Perspectives *presents emerging issues and ideas on which action has to be initiated by managers in industry, government, educational institutions, and other organizations.*

Creative Restructuring

Pradip N Khandwalla

In the context of liberalization of globalization of economy, the changes required in the functioning of corporates need to be vast. Corporate restructuring has become an important means for achieving such changes in India and elsewhere. The restructuring paradigm of western international management consultants (WIMCs) has come into vogue among large Indian public and private corporates. One major restructuring choice is between the WIMC paradigm and a creative, participatory, largely self-help mode of corporate restructuring. Creative restructuring is illustrated by three case studies. Another major restructuring choice is between creative and non-creative modes. Based on a study of 120 turnarounds from a number of countries, 42 creative restructurings for turnaround are contrasted with 47 non-creative restructurings for turnaround along 14 categories of turnaround action. The necessity of creative, participatively improvised restructuring to institutionalize adaptive capabilities and achieve quantum leap in corporate excellence in a hyper-competitive environment is highlighted. Several steps are suggested for practitioners seeking effective creative restructuring.

Pradip N Khandwalla is a member of the faculty in the Organizational Behaviour Area of the Indian Institute of Management, Ahmedabad.

The Context of Restructuring

Corporate India is facing hyper competition, both within the domestic market and also in its export markets. It is ill-prepared to face up to the challenges posed by this. This is a case of corpulent domestic pygmies versus lean and mean international giants. The pygmies can win, provided they re-invent themselves. And that requires creative restructuring. We are not talking of incremental improvements here. To compete, we need quantum leaps in productivity, efficiency, product quality, innovativeness, and customer service. If economic liberalization proceeds apace, and IPR and WTO get teeth, we could remain hewers of wood and drawers of water. We need to get our act together, and in a hurry.

By the measures of international competitiveness rankings (Table 1), India is far behind not only the developed economies but also some of the so-called emerging economies. Both sets of countries are or can be major trading partners of India, and many are also major sources of technology, capital, and joint ventures for Indian corporates.

WL- are using nearly twice as much fuel energy per tonne of steel and cement as Japan (Sharma, Nair, Suny, 2000, Table 12). A single American corporation — IBM or 3M — may be annually securing more patents than the entire corporate sector in India. Within Indian industries, there are significant variations in efficiency and productivity. For instance, in a study of ten Indian machine tool manufacturers, order delivery delay time ranged from 20 days to 120 days, and value added per employee ranged from Rs 1,00,000 to Rs 7,00,000 (Nandi, 1995). In a benchmarking study, L&T reportedly found that across eight levels of technical

Table 1: Relative Competitiveness of India in 1999

	*Overall Rank, Global Competitiveness Report**	*Overall Rank, World Competitiveness Yearbook***
Emerging Economies		
Malaysia	16	27
South Korea	22	38
Thailand	30	34
Mexico	31	36
China	32	29
Indonesia	37	46
Brazil	51	35
India	52	39
Russia	59	47
Developed Economies		
US	2	1
Canada	5	10
UK	8	15
Japan	14	16
France	23	21
Germany	25	9

*Source: *World Economic Forum's Global Competitiveness Report,* 1999.

**Source: *IMD's World Competitiveness Yearbook,* 1999.

skills, they were nowhere near the competence levels of two US companies with which L&T benchmarked, namely Bechtel and Fluors Daniel. And L&T is one of our best engineering companies. Labour productivity growth in manufacturing during 1986-95 averaged 3.3 per cent per annum in India. It was nearly double this figure in Indonesia and Korea (Sharma, Nair, Suny, 2000, Table 5). Indian labour productivity in manufacturing per employee hour was less than a tenth of the world average in 1998 (Sharma, Nair, Suny, 2000, Table 6). Even vis-a-vis management effectiveness, China and Malaysia are substantially ahead of us on most parameters (Table 2).

For meeting global challenges, we need to work at hyperpace on two fronts: improvement of the country's governance and improvement of the country's businesses, both private sector

Table 2: Rankings of India vis-a-vis Three Other Emerging Economies on Key Management Effectiveness Measures (1999)

	India	China	Malaysia	Indonesia
Worker Motivation	32	21	20	44
Total quality Management	41	37	22	45
Customer Orientation	37	27	23	45
Enterpreneurship	41	17	29	45
Social Responsibility of manager	41	18	22	43
Shareholder value generation	41	19	33	43
Corporate Credibility	29	35	15	42

Source: *IMD's World Competitiveness Yearbook,* 1999.

and public sector. I have written elsewhere on what we can do to improve the performance of the governance system in India (Khandwalla, 1999). In this paper, I want to focus on what needs to be done in the corporate sector.

