How does it matter to be owned by government? Rejuvenation of a government owned automobile company in India

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Abstract

Scooters India Ltd. (SIL), a Public Sector Enterprise (PSE), was among the top 10 loss-making companies in India in 1989-90. It was setup in 1972 and continued to report losses till 1995-96. It carried a negative net-worth of Rs. 6.47 billion in 1995-96. The company was rejuvenated and has been reporting profits since then. The case study provides a rich insight into the implications of government ownership in PSEs that makes them sink or swim.

Governments undertake two roles relating to business environment. First, they frame rules, procedures and policies to regulate the business environment. Second, they invest resources in PSEs for political, ideological, social, and economic reasons. However, in the last few years the existence of PSEs has been subjected to strong criticism throughout the world. Governments are frequently seen privatizing PSEs both in the developing and developed countries. However, trade unions and employees of these PSEs agitate against privatization. They argue that the change of ownership does not necessarily improve financial performance. Further, financial losses are widely reported by both-PSEs and private owned organizations. Board for Industrial and Financial Reconstruction (BIFR), an agency which is responsible to approve revival plans for sick enterprises in India, had 3296 registered cases of sick companies at the end of financial year 2000-2001. Out of them 3121 companies were private owned organizations.

Under such conditions it is important to examine the process of government's influence on performance decline and rejuvenation of PSEs. This paper examines "**How does government ownership influences the management processes that lead to decline and rejuvenation of organizations?**" The paper examines empirically the implications of government ownership to the internal management and performance of PSEs.

Findings: Following are the key findings from the case/s.

1. Manpower planning in initial stages was inadequate and was influenced by considerations which were beyond business imperatives.
2. CEOs who came to PSEs on deputation undertook ambitious, though risky, plans in initial stages of the company.
3. The top management consisting of officers on deputation from other departments in high munificence environment was inward looking. Such management team was driven by rules and procedures. The team had low concern for customer and quality.
4. Company had high propensity for innovations both under adverse and favourable conditions. However, the concern for commercial exploitation of these innovations was inadequate.
5. Employees perceived higher job security in protected economy. This perceived high job security in led to higher unionization propensity. Trade unions and employees were active in the management of work place till mid 1990s.
6. Strategic decisions about staffing at the top level were influenced by political considerations.
7. CEOs who come for fixed tenure on deputation had inadequate concern about the strategic direction of the company.
8. Cost of transaction with external stakeholders increased under declining conditions. Performance decline led to low morale among employees and yielding management.
9. Company lost business opportunities owing to different priorities of decision-makers.
10. CEOs who join declined company on deputation were unwilling to undertake straining activities to rejuvenate the organization.
11. Reverence, faith, confidence and willingness to sacrifice by the leader helped the company to rejuvenate.
12. Once initiated, the rejuvenation process was fast in the company.

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Scooters India Ltd. (SIL), a Public Sector Enterprise (PSE), was among the top 10 loss-making companies in India in 1989-90. It was setup in 1972 and continued to report losses till 1995-96. It carried a negative net-worth of Rs. 6.47 billion in 1995-96. The company was rejuvenated and has been reporting profits since then. The case study provides a rich insight into the implications of government ownership in PSEs that makes them sink or swim.

Introduction: Governments undertake two roles relating to business environment. First, they frame rules, procedures and policies to regulate the business environment. Second, they invest resources in PSEs for political, ideological, social, and economic reasons. However, in the last few years the existence of PSEs has been subjected to strong criticism throughout the world. Governments are frequently seen privatizing PSEs both in the developing and developed countries. However, trade unions and employees of these PSEs agitate against privatization. They argue that the change of ownership does not necessarily improve financial performance. Further, financial losses are widely reported by both-PSEs and private owned organizations. Board for Industrial and Financial Reconstruction (BIFR), an agency which is responsible to approve revival plans for sick enterprises in India, had 3296 registered cases of sick companies at the end of financial year 2000-2001. Out of them 3121 companies were private owned organizations.

Under such conditions it is important to examine the process of government's influence on performance decline and rejuvenation of PSEs. This paper examines "**How does government ownership influences the management processes that lead to decline and rejuvenation of organizations?**" The paper examines empirically the implications of government ownership to the internal management and performance of PSEs.

Methodology: A case study approach was adopted for in-depth examination of the role of government in the decline and rejuvenation process in a PSE. SIL was selected for the study as it met the following criteria.

a) It is sufficiently old to ensure that decline is not purely for inadequate early project implementation phase.

b) This industry has experienced both high munificence and low munificence environment.

c) The company is large with more than 2500 employees and a turnover of more than Rs. 1 billion.

d) It reported operating losses for sufficiently long time and its net worth was completely eroded. It has been earning profits after revival for five successive years.

e) Access was provided to the minutes and agenda of board meetings to examine different action choices and the role of directors in those action choices.

Following methodology was adopted for the data collection.

a) In depth unstructured interviews with the CEO, executive director of the company and functional heads of the company. In all eight such interviews were conducted.

b) Structured interviews with other managers in the company. In all fifteen such interviews were conducted.

c) Interviews with external stakeholders: dealers (one), customers (two), members of the audit teams (two), suppliers (two) and bankers (one).

d) Researcher spent seven days at the plant of the company as an observer. In the process he talked informally with workers to develop an insight of the organization.

e) Author examined all the agenda and minutes of meetings of the board, annual reports of the company and consulting reports.

f) Data interpretation was validated through a presentation to the top management team consisting of managing director, director (operations) and other seven senior most managers in the company. Differences of interpretation were discussed and corrected.

Framework for the Study: Figure 1 shows the framework for the study.

Literature Review: Researchers have examined organizational decline with economic, psychological, and sociological perspectives (Argeti, 1976; Cameron et. al. 1988a; D'Aveni, 1989; Kahneman and Lovallo, 1993; Kelly and Amburgey, 1991; Khandwalla, 1989). The common thread in all these works has been the inquiry about managerial decision making process and action choices of managers that lead the organizational decline and subsequent recovery of organizations. There are two streams of research to examine decision-making. First, normative stream examines it from rationalistic perspective. This stream explores, "how decisions should be made in different contexts (Goodwin and Wright, 1998)?" The second stream examines the decision-making process from psychological perspective. It explores, "how decisions are taken in organizations and what are the influencing variables?" It assumes bounded rationality of managers (Argyris, 1973; Ghemawat, 1991; Hammond et. al., 1998; Kahneman and Tversky, 1979).

However, all decisions may not result into actions (Hall, 1997). Plans without implementation are inconsequential for the organizational performance. From action choice perspective, the decline of firms could be for three reasons. First, the managers are unable to account for environmental uncertainty in their action-choices e.g. sudden technological changes and policy changes (Mone et. al. 1998; Khandwalla, 1992; Kelly and Amburgey, 1991). Second, corporate managers commit genuine mistakes. Third, corporate managers knowingly undertake action choices for their own subjective reasons that lead to decline (Pfeffer and Salancik, 1978).

Population-ecology (McKelvey and Aldrich, 1988) and life cycle theories (Vernon, 1966) of organization explain external causes of organizational decline. Population-ecology theory suggests survival of the fittest in a limited carrying capacity environment. Organizations can respond to environmental changes by either aligning itself to the emerging environment, proactively influencing the business environment, or by dissolving or changing the niche. Inaction in responses could be for organizational inertia that arises due to bureaucratic controls, sunken investments, specialized assets, internal politics, cultural constraints and external restrictions (Hambrick et. al. 1993; Hammond et. al. 1998).

