix to make it more profitable, etc. The turnaround, however, was achieved by improving the work climate and strengthening existing systems and functions rather than by going in for major new diversifications, radical surgery of staff, or radical changes in the structure or systems.

3. The chief agent of turnaround, Mr. Menon, was not a technical man, and not an insider, and therefore not familiar with the working or the problems of TCC. And yet, he was able to learn the ropes quickly and was able to initiate a large number of the right sorts of changes. There was relatively little reliance on outside consultants. Instead, a rough and ready sort of diagnosis was made through SWOT and through extensive discussions with

stakeholders. The use of force was minimal. Instead, the leadership strategy was one of empowering subordinates through information, training, discussions, encouragement, and a large number of small but definite successes at improving performance.

The case shows how the right sort of organizational leadership can regenerate in a year or two an organization that has been falling apart for a decade and operating in a difficult market and regulatory situation.

The Structure of Regeneration

A detailed analysis of 42 successful turnarounds from round the world, including the dozen turnarounds of public enterprises, as well as the reading of previous work on turnarounds,[25] yielded 27 elements of turnaround management (see Table 2). An attempt was made to analyse these turnarounds, and to compare the dozen turnarounds of public enterprises (the list of the 30 private enterprises is given in Appendix 1).[26] All 42 turnarounds were of companies that had not only recovered from a loss situation but had at least 1 year of rising profitability beyond the break even year.

For scoring the turnaround cases, if a turnaround element was present in the turnaround story, it was given a score of 1 (it got a score of 1 even if it was present several times or in several forms). If it was not present, it got a score of 0. The scoring was independently done by two raters. There was agreement in 80% of the ratings. Agreement was reached after re-reading the cases in another 10% of the ratings. In the remaining 10% the author used his judgement. To ensure that the turnaround stories were reliable, only those stories were selected that appeared in reliable Indian, British, and American business magazines, journals, and periodicals such as Business India, Business World, Economic Times, India Today, Management Today, Business Week, Fortune, Long Range Planning, Business Horizons, etc., or were presented by participant observers or scholars as papers in conferences. Whenever feasible, multiple accounts of a turnaround were pieced together for a more complete version of the turnaround effort. Only specific actions were scored, not the opinions or judgements of the authors of these stories or such vague generalisations as "he handled public relations well" or "he showed great leadership".

A test of the overall validity of the turnaround model shown in Table 2 was possible. It was hypothesised that the deeper the sickness the more extensively would this model be employed by the management, and the more of the model was employed, the greater would be the improvement in profitability. The depth of sickness was measured by the maximum pre-break even loss as a percentage of that year's sales. The rate of improvement in profitability was measured by taking the difference between the profitability in the year after the break even year and the loss during the maximum pre-break even year, and dividing this difference by the intervening period. Thus, if the company's largest pre-break even loss was 10% on sales in 1980, the company broke even from a loss situation in 1982, and its profitability in 1983 was 11% on sales, the rate of improvement would be 21% divided by 3 years, that is, 7% per year. The extent of use of the turnaround model was measured by the number of turnaround elements used by the management. This was secured by summing the 1's assigned to the elements. While the model usage scores were available for all 42 turnarounds, the biggest pre-break even loss figure was not available for 4 companies.

Nineteen companies had a maximum loss of 7% on sales or higher (the deep sickness group) while 19 had a maximum loss of 6% on sales or less (the marginal sickness group). The average number of turnaround elements utilised by the marginal sickness group was 10.2; this average was 15.2 for the deep sickness group, that is, 50% higher (a difference that was significantly different at $P \leq .05$). The correlation between model utilisation and depth of sickness was .34 (significant at $P \leq .02$).

(Table 2 about here)

Two groups were formed, one of 18 companies with turnaround model usage scores of 13 or higher (high model usage group), and the other of 20 companies with turnaround model usage scores of 12 or less (low usage group). The average rate of improvement of profitability for the low usage group was 4.1% per year versus 8.8% per year for the high usage group, a superiority of 115% (significant at the 5% level). The correlation between model usage and rate of improvement in profitability was .28, significant at the 5% level. Thus, on both tests the model of turnaround presented in Table 2 had significant predictive validity.

<u>Public Sector versus Private Sector Turnaround Management</u>

Table 2 shows the scores (in percentages) of (a) all 42 turnaround cases (b) 12 public enterprises and (c) 30 private enterprises for each of the 27 turnaround elements. The percentages for an element refer to the percentages of the relevant samples employing the turnaround element.

Table 2 indicates that regardless of whether regeneration is in the public or the private sectors, there may be some essentials of corporate regeneration from sickness. These seem to be:

* Change in top management, prefereably at the level of the chief executive (item 1).
* Some shuffling of the product portfolio, expansion, diversification, etc. (item 24).
* Aggressive marketing (item 18)
* Some restructuring for greater decentralization and accountability (item 21)
* Cost cutting (but without retrenchment) (item 15).
* Actions to increase management control (item 19)

There are also some categories of turnaround actions that may be generally very sparsely utilised. These are:

Liquidation of current assets and liabilities (item 22)
Example setting by top managers (item 11)
Miscellaneous actions (item 27)

There are, however, several categories of turnaround actions where the differences between public and private sector turnarounds seem substantial:

* Much more frequent resort by PEs to training (item 7)
* Much more frequent resort by PEs to diagnostic meetings of managers or use of task forces, and also to other formal diagnostic activities (items 4 and 3 respectively).
* Much more frequent resort by PEs to attempt to motivate staff (item 10)