Restructuring as a Global Phenomenon

Corporate India is restructuring as never before. The sting of competition and the elixir of global opportunities have combined to induce managements to look carefully at themselves in the mirror. The sight is not pretty and hence the overdrive of cutting and pasting.

A mid-90s study (National Management Forum, 1995) found that 81 out of 92 corporates polled in the Indian public and private sectors had restructured or were planning to do so. The customer, put away in a stable during the decades of an economy of permits and controls and scarcity, was invited back into the drawing room. Greater customer focus was sought through delayering and decentralization, greater importance of marketing and other functions of management, and a lot more focused HRD. A later study (Mukerjea; Narayan and Dhawan, 1999) indicated that most of the largest 200 companies in India had been restructured or were in the throes of restructuring. Restructuring has not been merely an internal one. There

has also been a flurry of business or strategic restructurings involving mergers and demergers, acquisitions and divestitures, strategic alliances, spin-offs, and the like (Venkiteswaran, 1997; Rao and Das, 1998). Rao and Das have, for example, reported that mergers and acquisitions in India increased from two in 1992 to 97 in 1997. Restructuring has happened at the level of not only individual companies but also at the level of business groups like the Tatas, Goenkas, the Godrej group, the Thapar group, and so forth. Financial and ownership restructuring, too, seem to have picked up, involving debt restructuring, capital reduction, augmentation of the promoters' stake, and the stake of foreign institutional investors in share capital (Venkiteswaran, 1997).

Monga's study of 12 companies whose restructurings were reported in *Economic Times* during 1995-1996 indicates some of the dynamics of corporate restructuring in India (Monga, 1997). The major reasons for restructuring were apparently unsatisfactory corporate structure and processes in a much more competitive and technologically turbulent operating environment. Strategic restructuring, involving greater focus on businesses in which the corporation had "core competence," attempts at realizing synergies between the organization's businesses, and divestiture of peripheral activities was attempted by all 12 corporations. Of much lesser frequency were financial and operational restructuring. Stronger focus on core competencies for securing sustainable competitive advantage, becoming world class, and managing business professionally to expand overseas seemed to be the major objectives of restructuring. First and middle were apparently the most frequently affected levels of management, rather than workers or top management, and in terms of personnel management, restructuring was apparently aimed at yielding to management a more flexible control structure, a better trained manpower, and a more professionalized appraisal system. A third of the corporates opted for VRS, and delayering was attempted by only a sixth.

Restructuring, though new to us, is not new to corporations across the world. The west, especially the US, has seen many restructuring frenzies. Some related to transforming functionally organized corporates into divisionalized organizations (Chandler, 1962). Some related to adoption of Japanese management systems in the 1970s and 1980s (Pascale and Athos, 1981; McMillan, 1984).

The "urge to merge" has been nearly as cyclical as the sunspot cycle (Scherer, 1970). Deregulation in the 1980s was a factor provoking frenzied restructuring of corporate businesses, as in the case of airlines, banks, utilities, and so forth (Majone, 1992). During the 1980s, some 12,000 US companies reportedly restructured at a capital cost of nearly $ 500 billion, and a study of Fortune 500 companies in the early 1990s indicated that nearly all had restructured (Kandula, 1998). Globalization in recent decades has instigated restructuring beyond the west, in areas such as Russia and Eastern Europe, South and East Asia, and so forth (Bowman and Singh, 1993; Sinha, 1996). Technology, especially IT, had also been inducing major organizational changes (Adlakha, 1998; Child, 1984). It is clear that, in India, and, indeed, throughout the world, restructuring has become the focal point of attention.

Restructuring is essentially a catch-up game. In a non-competitive order, restructuring is a catch-up game vis-a-vis an entity's vision of excellence or peak of past performance. In a competitive order, it is often a catch-up game vis-a-vis global standards of performance. India needs restructuring at all levels: the economy as a whole; industry; and enterprise. The game is lethal because we have consciously accepted a competitive order and integrated our economy with the global economy. Either we perform or we perish.