Excessive control and under control of management both induce different vicious circles that afflict the organizations (Khandwalla, 1992). While lack of organizational slack causes excessive control and managerial paralysis leading to failure (Staw et. al. 1981; Bozeman and Slusher, 1979), excessive slack leads to complacency and minimal adaptive initiative (Hambrick and D'Adveni, 1988). However, excessive slack may also trigger excessive domain initiatives. Barker and Duhaime (1997) and Hambrick and D'Aveni (1988) suggest that both excess and lack of domain initiatives lead to decline.

Governments exercise influence in PSEs through their nominees in the Board of directors, having high concentration of bureaucrats. These bureaucrats undergo frequent transfers. Further, their annual performance appraisal may not recognize their contribution in the board. Thus, restricting the effectiveness of government nominees in the board. Further, governments frequently try to impose political and social objectives on PSEs.

PSEs carry multiple social objectives. Frequently governments protect under-performing organizations to protect employment and to make certain products available in the market. Consequently, employees in these organizations develop a sense of job security. This reduces managers' initiatives to align with environment, leading to longer periods of inaction.

Decline of organizational performance causes a feeling of stigma among managers. It may lead to reduced transparency in their actions. Further, different stakeholders react hostile towards management of declining organizations. Explicit commitment of the government to revive declining PSEs reduces the hostility of different stakeholders. Government's financial security reduces the hostility of government owned banks and financial institutions, suppliers and other stakeholders.

Turnaround action choice has received considerable attention of researchers in the recent past. Most of the researchers in this stream have tried to develop typology of turnaround strategy (Schendel et. al., 1976; Ford and Baucus, 1987; Khandwalla, 1992; Robbins and Pearce, 1992). The fundamental tenant of inquiry to develop typology has been to identify consistent mix of actions to turnaround organizations. Khandwalla (1992) identified seven sets of activities to develop four typologies of turnaround management (surgical re-constructive, surgical innovative, non-surgical innovative, non-surgical transformational) based on retrenchment of people, technology up-gradation and people-management. Zammuto and Cameron (1985) identify strategies on the basis of domain change and cost reduction efforts. Robbins and Pearce (1992) classify turnaround strategy into a) efficiency driven and b) competition driven. The common thread in all these typology efforts has been manpower reduction to turnaround organizations.

Above typologies neglect management of external stakeholders. PSEs revival requires influencing people in different ministries of the government. This requires faith, confidence and reverence of the leader to revive the company.

The Beginning of SIL: Way back in 1971, the government of India received an application from Automobile Products of India Ltd. (API) for substantial expansion of its capacity for production of two wheelers and three wheelers. It was the time when the licensed production capacity of scooters in India was far below the demand. API proposed to buy an old plant of Innocenti that was lying unused in Italy for two years owing to labour problems. API already had technical collaboration with Innocenti and was manufacturing its Lambretta brand scooters in India. While examining the proposal, the concerned secretary in the government proposed a joint venture between Innocenti, API and government. Profit and socialistic motives triggered such initiatives.

Technical experts assessed that special-purpose machines were in good working condition for an assured life of eight years and production of more than 100,000 scooters a year on two shifts working. However, general-purpose machines had an assured life of only four years. Few additional machines and backup facilities, tools, and equipment were required to achieve a production level of 100,000 scooters a year.

An agreement was signed on June 16, 1972. Complete available technical documentation, world rights for the manufacture of two-wheeler Lambretta scooters, and the old plant at a FOB cost of US $2.4 million on "as is where is" basis were sold by Innocenti. One of the executives in the company stated, "the price that we paid for the old plant was so low that even the sale of plant as scrap iron would have fetched similar price to Innocenti." Subsequently Innocenti dissolved itself after the disposal of the plant in Italy and did not contribute to the joint venture.

Project Implementation Phase: Set up in Lucknow, capital of Uttar Pradesh (UP), the foundation stone for the project was laid by the Prime Minister of India on April 8, 1973. Lucknow had very little industrialization. There were no ancillaries in the region. Components had to be bought in from distant places like Mumbai and Delhi. Further, infrastructure facilities like roads, telecommunication, power was not satisfactory in UP. Incidentally, soon after this event API withdrew from the joint venture in July 1973. It was due to conflicts related to three wheeler project and payment to API for its technical service in Italy (Exhibit 2).

Commissioning: Innocenti dispatched machines between January to September 1973. On opening of the cases SIL engineers discovered that some of the machines, components, accessories, and drawings were missing. Most of the documents were in the Italian language. Engineers who were recruited from Tata Engineering and Locomotive Company (TELCO), Hindustan Motors (HM), API and ordinance factories required continuous help of translators.

While commissioning the plant, engineers found that they could not install overhead cranes. Concrete columns in the newly constructed plant obstructed the movement of material by overhead cranes. SIL had to resort to movement of material through forklifts, trucks, etc.

Project Cost: The delay in project implementation and undertaking of additional activities increased the project cost from Rs. 119 million to nearly Rs. 200 million.

Recruitment: A senior manager recalled, "The initial organizational structure was not well developed. The recruitment of people was made for full capacity of 100,000 scooters. Selection of people was also not planned. Many persons were selected with similar expertise."

He added, "Casual labour was temporarily hired to open cases. Subsequently, they became regular employees. Most of them were illiterate. Company recruited locally owing to its social obligations." Company also recruited three blind employees.

Leadership and its initiatives in implementation phase of SIL: The government appointed S. Soundararajan as the first executive director in November 1972. Forty-five years old, he belonged to the Indian Audit and Accounts Services (IAAS) cadre of Indian Civil Services (ICS). Officers of IAAS are primarily responsible for auditing government activities involving money transaction. Soundarajan was the managing director of Garden Reach Workshop in Calcutta before joining SIL.

Staffers in SIL remember him as an autocratic, quick decision-maker, optimistic, and extremely bright leader. Another senior manager recalled him as "a man of principles, work addict, ambitious, and simple." Some of the executives commented, "Perhaps he was a man in haste." He planned to manufacture 30,000 scooters in 1974, the first year after plant installation, 60,000 scooters in 1975 and 100,000 scooters from 1976 onwards. One of the executives commented, "Perhaps Soundarajan had plans to stay in SIL for 5 years and looked for greater challenge after that."

Soundarajan initiated diversification of SIL into three wheelers. He negotiated with Innocenti for their three wheeler plant at a FOB price of $ 500,000 in 1973. "It was a throwaway price for the plant," some company managers commented. The entry into three-wheeler market strained the relationships between SIL and API (Exhibit 2). He also pursued for agreements to supply 100,000 power-packs (a compact unit consisting of engine and gearbox) to seven manufacturing units in different states in 1973-74.

The first prototype of the scooter was ready in November 1974. It was sent to the Vehicle Research and Development Establishment (VRDE) of the Ministry of defense. Simultaneously, SIL opened the offer of booking of scooters all over the country. As expected, people queued up to book a scooter and deposited advance money to the company.

VRDE reported few technical, though small, problems. The problems were primarily due to inferior quality of components. SIL had to source many components from distantly located suppliers. Frequently, these supplies did not meet specifications. Further, rejection of those supplies would adversely affect the production targets.