- Much more frequent resort by PEs to articulate a mission the organization (item 8)

* Much more frequent resort by PEs to garner the support stakeholders (item 6)

* Much <u>less</u> frequent resort by PEs to divestiture (item 25)
* Much more frequent attempts by PEs to build up the management's credibility (item 5)
* Much <u>more</u> frequent efforts by PEs to modernise plants (item 16) but much <u>less</u> frequent efforts by them at innovation and new product development (item 26)
* Much <u>more</u> frequent efforts by PEs to professionalise management systems (item 20) but much <u>less</u> frequent efforts at bringing in managers etc from outside (item 2)

* Much more frequent efforts by PEs aimed at organizational integation and participative management (item 13)

* More frequent efforts by PEs to communicate with the staff (item 9)

* <u>Less</u> frequent efforts by PEs to cut costs through retrenchment (item 14).

The data suggest that for regenerating strategic organizations (such as public enterprises), the management needs to pay a lot more attention to diagnostic activities, and to stakeholder and people management activities such as networking, credibility building, motivating, skill development, communicating, charging up the staff through a sense of mission, and integrating. They also need to work harder to professionalise management and to modernise plant. And they need to avoid as far as possible harsh measures such as retrenchment and divestiture. To put it crudely, the name of the game for regenerating strategic organizations is vigorous diagnosis, problem solving, seeking stakeholder support, empowering the managers and the staff, and professionalisaton and upgrading, not terror and surgery.

Harnessing Creativity for Regeneration

Crativity is the doing of something novel that is also appropriate in the context in which the act is done.[27] There has been considerable research on the creativity of individuals, but relatively little on collective creativity.[28] Turnaorund research offers evidence that innovative actions can significantly contribute to regeneration, especially of strategic organizations.

A standard way of assessing the creativity of actions is to measure their uncommonness within a sample of such actions. If an action is uncommon within its class of actions it is considered creative.[29] Thus, if subjects are asked to give the uses of a brick, and if someone comes up with its use as a pillow, and if virtually no one else has thought of this use, the use of a brick as a pillow would be scored as creative. On the other hand, the more commonly mentioned uses such as to build houses or break windows would not be classified as creative. The same basic procedure was followed for assessing how innovatively turnarounds of sick enterprises were brought about. First, four major areas were identified where turnaround creativity was most likely, namely the areas of people management, operations management, management structure and systems, and strategic management. The fourteen categories of turnaround action subsumed under these four areas are listed in Table 3. In some cases categories in Table 2 had to be combined because of their functional relationship and to have a large enough list of actions to spot the uncommon, innovative action. Thus, for example, actions under items 3 and 4 in Table 2 dealing with the two items of diagnosing and troubleshooting were merged, items 14 and 15 in Table 2 dealing with cost reduction were merged, etc. Thereafter, for each of the 14 categories listed in Table 3, all the actions mentioned in the 42 turnaround cases were enumerated. Those which were reported by no more than 10% of the cases were considered uncommon, and therefore creative. Turnaround creativity score for each case was compiled by giving a score of 1 for a category if at least one aciton under that category was taken that was uncommon, and zero otherwise.

Creativity and innovation are known to stimulate economic growth of societies[30], and an innovationist style of management is known to correlate with the growth rate of enterprises.[31] Innovation orientation is also an important ingredient of a management style practiced by "excellent" companies, that is, companies that have a long term excellent financial track record.[32] Thus it is likely that management creativity can be useful for turning around sick organizations. A test of this hypothesis was possible. It was hypothesised (a) that the deeper the sickness, the more likley that management would turn to innovative ways of regenerating the organization; and (b) the greater the use of management creativity the stronger would be the turnaround.

For this purpose the total turnaround creativity scores of the companies were computed by aggregating the scores of 1's in all the 14 categories for which creativity was assessed. As indicated earlier, the depth of sickness was measured by taking the biggest pre-break even loss of the enterprise as a percentage of the sales for that year. The strength of turnaround was measured by the annual increase in profitability between the maximum loss year and the post-break even year. Since the maximum pre-break even loss figure was not available for 4 out of the 42 cases, the test could be performed for only 38 turnarounds.

As indicated earlier the 38 cases were divided into two groups of 19 each, one where the maximum pre-break even loss equalled or exceeded 7% on sales (the deep sickness group) and the other where this loss was 6% on sales or less (the marginal sickness group). For the deep sickness group, the average turnaround creativity score was 5.0, while it was 3.5 for the marginal sickness group, a difference that was not, however, statistically significant at the 5% level. Depth of sickness and turnaround creativity correlated only .17, in the expected direction, but not statistically significantly so.

(Table 3 about here)

For the second test, a high turnaround creativity group with 20 cases was formed (they all scored 4 or over on turnaround creativity), and a second group of low turnaround creativity group with 18 members was formed (they all scored 3 or below). For the low turnaround creativity group, the rate of improvement in profitability (strength of turnaround) was 4.7% a year; it was 7.8% a year for the high turnaround creativity group, 66% higher, a difference that was significant at the 5% level. The correlation between turnaround creativity score and the rate of improvement in creativity was .28, significant at the 5% level. Thus, there was support for turnaround creativity being a contributor to regeneration, although not much of a support for turnaround creativity being a response to depth of sickness.