What is Corporate Restructuring?

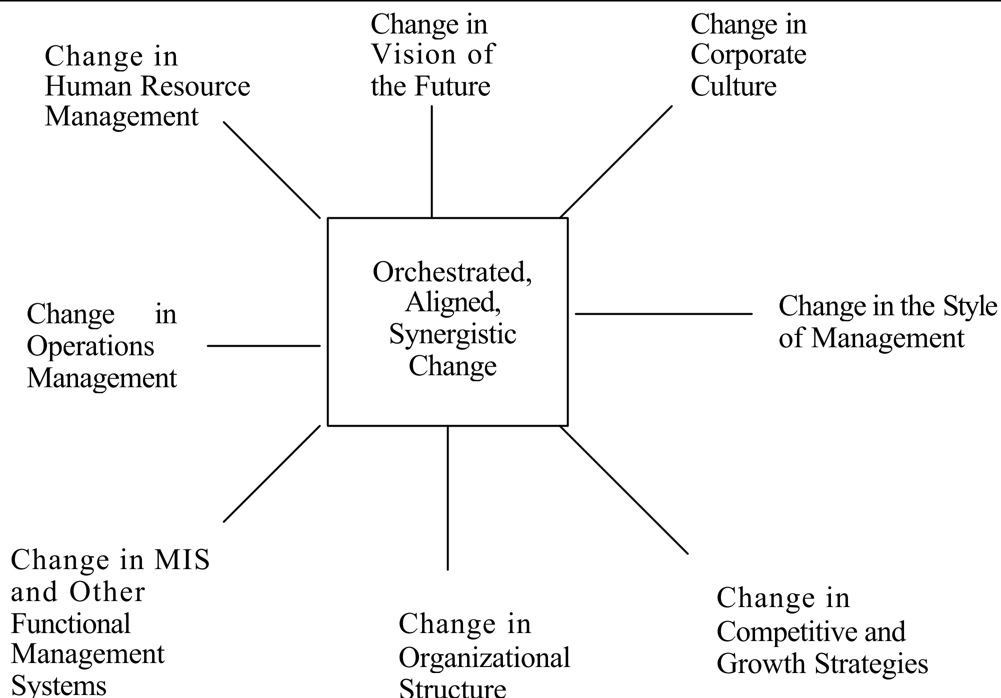
Restructuring is not incremental, *ad hoc,* or partial change. Such changes are commonplace, part of the everyday reality of organizational life in an environment of constant flux. Nor is restructuring a mere alteration of the organizational chart. Restructuring is a major *realign-*

ment of the culture, vision, values, strategy, structure, management systems, management styles, technologies, staff skills, etc. (Khandwalla, 1999) (Figure 1). The key issue is not just major, system-wide change, but aligned, orchestrated change, such that changes in corporate culture, vision, strategy, structure, management style, management systems, and so forth are mutually compatible and synergistic. For example, a domestic corporate that restructures into a global one needs not just a vision of globalization. It needs to put much greater emphasis on total quality and customer responsiveness to be able to meet competitive challenges anywhere in the world. It needs a strategy of penetrating major markets through exports, joint ventures, acquisitions, plant locations, overseas branches, country-specific product, price, promotion, and distribution strategies. It needs a much more entrepreneurial mode of management to be able to seize opportunities around the world. It needs a much more decentralized structure involving area and product organizations for each major region and a globalized MIS. It needs an HRD system that trains managers for transnational assignments, a compensation policy that broadly equalizes staff emoluments in different locations on the basis of exchange rates or purchasing power parities, and so forth. Each change buttresses the others to create powerful synergies and complementarities so as to result in an internally consistent metamorphosis that is aligned with the changed operating context and/or change in business strategy.

Choices in Restructuring

Among the choices in restructuring, some relate to the 'what' of restructuring and some relate to the 'how' of restructuring. For instance, what vision should guide the restructuring effort? Visions come in at least three kinds: visions of power and dominance such as the vision of becoming the biggest player in the industry, one with a dominant market share; visions of excellent functioning such as becoming top class in product quality or customer service or industrial and personnel relations; and visions of super performance such as the firm with the fastest growth rate or highest profitability in the industry (Khandwalla, 1992, Ch 4). And, of course, visions can be hybrids of these basic types.