SIL started commercial production in February 1975. It simultaneously developed schemes for development of ancillaries and in-house production facilities to ensure adequate supply of quality components. Experienced and qualified people were invited to set up ancillaries with 95% financial assistance from government owned banks and financial institutions.

SIL moved a proposal to the government to establish a foundry in the factory premises to control the quality of castings. SIL had not purchased high precision foundry machines of Innocenti. The proposal was approved in April 1976 for a capacity of 2,000 tonnes a year. This was enough to manufacture 100,000 scooters a year.

The Product: Commercial production of Vijay (a Hindi word meaning "victory") Deluxe, the first model of the scooters of SIL, began in February 1975. It was lowest priced scooter at that time in the Indian market. The engine of the vehicle provided 9.6 B.H.P. horsepower against 6 to 7 B.H.P. of competitors' scooters. The scooter was also tested slightly better efficiency of fuel consumption. Vijay Deluxe, unlike models of BAL that were shaft driven, was a chain driven vehicle. One of the senior managers recalled, "Vijay Super was a good scooter. However, it had more components, hence, required frequent maintenance."

Initial Public Offer: While the quality problems continued, SIL came out with a public issue in April 1975. SIL was the first PSE in India to offer shares to the public. The issue was fully subscribed. However, most of the shares were purchased by the government.

Retail Outlets: SIL experimented with an unusual scheme for retailing. It hired retail outlets in different parts of the country. Management of these outlets was entrusted with engineering graduates below 27 years of age. A loan of Rs. 25000 was arranged for them to equip the outlet and initial stocking of spare parts. The managers received commission on sale of scooters and spare parts. However, the young engineers did not show much concern for the company and its product image.

Board of Directors and its Functioning: API withdrew its nominees from the board on July 12, 1973. Hence, in the initial phase board consisted of members from the IAS cadre, nominees of financial institutions - IFCI and IDBI, and professionals from Bajaj Tempo Limited and TELCO.

Realizing enormous opportunities, the board keenly watched the production performance in board meetings in this phase. However, board did not explore the reasons for variance in production targets. Most of the board meetings involved a presentation by the managing director on project implementation and financial aspects to seek more borrowings from the government.

B. Early Phase of the Organization

Failure of Vijay Deluxe: While the company was investing in different schemes and production facilities to reach the production level of 100,000 scooters, Vijay Deluxe developed an inferior quality image soon after its launch for mainly three reasons. First, engine was unable to work effectively in high ambient temperature and dusty conditions. Secondly, there were many vehicle breakdowns because of inferior quality components. Thirdly, Vijay Deluxe had more components as compared to shaft driven scooters of competitors. Hence, it required frequent preventive maintenance, absence of which led to breakdown. However, frequent breakdowns of scooters created a general perception in the market that chain-driven technology was inferior to shaft-driven technology. Though, chain-driven motorcycles proved extremely successful in India in 1990s. Further, SIL did nothing to strengthen its brand. Quickly a negative brand image developed for Vijay Deluxe in the market.

Launch of 50 cc Moped: SIL entered into a lease agreement with Ganesh Flour Mills to use their facilities at Delhi to manufacture moped. SIL had developed a moped named Vinay in 1976. It was powered by a 49.8 cc engine and gave fuel efficiency of 160 miles per gallon. Moped manufacturing plans were later abandoned and magneto and fans production facility in the plant was created." These activities were undertaken primarily to retain the property. One of the executives commented "The location of property at Delhi lured the management to enter into agreement to take the unit on lease."

Launch of Vijay Super: SIL modified Vijay Deluxe and launched Vijay Super in the second half of 1977. Vijay Super was easier to start and had an improved footrest, headlights, and horn. The warranty on the scooter was increased from six months and 6,400 km to one year and 10,000 km. "Vijay Super had better pick-up and fuel efficiency as compared to other existing scooters in India," claimed company managers. Its initial demand was also good. However, quality continued to be inconsistent.

Labour unrest: SIL experienced first labour strike in August 1977 on the payment of bonus issue. The events took an ugly turn and some workers assaulted the supervisory staff. Two workers were dismissed. They were re-employed later in a lower grade. Ancillary units too were closed for 32 days in August and September 1977.

In response to strike, SIL declared a lockout from October 30, 1977. Officials and the minister in the Labour Department of UP intervened and the lockout was lifted on November 5, 1977. The agreement between the management and trade union included new rate for dearness allowance. It was revised to Rs. 1.30 per point change in the all India consumer price index from Re. 1.00 earlier. Further, entitlement for leave was also changed from 20 days of work to 16 days of work.

Launch of Three Wheel Vehicles: A petrol driven three wheeler minibus, with 600 Kg pay load and a petrol driven six passenger carrier named Vikram were developed in late 1977. SIL had plans to equip the minibus with diesel engine to reduce the fuel cost as low as 4 paise per km owing to subsidy by the government on diesel. However, minibus could not be launched successfully in the market.

Development of 125 cc Scooter: SIL developed Vivek 125cc scooter in December 1978. "Vivek was able to provide power equivalent to BAL's 150 cc scooter," claimed company managers. However, it was never marketed due to its doubtful quality.

Takeover of PIL: SIL took over Precision Instrument Limited (PIL) in 1979 for Rs. 1 million to manufacture speedometers and magnetos. UPSIDCL was the other biggest equity holding entity. Funds for this project were arranged through borrowings from financial institutions. The company performed poorly in its first year of production and continued to make losses.

C. Start of the Declining Spiral: The initial enthusiasm and challenge of commissioning had started evaporating fast with the failure of Vijay Deluxe. However, employees in the organization developed a sense of job security. They thought that the centre and UP governments would ensure the continuity of the plant, having started once. One of the senior managers said, "Though the company was not performing, there was never a doubt about its survival. Diversification plans were being developed for rehabilitation purposes." Employees, rather, started demanding better compensation and working conditions. They frequently resorted to strikes.

It happens as people in such organizations carry a perception of job security and favourable political intervention. They know that they will continue to remain in job even if they act aggressive.

Product Improvement Measures: With increasing quality problems reported from the field, SIL hired the services of Ingersoll Engineers in 1977 to suggest remedial measures. This study led to improved qualitative and quantitative production during 1978-1980 by designing an improved suspension system through MS Templewall of UK and by developing an improved version of silencer exhaust with help of S D. Bassani Manufacturing of USA.

Though production quantity improved substantially in 1979-80, it practically leveled off in 1980-81. Production could not improve for primarily two reasons. First, payments to suppliers were not regular owing to poor liquidity conditions. Consequently, suppliers did not frequently supply material, components and tools to the company as per its requirement. This led frequent stock-outs and frequent break down of critical machinery. Secondly, there were frequent power cuts in the state, leading to shutdown of the plant.

Leadership Change: Soundararajan, relinquished charge on January 17, 1979, at a time when SIL was experiencing difficulties on all fronts. L K Joshi took over as the managing director on May 6, 1981. Ad-hoc arrangements were made for the position of managing director for the intervening period. Joshi had a good network of relations in political circles and bureaucracy.

Policy of in-sourcing: SIL continued the policy of increased in-sourcing. SIL invested in the equity of UP Tyres and Tubes Limited (UPTTL) in 1980 to meet the tyre and tube requirements. UPSIDCL contributed the rest of the equity. The project was delayed and the project cost escalated to Rs. 24.2 million from Rs. 18 million.