In Table 3 percentage creativity scores are given for each of the 11 categories of turnaround management for which the companies' turnaround creativity was assessed. Scores are given for the dozen public enterprises, the 30 private enterprises, and the total of 42 turnarounds. For instance, 8 or 67% of the dozen public enterprises scored on diagnosis and mobilization related creativity versus 6 or 20% of the private enterprises, while for the combined sample 14 or 33% scored for creativity on this turnaround item.

Table 3 shows some interesting differences between public and private sector enterprises. Apparently, a lot more creativity is needed to regenerate a public enterprise than a private enterprise. This is particularly true in the area of "people management", especially for mobilising the organization for turnaround through diagnostic exercises and problem solving task forces and meetings; and human resource development through training. Interestingly, while private enterprises show a lot more ingenuity in cost cutting, public enterprises show much more of it in increasing productivity and in effective marketing.

<u>Regeneration of Strategic Organizations through Creativity in "People" Management</u>

Several examples of regenerative ingenuity in the public sector may be cited in the general area of "people management":

<u>New management earning credibility</u>: As Table 2 shows, most turnarounds are effected by a new top management. The standard way in the West, especially in the U.S., of getting attention is by the new management spreading "a little blood and guts around the organization", by making everyone in the organization, from the man who sweeps the floor to the immediate subordinates of the new chief executive understand that the latter means business.[33] This is done through stern pronouncements, bruising staff meetings, finding some scapegoets for the organizational debacle, and engaging in dismissals. This sort of intimidatory credibility getting is usually not very feasible in the public sector. Some creative alternatives for earning credibility were encountered in the turnarounds of public enterprises. At SAIL, for instance, the new chief executive argued the government out of a proposed price increase to cover rising costs by pledging instead to increase its low productivity. At British Steel, the

new management shifted from its "Olympian" headquarters to more modest, businesslike quarters. At BHPV, the new chief executive worked virtually day and right for a week with the unions to hammer out a new wage agreement.

<u>Diagnosis and mobilisation for turnaround</u>: The usual way of diagnosing what ails the organization is to look closely at the financial statements (balance sheet and profit and loss account) of the various divisions and profit centres to identify the ones that need close attention. But some creative ways are to get independent consultants to provide in-depth diagnosis of facets of the enterprise's working. In the public sector, SPIC got a management audit done by the faculty of a management school, and followed this up with plant surveys to get a definition of its ailments; BHEL invited overseas management consultants and also commissioned an internal study of BHEL's manufacturing ability; Italtel hired consultants to do a study of its image which led to a wide ranging review of Italtel's products, processes, and structures. Jaguar got its car dealers to describe customer complaints forcefully to the workers and managers in meetings so as to shock them into facing the problem of shoddy quality.

Mass contact is another creative option for diagnosing the ills of large organizations. The chairman of SAIL met some 25000 workers, managers etc singly or in groups over several months to get them to tell him what the problems were, and this culminated into the development of a document called Priorities for Action.

After diagnosis comes mobilization of the organization for turnaround. Can Cel set up task forces to work out strategies in the previously identified problem areas of marketing, finance, modernization, resource utilization, and environment. BHEL set up task forces to harmonise conflicting interests of different functions, product groups, etc. During visits to plants, corporate managers made it a practice to meet cross-sections of workers and managers. At British Steel plans of action and strategies were not only shared with the staff, but an attempt was made to infuse an awareness of market forces in them. Plant level committees were formed at SAIL to discuss the priorities for action and evolve ideas.

Motivation and disciplining: Carrots and sticks are the commonplace ways of motivating and disciplining staff. But much ingenuity can be shown in how these are administered. Can Cel spent 2 million dollars relocating the 300 surplus employees it had to lay off. State Timber Corporation gave its staff a 35% salary hike. Its chief executive started the practice of picking up promising persons during his visits to timber felling sites and giving them responsible jobs at the head office. At BHPV the new CEO abolished overtime and instead started an incentive system for staff that had them clamouring for work while earlier they put in effort only if they got overtime. TCC introduced a monthly production incentive system for workers and linked annual bonus to the total production volume. It also started a job enrichment programme for junior and middle managers. At Jaipur

Metals, bonus was paid to the employees in the form of company's shares. Also, the management presented a charter of demands to the union. At British Steel the management insisted on the right to redeploy workers surplus at one site or in one function to another site or function. Setting a personal example by top level managers greatly helps in restoring discipline. The new chief executive of BHPV personally went on an order hunt for his orders starved company and netted the largest volume of orders in the company's history. At STC the new chief executive took a salary cut to join the company, did not take a pay rise while he gave one to his managers and staff, and made certain that none of his relatives got a job in the company during his tenure in office. At British Steel the CEO tied his pay packet to the improvement in the company's performance.

<u>Human resource development</u>: Much ingenuity can be displayed in the way training is used for developing the company's human resources. At SAIL, multi-skill, multi-equipment training for workers was emphasised in order to equip workers for plant modernization and to break down a culture of excessively narrow specialisation. SAIL also unleashed a huge program of training - in just 1987-8 14000 executives and 37000 non-executives were given some form of formal training. Training was given top priority by forming a training advisory board headed by the chairman himself. TCC organized, during turnaround, capsule training programs on different aspects of managerial and organizational effectiveness. Zambia Railways launched a 5 year training program. Jaguar introduced quality circles to increase

group problem solving competencies. BHEL rotated hundreds of executives between divisions to broaden them. Jaguar transferred responsibility for training in quality maintenance from inspectors to supervisors.