Figure 1: Restructuring as Orchestrated Systemic Change



Closely allied to vision are management's core values (Peters and Waterman, 1982; Khandwalla, 1992, Ch.4). A fundamental choice is whether to maximize the wealth and profits of the stockholders or to keep a balance between the interests of all the stakeholders, that is, stockholders plus staff and unions plus customers plus vendors plus financial institutions plus local communities in which the company has its facilities plus society at large. Milton Friedman has advocated exclusive concern with the interests of the owners (Friedman, 1970); others have plumped for concern for all the stakeholders, and this implies a social conscience and a deep commitment to corporate social responsibility (Davis, 1973; Khandwalla, 1998).

There are choices in management styles (Khandwalla, 1995). A more professionalized management is perhaps not a choice in restructuring. But there are choices as to becoming more entrepreneurial or conservative, more organic or bureaucratic, more participative or authoritarian. As far as leadership goes, there is a choice between the top managers opting for a visionary, transformational mode of leadership of the kind exercised by Jack Welch at GE, or by JRD Tata or by Krishnamurthy at SAIL and BHEL, and the carrot-and-stick, I-do-you-a-favour-you-do-me-a-favour form of transactional leadership (Bass, 1990).

There are choices in growth and competitive strategies. A corporate can compete on the basis of any one or combination of several "generic" strategies such as relatively low prices (by cutting costs to the bone), or market segmentation, or product differentiation (brand building), or product quality, or product and process innovation, or "core" competence (Porter, 1980; Drucker, 1985; Prahalad and Hamel, 1994). There are other strategic choices as well: be a pioneer or first mover, or be an efficient imitator (Miles and Snow, 1978).

Choices in growth strategies include growth through related diversification versus unrelated diversification (George, 1984); capacity expansion versus growth through mergers and acquisitions, widening of markets served such as implied in globalization (Korwar, 1999) versus expanding the market share in a single or a few local markets, or combinations of these alternatives.

Similarly, there are choices in structures: use of functional versus divisional structure; different forms of matrix structure; centralization versus decentralization; "flat" versus "tall" structure; proliferation of many specialized "staff" departments versus few such departments; much standardization of procedures versus *ad hocism;* and so forth (Galbraith, 1973; Khandwalla, 1992, Ch.7). There are choices in management systems: to have or not have HRD systems, TQM, computerized MIS, SAP, ERP, BPR, and the lot.

Vis-a-vis restructuring, some of the most important choices — often neglected — relate to the process of restructuring. Should the restructuring be comprehensive or incremental; phased or precipitate; evolved and executed participatively or ruthlessly by top management; with or without the help of external consultants? Should it be as per a pre-conceived blueprint, or evolved on the basis of diagnosis, experimentation, and periodic assessment? Should it be imitative, a copy of some other organization's restructuring, or should it be innovative, with novel features?

It is clear that Indian corporates need to leap to a higher plateau of strategic and operating excellence. How should they go about getting to this higher plateau? There are two alternative modes that I want to discuss. The first is restructuring with the help of western international management consultants (Dikshit and Hazarika, 1996; Khandwalla, 1999). The second is process-based restructuring, one that is highly participative and innovative. In this, the organization's stakeholders retain primacy in the process and content of restructuring, although the organization may seek specific technical assistance from outside consultants for, say, diagnosis or for setting up specialized systems like preventive maintenance or TQM or SBUs or HRD or BPR or SAP or MIS, etc.

WIMC Mode of Restructuring

As is well-known, many of the largest Indian public and private sector organizations and business groups have availed of the help of western international management consultants (WIMCs) for their post-liberalization restructuring. Their brand equity, analytical expertise, and international information banks have made them nearly irresistible despite being so pricey. Such public sector giants as Indian Oil, Bharat Petroleum, SAIL, ONGC, and State Bank have gone in for these consultants, as also such private sector corporates and groups as Hindustan Lever, L&T, the RP Goenka group, the Dabur group, the Kumaramangalam Birla group, and the Thapar group. Writings of consultants representing McKinsey, Andersen Consulting, Boston Consulting Group, JP Morgan, Ernst and Young, etc. on petroleum industry restructuring in India have indicated the WIMCs' restructuring agenda (Dikshit and Hazarika, 1996; Khandwalla, 1999). Although there are some differences between these consultants, there is also a shared commonality along a number of components of restructuring.