Payment Crises: The financial situation of the company started worsening fast since 1980-81. Payment to suppliers could not be made on time. Though the company achieved a record production of 35,502 scooters in 1980-81, the suppliers continued to respond adversely towards SIL. The instances of inferior quality supplies increased. One of the managers who looked after purchase and production during this time observed: "It was extremely difficult to act tough on quality due to our frequent defaults on payments to our suppliers. While it was difficult to get supplies once, it was extremely difficult to get supplies on time after rejection. Hence, we frequently accepted supplies of sub-standard quality." Another senior manager recalled, "Suppliers usually insisted on advance payment. At best we could get the supplies against letter of credit (LC)." SIL had to depend on loans even for non-plan expenses, leading to fast increase of debt and interest liabilities.

Management looked into quality problems in early 80s. But they could not implement their plans of improved designs. Suppliers frequently refused to invest in dies for redesigned components for scooters of upgraded design. These investments were unprofitable in the absence of reasonable volumes. Hence, SIL could not change the design of the components.

Increased Competition: Government granted new licences to LML and Kinetic Honda, and allowed increased production by Bajaj Auto Ltd. It reduced the demand of Vijay Super from 1982 onwards sharply. SIL worked on product rationalization in 1981-82 owing to constrained financial position, increasing competitive intensity and reduced demand. SIL decided to concentrate on Lambretta Cento 100cc and shelved the moped project.

Decreasing Morale of Employees: Lambretta Cento was the first 100cc scooter in India. This product was launched without fanfare. It was the reflection of low "self esteem" among the managers of the company. One of the executives commented, "Lambretta Cento 100cc was launched without fanfare as we all thought that we had poor name in the market and fanfare will not be appropriate." This vehicle too could not meet the customer requirements. A large number of complaints were related to inconsistent petrol consumption, inadequate power, and excessive vibrations.

Even under such conditions employees had a sense of job security. One of the ministers while addressing the employees of the company in 1983 said, "What is your problem? You are getting your salary." Unions started becoming very aggressive from 1983 onwards. There were five unions in the company, each affiliated to either of the national federation of unions. SIL frequently started facing inter-union rivalry problems.

A study by a task force, nominated by the government in 1983 to examine the reasons of poor performance of SIL, stated, " Morale of the employees is low owing to poor performance and image of the company. Supervision and control on the shop floor is lax for as the officers and supervisors are apprehensive about the aggressive adverse reaction of certain people and lack of management's full support in case they took action against workmen."

Lost Opportunity: The task force that submitted its report in July 1983 suggested among other things to enter into technical collaboration and concentrate on 100 cc scooters. Honda Motors was willing to offer technical services but declined to lend its brand "Honda" because of its collaborative agreement for Hero-Honda. Friendship between some influential political leaders and owners of competing firms also created difficulty in arriving at concrete collaborative arrangements. SIL could not launch Sunny FR, a 100cc vehicle. This was an opportunity loss to SIL as 100cc vehicles became extremely popular in India later on.

It was around the same time when the scooter market started opening up. Piggy had a conflict with Bajaj and was looking for a partner in India. SIL could not capture this opportunity to its advantage. Piggy later entered into an agreement with LML to manufacture its range of scooters.

Difficulty to Attract Management Experts: SIL found it extremely difficult to recruit highly skilled or properly qualified managers after its project implementation. The task force study of 1983 stated that SIL at that time had 176 officers in technical departments. Out of which 50% were qualified engineers, 30% were diploma holders, and the rest were unqualified. Further, capable engineers started leaving the company. The task force estimated an annual turnover of 10% among officers in 1983.

D. Hitting the Rock Bottom:

Change of CEO: PS Kapoor took over as the executive director of the company in July 1984. He belonged to the Indian Railway Service of Mechanical Engineers and was on deputation. He made it known to the employees that he would go back to his parent organization after his deputation was over. One of the senior managers commented, "Kapoor had very little concern for SIL as his stakes in SIL were very low. He had a job to fall upon, in case of closure of SIL."

Kapoor himself did not believe that the company could be revived. One of the managers recalled an incident. After attending a training programme Kapoor said in a lighter mood, "Trainers were talking about communication of vision. Will they tell me how to communicate the vision of closing a company?"

Production: Production declined sharply after 1985-86. The dies and fixtures were worn out and the products were of substandard. There were some efforts to promote the image of the company's products. Views regarding product upgradation and introduction of new products through technology infusion were not implemented.

Suppliers were hesitant to supply good quality components on normal business terms and conditions. There were frequent stock outs. They would frequently ask for advance payment for supplies. Further, company had to make provisions for bad recovery accounts. Frequently suppliers whose supplies were returned for quality reasons did not refund the advance to the company.

Local media too was very hostile. The Public Relation Officer (PRO) of SIL recalled, "The local media people would not even offer me a seat to sit in those day whenever I visited them. I used to feel ashamed to discuss about SIL since people had no regards for SIL in those days." Customers too were reluctant to buy any of the products of SIL since they were not sure about regular supply of spares.

Corporate Governance: Most of the board meetings were rituals from 86 onwards. No worthwhile discussion took place in those meetings. Meetings were organized primarily to meet the requirements of the Companies Act. They were normally conducted in New Delhi. In these meetings the CEO sought help of government nominees to get fresh loans approved by the government.

Failed Attempt to Sell the Company: Perturbed by fast deteriorating performance, the government made an effort to sell the company in 1987. Bajaj Auto emerged as a strong contender. But it wanted to reduce the manpower to nearly half of the then strength of 3200 persons. Kapoor was in favour of selling the plant. However, the employees would have none of it. One of senior managers said, "The proposed deal with Bajaj Auto was not transparent. Offer to Bajaj Auto was an outcome of Rahul Bajaj's relations with the ministers at that time." The transfer did not finally materialize.

Slowly the message of possible closure of the company started filtering. The period from 1987 was one of industrial unrest. There was very little concern for production as sales of the product were extremely difficult.

SIL reported a loss of Rs. 404 million on sale of Rs. 103 million in 1989-90. The accumulated loss stood at Rs. 2125 million. A manager described this period as; "The capacity utilization of the plant was very low. Unions were very aggressive. Union members usually sat outside the gate of the factory and did not allow the senior managers to enter the plant. Kapoor was forced to operate from his residence/city office, which was nearly 25 km from the plant. Mistrust, conflicts, vitriol and secret information seeking characterized the environment of SIL. Senior managers were unable to work as a team."

E. Emergence of Turnaround Leader

Leadership Change: Kapoor went back to his parent department in February 1990. Dr. Arun Sahay was selected for the position of executive director. Sahay had been SIL since May 1977. He had worked in the company at different positions before seeking voluntary retirement from SIL in 1988. However, his request was turned down. He proceeded on leave for three years in the same year. He was requested to cancel his remaining leaves and take over as the CEO of the company in 1990. Sahay was appointed as executive director though P D Joshi, general manager (manufacturing), was senior to him.

Sahay carried a conviction that the company could be revived. He had resisted all the plans for closing the plant in past. But, he was being pressurized to take over as CEO of the company precisely for what he had resisted strongly. When he asked the authorities the rationale, he was told "We need an MD even to close the company." He, however, accepted the assignment only with the condition that he would first work for the turnaround of the company.