Organizational integration: Organizational integration means the way or ways the organization as a whole, across functions, divisions, and levels, develops a unity of purpose, so essential for regenerating a demoralised, conflict-ridden sick organization. Strong emphasis by management on restoring a black bottom line is the commonplace way of rallying the organization for turnaround. However, reformulation of corporate objectives is an uncommon way this can be achieved. BHEL, for example, reformulated its corporate objectives to emphasise marketing of whole systems, meeting customer needs, and meeting national priorities. The process of reformulating objectives can be made participatory, as at SAIL, where all quarter million employees of SAIL got a chance to participate in formulating SAIL's turnaround strategy. Intense and effective communication between management and staff as well as other stakeholders is also a powerful integrator. At Italtel, for instance, a strategic plan for recovery was prepared and presented to the shareholders and the government, and it was also discussed at length with the unions. Jaguar management used videos, meetings, plant performance briefs, monthly bulletins, etc. to maintain continuous communication with workers and managers about the company's problems. At BHEL a high level worker-management committee was set up.

Networking with external stakeholders: Getting support and concessions from stakeholders like the government, unions, suppliers, customers, banks, etc. is essential for turnaround from sickness. This, too, is an arena of much ingenuity. SAIL moved its headquarters from Ranchi to New Delhi for better liason with the government. It also was one of the first PEs to enter into a memorandum of understanding with its parent ministry, promising a pattern of performance and securing in turn explicit promises of support from the government. Can Cel mounted a strong public relations effort to tell its turnaround story, cleaned up pollution and got its executives to play an active role in the industry association. STC gave donations to political groups but without letting them influence decision making. It gave technical and financial support and such conveniences as cars to its parent ministry. It also undertook reforestation on a small scale to placate the forestry department, its major supplier. BHEL set up a fields service division for quick servicing of its customers, mainly state electircity boards, to get them to support its campaign for import restrictions on power equipment. It also took over some sick units and revived them as a public relations gesture. Italtel unleashed a communications blitz involving about 100 press releases, some 250 interviews given by its top managers, and 130 speeches of its representatives in various meetings and symposia.

Creativity in Operations Management, Structure and Systems, and Strategic Management for Rejuvenating Strategic Organizations

Marketing, financial, and manufacturing operations, are also reasonably fecund arenas of turnaround ingenuity, as are control an other management systems, reorganization, diversification and product mix changes, product and process innovation, etc.

In the context of turnaround, the function of operations management is to reduce costs, increase productivity and efficiency, enlarge sales and/or get better price realisation. Across the board budget cuts, lay offs, cuts in postponable spending such as advertising, R and D, maintenance, training etc are some usual ways of cutting costs. SAIL reduced manpower not through lay offs but through voluntary retirements and by cutting off overtime. Italtel arranged to transfer 2000 surplus staff members to sister companies. Jaipur Metal negotiated with its unions longer working hours, freeze on dearness allowance, deferment of pay increase for a year. SAIL cut energy costs by conducting an energy audit, and by substituting gas for fuel oil. BHPV saved on interest costs by persuading the government to convert its loans to the company into equity. TCC analysed each cost item carefully to effect savings.

SPIC suffered from an erratic power supply and irregular supply of essential inputs. So SPIC set up not only a captive power plant but also developed a port to speed imports to its plants. Jaguar tried robotisation, quality circles, reduction of parts and components, and suggestion schemes.

Marketing is another area where creativity is both possible and profitable. SPIC, a fertiliser company, began to market imported foodgrains stored in government godowns. BHPV got its memorandum of association amended to be able to get into the production of paper coverting equipment for which it had landed a large order. BHEL began marketing total energy systems in place of pieces of power equipment. Jaguar gave bonus to dealers giving excellent customer service.

SAIL linked its human resource development plan to its modernisation, expansion, and efficiency enhancement plans. BHPV extended budgetary control from functions and activities to individual large orders. SAIL reduced the number of levels below the plant general manager from 8 to 5. BHEL set up engineering development centres. SPIC expanded its plant maintenance function into a full fledged diversification into maintenance services. Italtel coordinated its R and D effort with leading European competitors producing digital switching equipment to get the most mileage from its R and D effort.

Implications for OB

It has been the thesis of this paper that OB in India and other Third World organizations should become much more responsive to social realities and social priorities. Contributing to the effective management of strategic organizations, that is, organizations set up to (or desiring to) achieve these social priorities would be one way of achieving social relevance for OB.

By virtue of their peculiar operating contexts, these strategic oranizations are prone to malfunction, and so they need help in coping with their difficult contexts and daunting tasks. How fast economic self-reliance, social justice, rapid improvement in the standard of living, and a humane, democratic society emerge in Third World societies may well depend upon how effectively their strategic organizations are managed.

In this paper the regeneration of a dozen public enterprises from several countries, most of them socially strategic in their respective operating contexts, was examined and compared with the regeneration of 30 private enterprises, also from several countries. The regeneration of most public enterprises, from deep sickness to healthy profitability and growth, was spectacular. This bodes ill for those opponents of public enterprises who believe that privatisation or exit (that is, closure), are the only remedies for rescuing chronically ill public enterprises, and bodes well for those proponents of public enterprises who feel that public enterprises are essential for Third World development, and given good management they can perform as well as private enterprises.