Emphasized Components of Restructuring

The first component is a new vision of the corporate's future, generally of size and market share, say, five years hence. Usually, a "stretch" vision is encouraged. For instance, Dabur, which availed of McKinsey's services, fixed its vision in 1998 at a turnover of Rs 1000 crore by the year 2000 and Rs 2000 crore by the year 2003 *(Business Standard,* 1999).

The second component is maximizing shareholder value. This means trying to "unlock" higher market valuation of the company by a stronger emphasis on the bottom line, on customer orientation, on cost cutting, and on productivity enhancement. It also means evolving of vision-compliant competitive and growth strategies. For public enterprises, a preferred change is privatization.

The third component is sharper management focus and core competence. Management must determine what businesses it must retain and what businesses it can or should divest. The governing principle is that management must manage only those businesses in which it has core competence, and unless it is focused on these businesses and gives them undivided attention, shareholder value may not rise. Dabur, for instance, was advised to focus on about a dozen brands in "family products" like hair oils, shampoos, health care products like *Chyavanprash,* and foods such as honey. It adopted the policy of dropping a new business if within five years it failed to become three times its initial sales. Dabur also was advised to exit from existing low brand equity products like Dentacare toothpaste, bubble gum, chewing gum, and natural gums. To ensure greater top management focus on "core competence" products, Dabur decided to set up a holding company for marginal joint ventures in cosmetics, insurance, and certain foods in which the promoters (Burmans) had less than 51 per cent equity.

The fourth component is emphasis on contracting out and networking. Those activities or functions that can be done more effectively and/or at lesser cost outside should be contracted out. Those capabilities that the corporate does not possess in an adequate measure it should try and procure through networking, that is, tying up with bodies that possess them in adequate measure, rather than by investing funds in having these capabilities in-house.

The fifth element is re-engineering processes to enhance value addition at minimum cost. This implies value analysis to identify and eliminate those operations that do not add value, and equally to identify value driving processes for greater emphasis through computerization, automation, and the deployment of such tools as BPR and SAP. Dabur, for example, identified supply chain management as a key value driving process and was advised to set up an inter-functional cell to streamline it, as well as a procurement planning division consisting of product specialists.

The sixth element of recommended restructuring is evolving of a flatter, more divisionalized structure to speed up vertical communication and decision-making, and better coordination for delivering value propositions for each group of

products. Dabur was advised to set up several SBUs, each one in charge of a product group.

The seventh component is the strengthening of key management functions. Dabur was advised to create/strengthen a number of functions by appointing professionals as heads of operations, supply chain, purchases, IT, HRM, packaging, R&D, quality assurance, corporate communications, finance, etc.

The eighth component is empowerment down the line to free up top management time for strategic thinking. In Dabur, while the Board and the Management Committee were to continue to be headed by a member of the promoters, the CEO was recommended to be unrelated to the promoters. He, along with a team of professionals, would be responsible for day-to-day operations.

The ninth element is downsizing. As of now, the recommended downsizing is through the VRS, since massive retrenchment is not yet legally easy in the Indian context. This way the "flab" and deadwood" are cut from the staff and costs are brought down.

The tenth component is financial incentives for the downsized and empowered staff such as ESOP and performance-based rewards. Dabur, for example, announced a performance-based cash incentive scheme for executives and declared that it was designing a stock option scheme.

The eleventh component is forceful leadership at the top to overcome all internal resistance to change, and implement forcefully the frequently painful recommendations of the consultant.

Lastly, in terms of process, the WIMC usually asks the corporate client to create an internal team of dynamic managers. The consultant's team works with this team to diagnose the problems of the organization and develop the agenda of needed changes. Barring exceptions, the consultant withdraws once the report is accepted by the management, leaving implementation to the latter. Box 1 summarizes the components of restructuring covered by the various consultants.

Consequences and Responses

Unfortunately, several of these restructurings have not worked too well. Mafatlal Industries, Arvind Mills, and TELCO have seen disastrously declining performance after restructuring with the help of international consultants. Some large companies have reportedly more or less abandoned the consultant's recommendations. At least in one case, the recommendation to close down a company belonging to a business group was resisted by the managers, and they successfully took up the challenge to make the company profitable. In another case, the recommendation to get out of a profitable area (IT) because it was not seen as part of the "core competence" of the company was later regretted when IT emerged as one of the fastest growth industries in India. Although press reports of companies availing of the services of one of these consultants often raise the market valuation of these companies, many have seen sharp valuation declines when the post-restructuring performance has not matched expectations. SBI, Tata Steel, Dabur, Ballarpur and so forth come to mind.