However, Sahay had to overcome the hostile environment both within and outside the organization in those days. The government was against providing further financial help owing to difficult financial condition of the central government and lack of hope of reviving the company. People in the ministry presumed it to be a company beyond potential for its revival. They would not believe Sahay's plans for revival. The task of revival was made more difficult by the government who passed on this view to banks, financial institutions, and other stakeholders.

Senior managers of the company did not provide support to Sahay, to begin with. Some of those managers said "Kapoor stayed in this company for five years. This executive director will not be able to survive even for five days." Joshi was unhappy on Sahay's appointment as the executive director. His representation regarding his own claim for the position was not considered by the ministry. He resisted directly and indirectly most of Sahay's plans. The matter was discussed in board meetings. Joshi was asked to cooperate or else to seek voluntary retirement. He subsequently left the organization.

F. Revival Phase of the Company (1992-96): Sahay had many challenges before him, in his plans to revive the company:

- develop confidence in employees that the company could be revived
- improve the self-perceived esteem of employees
- improve industrial relations
- get support of ministry officials, union leaders, and people within
- improve the finances of the company both for immediate liquidity and longer term cash flow
- improve quality and cost efficiency of products

- workout a product-market choice
- redesign the organization for the chosen product-market and new business strategies

Industrial Relations: The new executive director took some extremely bold decisions. Sahay announced immediately after taking over as ED that he would operate from his regular office in the factory premises. All, including the local police authorities, apprehending the danger could not dissuade him from taking this bold step. He skillfully negotiated this with unions and associations with the assistance of the then minister of industry. For many it was a matter of surprise that the union leaders and employees who had been picketing the factory and threatening management agreed to Sahay's entering the factory. It is another matter that on the day of entering the factory premises, another group of workmen sat on dharna in his office premises. The entry was finally negotiated with the intervention of the district authorities.

Sahay discussed with trade union leaders his plans to revive the company and sought their cooperation. However, two warring unions made the matter extremely complex. Sahay stated, 'Union rivalry created many conflicting issues relating to day-to-day operation of the company. In such conflicting matters, I preferred to decide the matters on merit. I preferred to take the bull by horn on such volatile matters and where it could not be settled bilaterally, the issues were decided in the court of law. In one such matter, We were successful in negotiating a wage revision agreement with employees, as unions could not agree on a settlement. Each of the 3200 employees accepted the revised wage individually."

While efforts were being made to reduce costs, the unions issued a notice in 1992 for payments of arrears because of pay revision, LTC encashment, and waiver of ceiling of one month pay for medical treatment in a year. Union leaders were asked to restrain themselves as it could hamper the revival process. Management stood firm on its decision for deferment of perks and not conceding any further demand.

There was a Joint Action Committee (JAC) consisting of representatives of workmen, supervisors, and managers. The members of JAC too were frequently behaving like trade union officials. They resisted Sahay's appointment as the executive director. Sahay recalled the culture of the organization as characterized by political activities, lack of trust and high conflicts. "Gambling within the factory premises was at rampage, employees going out for campaigning in election was customary and politicians coming to the factory gate was frequent," he recalled. Disciplinary matters were handled firmly.

Local political leaders with trade union leaders had been intervening jointly in the management of the company. Sahay took a firm view of not allowing intervention of local political leaders. He recalled the incidence of aggression by the local political leader over the issue of revocation of suspension of an employee in 1992. He recalled, "I dealt issues strictly on merit. I did not concede to political pressures though it was risky for my career." He further stated that local political leaders had stopped requesting him for any favour since then on having realised its futility.

Bridging the Gap: Sahay preferred to manage by "walking and talking" to bridge the communication gap between management and workmen. He frequently charged the employees with emotions. The concerned minister had announced in the parliament on January 23, 1992 that SIL would be closed down. Three days later on January 26, Sahay while addressing the workers after flag hoisting said, "Koi ma ka lal nahi hai jo is factory ko band kara de. Jisne scooter India ko buri najar se dekha uski ankhe nikal doonga. " (No one is born to close down this company. I will teach a person a bitter lesson to if he carries any ill intention towards SIL.) Sahay faced ire of the ministry officials for his emotional outbursts.

Influencing the Government: Influencing ministry officials was not easy either. His perseverance made an impact on the erstwhile Minister of State for Industry at that time. He recalled one such meeting in which he asked the minister, "Why do your secretaries want to close my company when I am not asking any money from the government? Moreover SIL is providing employment to so many people in an industrially backward state." Minister called the secretary and repeated the same question to him, "Why do you want to close the company that is providing employment to so many people. What is the harm to let it continue if ED does not want any financial help from us." The incidence was shared with other managers of the company who appreciated the courage displayed by the CEO. Since then, Sahay sought the support of government through his slogan "We manufacture three wheelers in the factory but sell employment in the market." This slogan proved very effective in India where rate of unemployment was around 15 percent in 1992. The new secretary in the department of heavy industries, MC Gupta, pleaded before the Group of Ministers in 1992, "We had recommended for the dissolution of SIL. But I happened to meet the new CEO. He has plans to turnaround the company, he should be given a chance."

Solving Financial Difficulties: Sahay shared with other managers about his commitment not to borrow from the government. None could believe that SIL could even pay salary to employees without such support. It was a big challenge at this juncture to arrange working capital for the company. Arranging money for timely payment of salary and suppliers' bills was proving difficult. Most of the machinery, land and building had already been mortgaged to banks against borrowings. It was not possible to sell any of these components. Only surplus stores and scrap could be sold which brought little cash to meet the actual requirement. Banks were not willing to provide further advances in view of high debt, negative net worth of the company and mounting irregularity in the account. They refused to help SIL in the absence of guarantee by the government.

Help came from the dealers of the company. The demand for Vikram was rising. The product was promoted as an employment generator. Inadequate public transport systems, narrow roads in old cities and high unemployment all combined to generate substantial demand for the vehicle. It was estimated that a three-wheeler carried a premium of Rs. 10,000 to 20,000 on delivery in 1992. It was possible to get advances from the dealers. The advances not only eased the problem of working capital of the company; it also developed some confidence for its possible revival among different agencies. Sahay could negotiate with banks for a fresh loan, though, at higher interest rate. Suppliers could be paid through post-dated cheques.

Amendments in the Sick Industrial Companies (Special Provisions) Act, 1985: The Sick Industrial Companies (Special Provisions) Act (SICA), 1985 was amended in 1992. The amendment allowed PSEs to be referred to the Board for Industrial and Financial Reconstruction (BIFR). BIFR is a semi judicial body that approves the revival plans of companies that are registered with it. SICA provides for registration of companies whose net worth gets eroded more than 50%. Such registered companies are protected from recovery by creditors and other legal matters till their cases are disposed of by BIFR.

SIL was immediately referred to BIFR as its net worth had been completely eroded long back. IDBI was nominated as operating agency to explore the possibilities of revival of SIL. The initial reaction of BIFR and IDBI officials was that SIL could not be revived.