Some significant insights emerge from this study:

1 Even very sick organizations can be regenerated with the right kind of management. Indeed, the deeper the sickness the greater <u>can</u> be the rate of improvement - the correlation between depth of sickness and rate of improvement of profitability was .75 (N = 38). Just as there can be a

vicious cycle in decline, there can be a beneficial cycle in recovery, with possibly even small initial successes creating optimism which in turn leads to larger successes, further optimism, greater stakeholder contribution, etc. This is a process that is as yet little understand or studied, and certainly needs further probing by OB scholars. This may have pay offs for larger social science - it may yield suggestive insights into why some communities decline so much and why others have an upward trajectory, and indeed on the decline and rise of societies.[35]

2. Although there are some commonalities in the turnarounds of public and private sector corporations, there are also significant differences. Public enterprises seem to be turned around much more in the Theory Y, OD, action research mode - a lot more diagnostic work, a lot more staff involvement, a lot more communication and feedback, a lot more emphasis on empowerment, envisioning, motivation, and systems building, and a lot less firing and threatening and surgery. In part this is because firing and surgery are much less feasible in public enterprises, or if resorted to, they have to be carefully negotiated with the major stakeholders. Since Theory X methods of turnaround are less feasible in public enterprises, especiallly in those operating in democratic or quasi-democratic societies, the managements of PEs may be more inclined to try Theory Y methods.[36] What is interesting is that these methods work well during turnarounds. The average rate of increase in

profitability of the dozen public enterprises was 10% on sales per year, versus 4.6% for the private enterprises, a difference that was statistically significant at the 5% level. It could, of course, be argued that since public enterprises usually command substantial monopoly power, their rate of recovery would be faster than private enterprises, most of which operate in highly competitive domains. But this is questionable. If one considers the recovery rates of those public enterprises that were not monopolies nor dominant firms, that is, operated in reasonably competitive domains, namely SPIC, Can Cel, TCC, Jaguar, and Jaipur Metals, the average worked out to an improvement of 14.8% on sales per year. Indeed, the monopolistic public enterprises - Zambia Railways, STC, BHPV, BHEL, British Steel, SAIL, and Italtel -averaged an improvement of only 7.1% on sales per year, less than half the figure for non-dominant public enterprises ! Surely, some popular stereotypes about regenerating sick organizations with macho leadership, "spreading some blood and guts", getting rid off "deadwood", tight controls, and so forth need revision. Indeed, it would appear that Theory Y management may be especially effective for regenerating strategic organizations operating in competitive domains, possibly because competitive threats further energise a staff that has been turned on by Theory Y sort of management.

3 An implication of point 2 above is that many of the tools of

"behavioural science" may be useful for turning around strategic sick organizations. Especially useful could be such "quick results" tools as brainstorming, action research, participative re-design of work, quality circles, team building, participative decision making, achievement motivation training, SWOT, and diagnostic surveys. Less useful may be cumbersome and long term impact oriented tools like the managerial grid, and long drawn out OD interventions. In other words, tools of behavioural science, and indeed of other management sciences, that yield visible, quick results may be useful for triggering the beneficial cycle of success - optimum - stakeholder participation - success - optimism etc.

4 It may be useful for OB experts to develop new tools that meet the special needs of turnaround change agents. The vast majority of turnarounds seem to be effected by new chief executives, and mostly by outsiders to the organization. The new chief executive needs to get information fast on (a) what ails the organization - not just people problems but also operating problems in such areas as manufacturing, marketing, finance, stakeholder relations, etc.; (b) what is the power and influence structure of the organization; (c) who within the organization can be counted upon to help in the initial difficult period; (d) who among the external stakeholders can be counted upon to help; (e) what sorts of actions can gain credibility for the turnaround change agent; (f) what

actions can yield results fast. OB and other management tools need to be devised that can yield this set of informations to the turnaround change agent within weeks of his assuming office.

5 OB experts are predisposed to look for behavioural causes (such as conflict and alienation) for malfunctioning organizations and prescribe behavioural science remedies for their regeneration. But the capacity of OB experts to intervene and assist in turnarounds would increase if they educated themselves in the basics and tools of functional and general management. Organizational problems do not come neatly packaged as behavioural and non-behavioural. If the marketing department is not grossing the right volume of sales, the reason may not be only poor motivation, or poor coordination between marketing and manufacturing. Poor marketing strategies - wrong pricing, for instance, or inappropriate advertising - may be as much or more responsible for the poor marketing effort. OB experts who wish to assist in regeneration ought to be able to assess how far the problem is a behavioural problem and how far it is a strategic, structural, system, or tactical problem, and what tools of management besides those furnished by behavioural science may be appropriate. Without this sort of discrimination there is a real danger of the OB expert often missing the wood for the trees. The point is not that the OB expert should have expert knowledge of such tools as ABC profitability or sales analysis, budgetary control,

funds flow and cash flow analysis, test marketing, planning, production scheduling, inventory control, or quality control. But he or she should be familiar enough with them to counsel their use for regeneration whenever they are appropriate, rather than deploying only the tools of behavioural science.