Box 1: Components of Restructuring

- New vision of the corporate's future.
- Maximizing shareholder value.
- Sharper management focus and core competence.
- Emphasis on contracting out and networking.
- Re-engineering processes to enhance value addition.
- Evolving a flatter, more divisionalized structure.
- Strengthening of key management functions.
- Empowerment down the line.
- Downsizing.
- Financial incentives for the downsized and empowered staff.
- Forceful leadership at the top.

Problems with the WIMC Mode of Restructuring

In 1991 and onwards, the international financial institutions nudged us to restructure our economy towards a deregulated, free enterprise system. International management consultants have nudged Indian enterprises, especially relatively large ones, towards a kind of restructuring that is broadly compatible with such a system. But there are many problems with any external restructuring blueprint. We have so far only anecdotal evidence of the consequences of enterprises adopting the WIMC mode of restructuring. But this evidence does not at all suggest an unqualified success.

The spotty post-restructuring performance of the WIMC-assisted corporates may be due to many reasons (Khandwalla, 1997). One reason popular with these consultants is ineffective or partial implementation of the recommendations of the international consultant. But then, in real life situations, implementation can seldom be according to a blueprint. Unexpected resistance by unions, revolt by customers, fights among promoters, government policy changes, sudden competitive threats in the industry such as from China, changes at the top management level, business recession, power crisis, sharp increases in import costs and so forth can jeopardize the implementation as per a blueprint. Only a foolish management would stick to a blueprint rendered dysfunctional by unanticipated developments.

Equally significant is the problem of ownership of change. With one or two exceptions, most WIMC-advised restructurings are conceived by and implemented by the top management. Staff, lower level managers, vendors, customers, unions, and financial institutions seldom participate in setting the agenda of restructuring. Nor are their goals and aspirations given primacy. The energy is behind maximizing owners or top management's aspirations, not that of the other stakeholders. Nor is there any appeal to the heart. A vision of bigness and dominance is trumpeted and cash in the till is rattled endlessly, but the purpose of the organization, its social responsibility, business ethics, how it can make a vital contribution to a poor nation's socio-economic development, how work for the staff can be made more exciting and significant — all these strings attached to the hearts of the stakeholders are more or less ignored. Commercial rationality is over-emphasized. The management revolution of the past 50 years brought about by management and organizational researchers repeatedly indicating that participative management, transformational leadership, Theory Y management, business ethics, social purpose and corporate social responsibility can yield superior performance (Khandwalla, 1988b, 1995, 1998; Likert, 1961; Peters and Waterman, 1982; Pascale and Athos, 1981; Bennis and Nanus, 1985; Singh and Bhandarkar, 1990) is more or less ignored.

WIMC's emphasis an "core competence," meaning concentration on businesses the corporation knows well, and divestment of "peripheral" businesses, can be a major depressor of corporate performance in the medium to long term. As originally conceived (Prahalad and Hamel, 1994), core competence was a vehicle of diversification, not divestiture of non-core competence businesses. Thus, if a company such as Sony has core competence in miniaturizing systems, this capability can be leveraged in many different product markets, like aerospace, medical equipment, electronics, IT, telecom, etc. WIMCs have twisted the original idea to advise companies to get out of non-core businesses!

Thus, a business group with traditional strength in textiles that has diversified into petrochemicals and gas production and distribution may be advised to concentrate only on textiles and get out of petrochemicals and gas businesses — even though these are more profitable than the textiles business. If the latter is a dying business, the prescription of WIMC may weaken rather than strengthen the performance of the company. WIMCs conveniently forget that dynamic entrepreneurship is based not on core competence in a business but the capacity to seize opportunities and master the required competencies quickly. They also forget that "peripheral" businesses can be managed by

competent and dynamic professional managers without overloading top management; that in today's pace of technological change, present core competencies can get obsolete pretty quickly; and that a number of corporates and business groups all over the world have been successful for decades despite being enormously diversified, such as 3M and GE in the US, ICI in the UK, and L&T and the Tata Group in India.