Reorienting the Product Niche: The sale of two wheeler scooters was negligible by 1993. In the prevailing highly competitive environment, SIL decided not to focus on this product anymore. However, increasing the volume of production of three wheeler vehicles became essential to survive. The prevailing production volume of 150-200 three wheeler vehicles per month in 1992-93 was not enough even to pay wages to employees. Production went upto 500 vehicles per month in 1995 by tooling up two-wheeler facilities for the production of three-wheeler vehicles and continued thrust of management to increase three-wheeler's production. Slowly production in the company started moving northwards. SIL reported operating profit in 1995-96 for the first time since 1981.

Possible Revival Routes: IDBI, the operating agency, initially was of the opinion that SIL could not be revived. Sahay made a number of trips to IDBI in 1993 to get their opinion changed. Slowly, RJ Bedekar, the nominee (Director of IDBI), and KK Narula (the nominee Director of SBI) in the board developed admiration on the commitment of Sahay. They played a vital role in subsequent stages. IDBI asked the company to submit a revival plan. Sahay and his team considered following options in their analysis to revive the company.

- Merge with another healthy PSE.
- Merge/take over by another private company.
- Run in its present form with enhanced managerial, technical and financial inputs.
- Run in a joint sector through equity participation.
- Set up of sunrise industries within SIL's boundaries and gradual deployment of manpower in such units.
- Close down the company. Not acceptable to employees, more so to executive director himself.
- Form a cooperative of workers to run the company. Employees rejected the option.

SIL took the help of AF Ferguson, a leading management consulting firm. The consultant recommended more than 50 percent manpower reduction. This was not feasible owing to the prevailing industrial relations. Among other suggestions, the consultant recommended the closure of two wheeler scooter and fan plants and concentrate on three wheeler productions. It also recommended diversification into a related activity of diesel generating sets. This suggestion, in fact, was similar to what management had thought but it brought credibility, as Ferguson was an outside agency. This also paved the way for manpower reduction.

Voluntary Retirement: Indian government had announced a Voluntary Retirement (VR) scheme in 1988. SIL employees were not willing to opt for the scheme till 1992-93. Sahay stated in one of the board meeting in 1992-93, "Poor employment opportunities in the region, lower income background of employees, younger age profile were the reasons for not accepting VR scheme." Subsequently, two events took place in the same year. First, P. Hota, Joint Secretary in the ministry of industries, who was also the member of the board, declared the government's intention to close down SIL. When contacted by trade union leaders he suggested them to accept VR to avoid losing the jobs without any compensation. Secondly, a statement was made in the Parliament about the government's intention to close down the unit. Seeing no hopes of revival, employees started applying for VR in 1993.

However, these events created loss of credibility of Sahay who was maintaining that SIL could be run profitably. He stated, "I weighed the situation and sensed an opportunity. I speeded the process of decision making. Any application received in the morning for voluntary retirement was disposed off by the evening." Manpower reduced to 2898 in 1992-93 and 2098 in 1993-94 from 3172 in 1988-89.

Tatkal Scheme: SIL started a "Tatkal" (a Hindi word-meaning "immediate") Scheme in 1995 to reap the benefit of demand-supply gap. Under the scheme it was envisaged that a three-wheeler would be delivered within 15 days unlike the waiting period of nearly three months at that time. SIL charged a premium under the scheme. However, implementation of the scheme led to the following:

a) Waiting period under the "Tatkal" Scheme increased to 90 days from initial 15 days.

b) Waiting period under the normal delivery scheme increased to nearly six months from existing 90 days.

c) In some instances dealers sold a normal delivery vehicle as a "Tatkal Scheme" vehicle.

The company was not able to exercise close price check on dealers. Company supplies only the chassis to the dealers. Dealers sell the vehicle after fabricating the body on the chassis as per the choice of customers. They, frequently, quote the price of the complete vehicle (chassis and body) to customers. It makes it difficult for SIL managers to find out the price, charged by the dealer from the customer.

BIFR Proceedings: During the hearings on the revival scheme between 1993 and 1996, production and sales performance had been consistently improving due to market opportunity in three-wheeler segment and partial conversion of two-wheeler facilities into three wheeler facilities. SIL was able to earn operating profit in 1995-96. This proved extremely helpful to change the conviction of BIFR members about the feasibility to revive SIL.

After many deliberations, BIFR sanctioned the revival scheme in September 1996. The revival package granted many financial benefits to the company as listed in Exhibit 3. By now the local management team in SBI had changed. They went in appeal against the orders of BIFR for revival of SIL. This created a big roadblock for Sahay in getting the scheme implemented. He overcame it through very persuasive public relation activity.

Working of the Board during Revival Phase: The working of the board changed significantly in the period between 1992 and 1996. Board members kept a close watch on the performance of SIL. They were more vigilant and inquisitive, a feature that was generally missing earlier. Board was also willing to help the ED in his revival efforts from 1993 onwards.

In one such board meetings in 1993 Sahay sought help for the release of funds from National Renewal Fund (This fund was created by the government to help companies to train, re-deploy people and implement voluntary retirement schemes.) to accept voluntary retirement applications of employees. Management had been pushed to the wall as it had accepted voluntary retirement applications but had no funds to discharge the liability. There was no provision for VRS of SIL in the 1993-94 budget of the ministry. A novel deal was struck with the bank. Banks, despite huge overdraws and irregular account, agreed to advance further funds to discharge VRS liabilities provided SIL ensured government guarantee. Active support of the government nominee to get that guarantee helped Sahay to overcome it and to discharge the liability.

Findings and Discussion:

Time	Actions, undertaken	Contextual Characteristics	Inferences
1971	1. Government decides to manufacture scooters itself on receiving application from API	1. Controlled economy 2. Demand far exceeded the supply 3. PSEs were considered important for economic growth of the country.	1. PSEs in controlled economy are likely to exist for profit motives along with capability building motives for the nation. 2. License clearing process may influence the nature of ownership of firms in controlled economy.
1972	1. Very low negotiated price for an old plant 2. Dissolution of Innocenti	1. Unused plant for many years 2. Government officials negotiated the price	1. Managers in PSEs are likely to place high emphasis on price component of any deal and may sacrifice qualitative concerns. 2. PSEs' failures are largely explained by their inadequacy in developing details for plan implementation.
1973	1. Setting up of plant at Lucknow 2. API withdrew from the JV 3. Missing components and drawings 4. Drawings in Italian language 5. Initial recruitment without proper plans 6. Ambitious plans of 100000 scooters by third year 7. Withdrawal of nominees of API from the board	1. Inadequate infrastructure at Lucknow	1. Strategic decisions in PSEs are likely to be influenced by political leaders for their political reasons. 2. JVs with governments are fundamentally unstable due to unbalanced power relationship between partners. 3. PSEs' failures are largely explained by their inadequacy in developing details for plan implementation. 4. Officers from government departments who join PSEs are likely to undertake ambitious plans with very ambitious projections.
1974	1. VRDE reported quality problems 2. Launch of Vijay Deluxe all over India 3. Faced problems to procure quality components	1. Product was not adequately tested in the market before nation-wide launch. 2. Initial booking of scooters was very successful.	1. Few small positive signals from the demand surplus market is likely to make managers complacent on customer sensitivity and product quality. 2. Officers who come from government to work in PSEs are likely to be less customer sensitive.
1975	1. Public offers subscribed by the government. 2. Retail outlets assigned to unemployed engineers	1. First PSE to go public 2. Socialistic pattern of growth.	1. Government officials in PSEs are likely to consider social concerns in their decision than just business concerns.
1976	1. Set up a foundry 2. Continued production with inferior quality 3. Launch of 50cc Moped	1. SIL is dependent on government of continued financial support. 2. Mopeds were fuel efficient	1. Government officers on deputation in PSEs are likely to invest excess money in fixed assets in the initial stages of the company. 2. Initial failures are not likely to be recognised and PSEs are likely to continue on growth and investment plans in the initial few years.
1977	1. Labour problems 2. Intervention of minister 3. Increased compensation for workers 4. Launch of three-wheeler	1. Frequent interventions of political leaders.	2. Trade unions are likely to get activated in PSEs' early stages itself. 3. Top management is likely to yield to political leaders and compromise organizational interests if they are resource dependent on government.