6 Collective creativity offers an exciting new approach to organizational regeneration, especially of strategic organizations.[37] The data in Table 3 indicate that (a) public enterprises seem to need a lot more creativity than private enterprises to regenerate themselves and (b) widespread creativity is feasible in regenerating public enterprise, especially in the areas of "people management", productivity enhancement, and marketing. While in the research reported in this paper turnaround creativity was not statistically significantly associated with depth of sickness, it was associated with the strength of regeneration. Individual level creativity seems to be a function of such motives as the need to pioneer and innovate, the need to contribute to society or a field or work for an ideal, and the need to actualise one's potential. It seems to be impeded by such mental blocks as the allergy to ambiguity, fear of failure, fear of social disapproval, fear of interpersonal rejection, stereotyping and rigidity, starved sensibilities, etc., and facilitated by such traits as curiosity, courage, risk taking, persistence, self-sufficiency, complexity, etc.[38]

Several mental abilities besides logical ability seem to contribute to creativity, such as the ability to spot the odd or anomalous, the ability to redefine a given problem in an interesting, new way, the ability to generate a large number and a large variety of options, the ability to generate unusual options, the ability to develop ideas into viable designs or programmes or products or activities, and the ability to refine and optimise the chosen option.[39] Research suggests that people tend to display greater creativity in stimulating, challenging, diverse environments where they have the freedom to take initiatives and where there are tangible rewards for innovative excellence.[40] Human creativity, especially of the complex kind, seems to result from one or more cycles of divergent and convergent thinking.[41] Techniques such as brainstorming, attribute listing, questions checklist, and synectics are available for individual or team creativity.[42]

For regenerating complex, strategic organizations, it is not enough that the chief executive be creative, nor perhaps all that necessary. What is needed is an appreciation of the need for fresh thinking in virtually every department and activity, and support for fresh initiatives. OB professionals need to develop intervention strategies that draw upon the model of individual creativity briefly sketched out above.[43] For instance, brainstorming (uninhibited options generating) can be extensively resorted to. Every group or department may be encouraged to ask of themselves such gestalt shattering questions as what would be an opposite but equally effective way of discharging their function, could their function be drastically redefined, could it be eliminated without damage to the organization? Alternative ways of understanding the organization's reality could be stimulated by engaging in several different types of analogies popularised by the technique of synectics. For example, groups can be asked to come up with "book titles" that capture the essence of their "stories" or "scripts" in an arresting manner. A cross-section of the staff can be invited to engage in "personal analogies" - take each others roles and describe how it feels to be in that role. This could be an interesting variant to the technique of confronation meeting involving image sharing.[44] Groups can be invited to brainstorm not just to solve their pressing problems but to identify new, exciting goals and missions for themselves. Job enrichment for boring tasks is a powerful behavioural science technique.[45] It essentially involves making the job a little more complex, interesting, diverse, etc. It could also be made more creative and innovative by encouraging novel variation in the end product of the job. Survey feedbacks seek information on the state of job satisfaction, commitment, conflict and cooperation, etc.[46] They can be enlarged to include a brainstorming component, with the respondents requested to give novel ideas and suggestions concerning some critical issues or problems. Team building, interpersonal competence, authenticity in relationships, intergroup collaboration, and learning and change are the principal ingredients of OD.[47] Innovation and creativity would enormously increase OD's capapcity to give results. Similarly, participative re-design of work is the essence of action research.[48] Action research that strengthens the element of brainstorming and the use of various tools of creative problem solving should greatly strengthen the potentialities and reach of action research.

TABLE 1

RECOVERIES BY PUBLIC SECTOR ENTERPRISES

Name	Size	Sickness and Turnaround
Bharat Heavy Electricals,[12] India (Power plants and allied equipments)	45000 employees in the mid-seventies with annual sales of Rs.5000 m.	Lost over 10% on sales in 1972-3, broke even in 1974-5, earned nearly 8% on sales in 1975-6. Sales more than doubled between 1972-3 and 1975-6
Bharat Heavy Plate and[13] Vessels, India (sophisticated heavy engineering products like pressure vessels and heat exchangers)	Annual sales of Rs.600 m. in the mid-eighties and employment of 4000	Loss from inception of company in the late sixties to 1978-9. Lost Rs. 35 m. in 1978-9. Broke even in 1979-80. Net profit rose from Rs.2 m. in 1979-80 on sales of Rs.270 m. to Rs.6 m. in 1982-3, Rs.44 m. in 1983-4 and Rs.89 m. in 1984-5.
[14] Jaipur Metals, India (owned by the state of Rajasthan; producer of electrical meters, conductors, wire products)	Annual sales of Rs.180 m. in mid-eighties and about 2000 employees	Losses totalled 3 times equity by 1984. From a loss of 12% on sales in 1983-4 the company broke even in 1984-5 and earned 16% on sales in 1986-7.
[15] Italtel, Italy (producer of telecommunications equipment)	Annual sales of 1200 b. lire in the mid-eighties	Lost 46% on sales in 1980. Broke even in 1983. Earned L 25 b. in 1980.
Steel Authority of India[16] (SAIL), India (steel producer)	Annual steel production capacity of 10 m.tons; 250000 employees; annual sales in the late eighties of Rs.60000 m.	Lost Rs. 2000 m. during 1980-4. Broke even in 1984-5. Profit of Rs.1500 m. in 1985-6; profit of Rs.3600 m. in 1988-9.

British Steel, U.K.[17] (steel producer)	Over 25 m. tons steel production capacity and 250000 employees in the late seventies later pruned to half this capacity and 20% of the staff	Lost 530 m. pounds in 1979-80. Loss making until 1984-5. Profits rose in 1986-7 to 206 m. pounds from 76 m. pounds in 1985-6.
Southern Petro-Chemicals[18] and Industries (SPIC), India (a joint sector enterprise of Karnataka Government; producer of fertilizers, chemicals, electronics)	Annual sales of Rs.5000 m. in the early eighties	Lost nearly 45% on sales in 1976-7. Turned profitable in 1978-9. 1981-2 profit three times the 1978-9 profit of Rs.70 m.
Travancore Cochin[19] Chemicals (TCC), India (owned by the Kerala Government; producer of caustic soda and other chemicals)	Annual sales of Rs. 150 m. in the early eighties	Lost 43% on sales in 1976. Broke even in 1979. Earned 17% on sales in 1980
Zambia Railways,[20] Zambia (railways)	K 400 m. revenues in the late eighties	Losses up to 1985; 1985 loss of K 2.4 m. 1986 profit K 4.3 m; 1987 profit K 11.1 m
State Timber[21] Corporation, Sri Lanka (timber and pulp)	Annual Sales of S L Rs.350 m. in the early eighties	Lost over 10% on sales during 1977 and 1978. Earned over 20% on sales in 1981. Sales increased 9 times between 1977 and

Can Cel. Canada[22] (timber, pulp, paper)	Annual sales of 160 m. Canadian dollars in mid-seventies	Lost nearly $70 m. during 1968-1972. Lost 20% on sales in 1971. Profit making after 1972 Earned 27% on sale in 1974. 1974 sale 60% above 1972 sales
Jaguar Motors, U.K.[23] (luxury cars)	500 m. pounds annual sales in the early eighties	Lost 28% and 19% on sales in 1980 and 1981. Broke even in 1982. Earned 10% on sales in 1983. 1983 sales 3 times of 1980.

TABLE 2

ENTAGES OF SUCCESSFUL TURNAROUND CASES ENGAGING IN TURNAROUND ACTIONS

	% Score for All 42 Turnarounds	% Score for 12 PEs	% Score for 30 Privat Companies
<u>Personnel Changes</u>			
<u>Changes in top management</u> at the level of chairman, president, managing director.	93%	92%	93%
<u>Fresh induction</u> of managers, technical staff, etc.*	38%	17%	50%
<u>Diagnosing and Troubleshooting</u>			
<u>Formal diagnostic activities</u> (e.g. carrying out organizational surveys, getting outside consultants to diagnose problems, management retreats to diagnose corporate problems. etc.).*	40%	75%	23%
<u>Initiation of managerial meetings, problem solving task forces</u> for troubleshooting, etc.*	26%	67%	10%
<u>Stakeholder or People Management</u>			
<u>Credibility building actions of management</u> (e.g. the management of a public enterprise getting the government to accept sharp increases in managerial remuneration, the owning family bringing in new equity in a large loss making company, major public relations campaigns. etc.)*	28%	58%	17%

<u>Garnering stakeholders support</u>- actions to secure the support of major stakeholders like the government, financial institutions, unions, customers, etc. (e.g. by being helpful to them, by inviting them to participate in formulating the turnaround strategy or in financing the turnaround, etc.) *	45%	75%	33%
<u>Increased training of managers and staff</u>- attempts to increase productivity, quality, efficiency etc. through training of managers, staff, workers, etc. *	26%	67%	10%
<u>Public articulation by management of mission, goals etc.</u> of the organization, (e.g. by formulating and disseminating priorities for action, future strategy etc.) *	33%	67%	17%
<u>Management communicating with lower level managers, etc.</u> (e.g. communicating corporate issues, problems, successes etc. through meetings, workshops, newsletters, video shows etc.).	38%	58%	30%
<u>Incentives, motivation, grievance redressal</u> - mMotivating through incentives to managers and/or workers; attempts at motivating them through increases in perquisites and emoluments, greater autonomy, greater job challenge, etc; better handling of staff grievances. *	45%	83%	30%
<u>Example setting by top managers</u> - setting of personal example by top executives (e.g. by taking to the road to sell, showing extraordinary integrity, self-discipline, etc.).	21%	33%	17%
<u>Disciplining</u>, by firing or by punishing inappropriate managers or staff, getting tough with unions, etc.	43%	50%	43%

13.	Better organizational integration, participative management, emphasis on core values - more integrated functioning, by resorting to participative decision making, seeking better collaboration between managers, seeking better relations with staff, team building, attempts at building a new * culture by emphasising core values, etc.	45%	67%	37%

D. Operations Management

14.	Significant retrenchment - actions to reduce costs through large scale retrenchment and/or facilities closures (that is, closure of plants, branches etc.) resulting in the lay off of at least 10% of the staff of an organization or its sub-unit.	52%	33%	60%
15.	Cost reduction measures other than retrenchment - other reductions in costs, such as by slashing advertising, moving to cheaper quarters, negotiating lower interest rates, etc.	64%	75%	63%
16.	Plant modernization etc. for greater efficiency, quality, productivity - actions to increase productivity, efficiency, work quality, capacity utilization, etc. by modernizing the plant, automation, retooling, plant reorganization or redesign, repairs to * plant, etc.	60%	83%	47%
17.	Attempts to increase efficiency, quality, productivity other than through plant modernization etc. and training such as through in-house campaigns, change of production chief, etc.	38%	50%	33%
18.	Marketing related actions, actions that increase sales (e.g. price increases, advertising campaigns, product promotion, increasing sales outlets, etc.)	81%	92%	77%