1978-79	1. Developed 125cc scooters but not launched 2. Took over PIL 3. Soundarajan left	1. Low self esteem among employees	2. Initial failures are not likely to be recognised and PSEs are likely to continue on growth and investment plans in the initial few years. (*) 3. Innovations are not likely to be commercialised successfully owing in low self-esteem conditions in PSEs.
1980-83	1. Took over UPTTL 2. Developed Sunny-FR, not launched.	1. 100cc vehicles have been very successful in India	2. Initial failures are not likely to be recognised and PSEs are likely to continue on growth and investment plans in the initial few years. (*) 3. Innovations are not likely to be commercialised successfully owing in low self-esteem conditions in PSEs. (*)
1984-1987	1. PS Kapoor took over as MD, disclosed his intentions to be back in government jobs. 2. Failed to sell the company. 3. Hostile reactions of different stakeholders.	1. Market opened up in mid-80s. 2. Multiple stakeholders share equitable power and influence.	1. People on deputation to PSEs from government are likely to be less committed. 2. Diffused power conditions among many stakeholders are likely to make changes difficult in PSEs. 3. Having known the intentions of dissolution of PSEs, stakeholdere are likely to turn hostile towards the organization.
1990	1. Sahay took over as MD 2. Entered his regular office in the plant.	1. Sahay had been on leave before taking over as ED. 2. He had high conviction that company could be revived for a long.	1. Bringing a leader who understands the company well yet who comes with fresh perspective from outside is likely to help the revival process in PSEs. 2. Faith, confidence, and perseverance of the leader help rejuvenate poor performing PSEs.
1992-96	**Rejuvenation Actions:** 1. Firm and rational handling of union. 2. No yield to political pressure 3. Declaring novel intentions of rejuvenation of SIL 4. Seeking help of government by recognizing its interests of "employment" 5. Product rationalization: Thrust on three-wheeler production 6. Advance from dealers 7. Referring to BIFR 8. Seeking external opinion on revival plans 9. Voluntary retirement scheme	1. All the stakeholders were hostile to the PSE. 2. BIFR registered companies are protected from other acts of companies.	1. Centralised and firm decision making in sick companies is likely to help rejuvenation. 2. Release of emotional energy for "social good" is likely to develop positive attitude among employees. 3. A fresh evaluation for product-market choice is likely to help rejuvenation. 4. Seeking government support for revival makes the rejuvenation of sick PSEs fast and effective. 5. Seeking external opinion on rejuvenation route is likely to enhance the acceptability of rejuvenation plans among stakeholders in PSEs. 6. Cost cutting and liquidity restoration are almost essential ingredient for rejuvenation of sick PSEs.

* This inference has been derived at more than one place in the matrix.

The study opens many research frontiers. Seventeen propositions in the table below are developed based on the actions and context of the case.

Sr. Number	Proposition
1	Manpower planning in initial stages of PSEs is likely to be inadequate.
2	Initial recruitment in PSEs is likely to be influenced by local considerations.
3	CEOs who come to PSEs on deputation are likely to undertake ambitious, though risky, plans in initial stages of the company.
4	The top management consisting of officers on deputation from other departments in high munificence environment is likely to be inward looking in PSEs. Concern for customer and quality is likely to be inadequate.
5	PSEs are likely to have high propensity for innovations both under adverse and favourable conditions.
6	The concern for commercial exploitation of these innovations is likely to be inadequate in PSEs.
7	Employees are likely to perceive higher job security in PSEs in protected economy.

8	Perceive higher job security in PSEs is likely to lead to higher unionization propensity in PSEs.
9	Trade unions and employees are likely to be active in the management of work place in PSEs.
10	Strategic decisions about staffing at the top level are likely to be influenced by political considerations in PSEs.
11	CEOs who come for fixed tenure on deputation are unlikely to be concerned about the strategic direction of PSE.
12	Cost of transaction with external stakeholders is likely to increase under declining conditions.
13	Performance decline is likely to lead to low morale among employees and yielding management.
14	PSEs are likely to lose business opportunities owing to different priorities of decision-makers.
15	CEOs who join declined PSEs on deputation are unlikely to undertake straining activities to rejuvenate organizations.
16	Reverence, faith, confidence and willingness to sacrifice by the leader are likely to help company rejuvenate.
17	One initiated, the rejuvenation process is likely to be fast in PSEs.

The study shows that effective management of PSEs requires:

a) Career of CEOs of PSEs should be linked to their performance. Policy of CEOs on deputation from government should be reviewed.

b) Strategic direction of the PSEs needs to be reviewed at regular interval with the help of an external agency.

c) Managers in the initial stages of PSEs need to be advised and monitored carefully to safeguard against very ambitious plans and investments.

d) Selection of CEOs should include their behavioural traits like concern for task, people, quality, customers.

e) Board members of PSEs are better able to objective auditing of organizational performance as compared to the same in private organizations as government nominees in PSEs' board do not depend on the CEO for their tenure in the board. However, Boards of PSEs are generally ineffective due to predominantly indifferent approach of government nominees. Hence, transfers of secretaries may take place, tenure of government nominees in the board should have a sufficiently long period.

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Exhibit 1: Three-wheeler Auto Industry in India

The concept of a three wheeler vehicle is not well developed outside Asia. India is the second largest producer of three wheeler vehicles in the world, behind China. Bajaj Auto held the global market leadership in 1992 with nearly 33 percent market share, Piggy had 18 percent share, Tuck-Tuck (Thailand) has 3 percent and Chinese manufacturers hold 38 percent share (Nathalie Ladler, 1996; Bajaj Auto Limited, HBR case No. 9-593-97). These were mostly three seaters.

Three wheeler vehicles can be used for multiple purposes. Commonly it is used as passenger carriers for short distances. These carriers could be point-to-point taxies with larger space inside to accommodate 6-8 persons comfortably or it could be smaller rickshaws with 3-4 passengers' carrying capacity to meet specific travel needs of passengers. While the smaller versions are generally fitted with petrol engines, larger passenger carriers are fitted with either diesel engines or petrol engines.

Three wheeler operations in India are characterized by the following.

1. Operation of a three - wheeler taxi within the municipal limits of cities is decided by state government agencies. Traffic movement, public convenience, environmental factors, and political factors influence the local administration.
2. The taxi operators are generally from lower income groups who often invest all their savings to buy these taxies.
3. Passengers are predominantly from middle income or lower middle income groups. They use the three-wheeler taxies for their convenient availability and low cost. Hence, low operational cost of the vehicle is important to compete effectively with other modes of public transport such as buses. Subsidized pricing policy of diesel by the government has made the diesel model of three wheeler taxies more popular.
4. Since the late 1990s, there is growing concern for environmental degradation in India. In some of the cities including Lucknow, restrictions have been imposed on the movement of diesel taxies.