Management Systems and Structure

9. **Management control enhancing actions** - actions to increase the control of management over operations (e.g. installation or strengthening of budgetary and financial controls, management information systems, computerisation, cash control, inventory control etc.)	57%	58%	57%
10. **Professionalisation of manufacturing, planning, and personnel management, etc.** (e.g. improvement in production planning and scheduling, corporate planning, * career and manpower planning, etc.)	29%	50%	17%
11. **Restructuring (decentralization, fixing accountability, structural changes, etc.)** - by divisionalising, setting up of profit centres, delegation of authority, establishing clearer accountability for performance, etc.).	69%	83%	60%

Finanacial Initiatives

12. **Liquidation of current assets and libilities** like debtors and stocks, reduction or liquidation of current liabilities by paying off suppliers, advances, etc.	26%	8%	33%
13. **Borrowings, raising equity finance etc.** (raising of long term funds through borrowings, securing of deposits, raising of equity finance, etc.)	42%	42%	43%

Strategic Management

14. **Diversification, product line rationalisation, expansion, etc.**, (dropping poorly performing products, adding profitable products, diversification, vertical integration, expansion, etc.)	99%	100%	97%

<u>Divestiture and liquidation of fixed assets and long term liabilities</u> (e.g. through sale of plants, divisions, etc. and by paying off long term loans etc.) *	45%	17%	60%
<u>Innovation, new product development etc.</u>- technological change, step up in R and D, better absorption of imported technology, technological joint ventures, attempts at indigenisation (that is, at import substitution), development of new products,etc. *	57%	33%	67%
<u>Miscellaneous</u>			
<u>Miscellaneous</u>- residual management actions such as write off of assets, prevention of take overs, neutralising political or other opposition, protecting managers, etc)	14%	25%	10%

* Difference between public and private sector percentages significant at t[he] 5% level

TABLE 3

TURNAROUND CREATIVITY SCORES OF PUBLIC AND PRIVATE ENTERPRISE TURNAROUNDS

	Average Scores		
	All 42 Turnarounds	12 PEs	30 Private Enterprises
People Management			
Diagnosis and mobilization for * turnaround (items 3,4, Table 1)	33%	67%	20%
Getting credibility (item 5, Table 1)	19%	25%	17%
Networking with external stakeholders (see item 6, Table 1)	21%	58%	37%
Human resource development * (item 7 in Table 1)	24%	50%	13%
Organizational integration (items 8,9,13, Table 1)	43%	50%	40%
Motivating and disciplining (items 10, 11, 12, Table 1)	43%	58%	37%
Average of the above 6 items	35%	51%	22%
Operations Management			
Cost cutting (items 14, 15, Table 1)	48%	17%	43%
Productivity increase (items 16, 17, Table 1)	33%	42%	21%
Effective marketing (item18, Table 1)	33%	58%	23%
Average of the above 3 items	38%	53%	32%
Management Systems and Structure			

Control systems and professionalisation (item 19, 20, Table 1)	31%	33%	30%
Restructuring (item 21, Table 1)	17%	33%	10%
(Average of the above 2 items)	24%	33%	20%
<u>Strategic Management</u>			
Financial innovativeness (items 22, 23, Table 1)	14%	8%	17%
Business strategy (items 24, 25, Table 1)	36%	33%	37%
Product and process innovations related strategies (item 26, Table 1)	14%	17%	13%
Average of the above 3 items	21%	19%	22%
OVERALL TURNAROUND CREATIVITY SCORE (average for all 14 categories)	29%	42%	24%

Difference between public sector and private sector enterprise significant at the 5% level.

APPENDIX

List of 30 Successfully Turned Around Private Enterprises

A. Accounting and Business Machines and Office Equipment

1. Docutel[49], U.S., late seventies
2. Olivetti[50], Italy, late seventies
3. Sweda[51], U.S., late seventies

B. Automobiles, Two-wheelers

4. Chrysler Corporation[52], U.S., early eighties
5. Enfield[53], India, late seventies
6. Fiat[54], Italy, early eighties
7. General Motors[55], U.S., early eighties
8. Standard Motors[56], India, mid-seventies
9. Toyo Kogyo[57], Japan, late seventies
10. Volkswagen[58], West Germany, mid-eighties

C. Chemicals, Fertilizers, and Pharmaceuticals

11. Imperial Chemical Industries[59], U.K., early eighties
12. Searle[60], U.S., late seventies

D. Computers, Electronics, Telecommunications

13. Ferranti[61], U.K., mid-seventies
14. ICL[62], U.K., early eighties
15. Ultra Electronic[63], U.K., early seventies

E. Conglomerates

16. EID Parry[64], India, mid-eighties

F. Household Goods

17. Sylvania and Laxman[65], India, late seventies

G. Packaging, Containers

18. Metal Box[66], U.K., early eighties

H. Plant, Machinery, Equipment, Engineering Products

19. Lucas[67], U.K., early eighties

20. RFD Group[68], U.K., mid-seventies

21. Redman Heenan[69], U.K., early seventies

22. Staveley Industries[70], U.K., early seventies

I. Steel

23. USX[71], U.S., mid-eighties

J. Textiles, Fibres, Apparel

24. Dawson International[72], U.K., mid-seventies

25. Warnaco[73], U.S., late seventies

K. Trade and Services

26. Burton Group[74], U.K., late seventies

27. Getz[75], U.S., early eighties

L. Tyres

28. Apollo Tyres[76], India, mid-eighties

M. Construction and Real Estate

29. Del E-Webb[77], U.S., early eighties

N. Publishing

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