These characteristics put twin pressure on three wheeler manufacturers. First, they have to keep price and operating of vehicle low. Second, they have to be equipped for growing environmental concerns. Companies are responding to environmental concerns by upgrading the technology and using alternate fuels.

Subsidized price of diesel in India provides low operating cost of such vehicles. However, there are only a few diesel engine manufacturers. Graves Limited, Piggy, and Lombradini of Italy are the leaders in diesel engine technology. SIL has been dependent on Graves for the supply of diesel engines which accounts for nearly 25 percent of the manufacturing cost of the vehicle.

SIL's R&D team played a significant role in the development of diesel three-wheelers in India. Graves produces diesel engines for stationary use such as for pumps, generators, etc. Joglekar, the then general manager (marketing) of Graves, happened to meet Sahay, the then general manager (marketing) of SIL in early 80s. He narrated his problem of declining sales. Sahay asked whether Graves would be prepared to make some changes in the engine. "Why not if we get business?" replied Joglekar. "Let us then work together to make the engine adaptable to our Vikram three wheeler," suggested Sahay and thus a new product was born.

The major players in the three wheeler industry are Bajaj Auto, Piggy-Graves (a joint venture between Piggy and Graves) and SIL. Bajaj is the market leader with 85 percent of the market share. SIL and Piggy-Graves share the rest of the market almost equally. Piggy-Graves, which manufactures Graves Garuda diesel autos, is set to introduce the Euro-II version of diesel autos in the domestic market. Graves Ltd. is gearing up technically to upgrade its smaller engines up to 12 hp with technical collaborator Lombardini of Italy to meet the Euro-II norms, which will be used in Garuda autos.

The competition is becoming intense. Mahindra and Mahindra (M&M) announced the entry into the three wheeler market recently. M&M is planning to launch three wheelers in passenger carrier and load carrier segments. The passenger version will carry six passengers. It will have an engine designed by Graves Lombardini. M&M is also planning to launch a three seater version.

In response to intense competition and new exhaust emissions regulations, SIL developed a prototype of zero-emission battery driven Vikram EV in late 90s. SIL gained from experience in

Kathmandu where the company's three wheelers were converted into battery driven vehicles. SIL thus manufactured and marketed world's first zero emission battery driven vehicle. Sahay himself directed the body styling of these vehicles. He still recalls how he sketched the outer contours. SIL also manufactures safari and load carrier versions also apart from the passenger version.

M&M has also started manufacturing a battery operated three wheeler. Bajaj has also developed an electrically operated three wheeler which will be launched in 2001 after obtaining necessary approvals. Thus, Bajaj will be the third manufacturer of electric three wheelers in India. Bajaj also has plans to manufacture a Liquefied Petroleum Gas (LPG) driven three-wheeler.

The growth of three-wheeler market is uncertain with many environmental issues having been raised in the recent past. This has adversely affected the demand, which was increasing continuously at a rate of 30 to 40 percent. Vehicles running on alternate fuels are expected to be in demand. ARAI has worked on a draft notification for alternative automobile fuels such as LPG and CNG. The draft also focuses on regulation and safety aspects. LPG conversion is likely to gain momentum in the coming years.

Exhibit 2: Conflict with API

In 1972 API had offered technical advisory services on a fee of 3% on the turnover of SIL for a period of ten years after commencement of commercial production. These services included:

1. Preparing complete details of buildings, auxiliaries and services and supervision during construction of the plant.
2. Preparation of plant layout.
3. Planning and supervision for erection of machines and try-outs.
4. Calculation of manpower requirement
5. Translation and modification of drawings and documents.
6. Supply of parts to SIL in the initial stages.

API nominees said in the meeting of Board of Directors of SIL in early 1973, "API had proposed to GOI that it should be permitted to purchase the 3W plant from Innocenti. The proposal of SIL to acquire the 3W plant was in direct conflict with the proposal of API." They stated; "API was a production organization and not an investment group. API was willing to invest in SIL to the extent they were getting funds from SIL for the services they were hoping to make available to SIL in terms of the consultancy and collaboration agreement." They also stated that it would be better for API to invest money in its own expansion and diversification programmes.

Exhibit 3: Revival Scheme, approved by BIFR

1. Employee strength to be pegged at 1676. Wage increase will be limited to 5% after two years if production and sales show satisfactory performance. Compensation of Rs. 52.5 million from National Renewal Fund (NRF) for VRS.
2. A capital expenditure of Rs. 110 million in 2-year spread to increase the installed capacity of 3 vehicles to 24000 units.
3. Conversion of part of GOI loan (Rs. 272.2 million) into equity and write off the balance GOI loan together with interest accrued thereon.
4. Infusion of Rs. 224.5 million by GOI for capital expenditure programme and one time settlement of dues of institutions and compensation cost of manpower rationalization (VRS).

5. One time settlement of dues of financial and investment institutions viz. IDBI, IFCI, LIC, and UPSIDC envisaged repayment of entire principal and 50% of the simple interest dues as on September 30, 1995 in one lump sum payment by GOI.
6. Amortization of dues to bank over a period of time based on the cash flow.
7. Benefit of deferment of sales tax for a period of 5 years.
8. Total sacrifice by GOI, banks and other institutions was estimated to Rs. 6097.7 million with the details as under.
9. Reconstitution of the board with the induction of at least 4 independent professionals (including one whole time technical director), having specialization in the field of manufacture, finance, and marketing, a nominee each of GOI, institutions, banks and BIFR.

Exhibit 4: Income Statement (Rs. in crore*)

Scooters India Ltd.	**74-75**	**76-77**	**78-79**	**80-81**	**82-83**	**84-85**	**86-87**	**88-89**	**90-91**	**92-93**	**93-94**	**94-95**	**95-96**	**96-97**	**97-98**	**98-99**	**99-2000**
Opening Stock	0.39	2.22	2.27	2.61	5.27	5.52	6.34	11.58	11.58	23.56	29.58	50.53	86.18	120.21	128.91	125.68	135.91
Sales																	
Products	0.16	14.28	15.3	27.78	28.21	28.18	12.91	16.36	18.49	29.87	36.29	43.98	62.42	85.06	89.24	95.51	96.64
Less Returns								0.77		1.13	1.37	1.78	2.93	2.46	3.19	3.72	5.66
Total	0.16	14.34	15.6														
Other income	0.1	0.40	0.8	0.98	0.27	0.23	0.47	-10.98	-13.38	-12.92	-9.34	-2.54	0.53	14.76	14.1	3.57	8.14
PBDIT	-0.15	0.9116	0.02	1.75	1.52	-3.21	-8.1	-11.05	-13.4	-12.93	-9.41	-2.62	0.4	13.89	13.92	8.95	8.66
PBDT	-0.89	-1.07	-2.92	-3.28	-5.46	-12.57	-21.77	-32.05	-45.2	-61.32	-75.61	-80.93	-91.17	11.57	12.72	7.25	6.96
PBT	-1.06	-2.09	-4.18	-4.61	-7	-14.08	-23.16	-32.87	-46.05	-62.05	-76.23	-81.56	-91.82	10.9	11.88	6.31	5.99

* 100 Crore = 1 Billion