The restructuring of the above kind has tended to be a mechanical exercise. It is the outcome of less relevant past data on the competencies of the corporation. It has seldom built a scenario of the future opportunities and threats before the corporation and the resourcefulness of the corporation in building a portfolio of new competencies for the future. Our enterprises have to evolve their own distinctive modes of restructuring. And this process implies "creative" restructuring.

Creative Restructuring

Creativity is effective novelty (Barren, 1969). It implies much trial and error, exploratory thinking, examination of many alternatives through brainstorming, and receptivity to relatively unfamiliar approaches and solutions. (Osborn, 1953; Khandwalla, 1988a). It also implies effective implementation of the chosen path or solution. Thus, creative problem solving requires much "divergent" or "lateral" thinking (Guilford and Merrifield, 1960; De Bono, 1967) as well as careful choosing and implementation.

Restructuring requires so many and so large changes that for creative restructuring, recourse must be had to many minds and points of view. Many issues need to be tackled, including those that are not readily apparent, and this means that a diagnosis of what deficiencies to address needs to be a collective, participative one, one that could certainly invite in expertise, but also the concerns, views, feelings, and suggestions of all the stakeholders. But, once the issues and suggestions are piled up, sifting also needs to be done, and consensus among stakeholders needs to be built up as to which ideas and approaches need to be implemented. Creative restructuring, therefore, needs to be communications-intensive. Also needed are mechanisms of participative choosing, planning, control, and coordination. This extensive participation of stakeholders can evoke intense commitment to organizational change, even when that change is painful. Creative restructuring is not an easy mode of management, but when executed well, it can ingrain into the organization a great deal of resilience and ability to learn and innovate. These may not accrue to the organization when the restructuring blueprint is provided to the organization on a platter and is implemented obediently.

An example illustrates the workings of creative restructuring. In the early 1980s, the airlines industry was deregulated in the west. Many airlines fell sick in the new hyper-competitive environment in this industry. Some, such as Pan Am, failed. But, the successful creative restructuring of British Air provides a remarkable example of how to deal with a hyper-competitive environment (Goodstein and Burke, 1991; Leahey, 1990; Power, 1989).

British Air's Creative Restructuring

In the early 1980s, British Air was a public sector corporation, with a workforce of nearly 60,000 and annual revenues of £ 2000 million. Lax management and unruly unions without much concern for productivity gave British Air a reputation for low service quality, unreliable flight schedules, and low efficiency. Mrs Thatcher came to power in 1979 on a deregulation platform, and British Air was asked to stand on its own. In the hyper-competitive environment, British Air began to make losses, which topped 500 million pounds in 1982, over 20 per cent of its total revenues. John King, entrepreneur, was appointed as chairperson in 1980 and Colin Marshall, marketer, was appointed MD in 1981. By 1983, not only had British Air broken even, its operating culture had profoundly changed, and British Air earned the Airline of the Year Award, the first of four it won in the 1980s. In 1984, the company earned over 200 million pounds on total reve-

nues of some 2,500 million pounds, a turnaround of about 750 million pounds in two years.

How was this miracle achieved? First of all, a new team of professionals took charge in the early 1980s, replacing many of the retired senior Royal Air Force officers who earlier ruled the roost, and also most of the politicians on the board. Several diagonal task forces were set up, representing different levels and different functions, to examine critically such issues as new staffing patterns and needed MIS. Price Waterhouse was commissioned to produce a report on how to increase profits and restructure British Air's capital. A Danish firm was commissioned to put some 40,000 employees through an innovative two-days programme aimed at sensitizing people to human relations and communications issues. The programme was called Putting People First, and it examined person to person interactions: how destructive they can be and also how they can be made constructive. This programme was highly successful in changing the work culture. This programme was followed by many others — "Managing People First," "Leading the Service Business," open learning programmes, etc. Chartridge House was acquired to promote training. In the training programmes, core concerns like trust, leadership, corporate vision, feedback, 'and healthy relationships were emphasized. Extensive use was made of surveys and data feedbacks to drive cultural and operations-related changes. Offsite team-building meetings were organized to introduce changes, and *ad hoc* cabin crews were replaced by more durable cabin crew teams. Personnel people were retrained to become internal change agents.

Colin Marshall, the MD, personally shared information at the question-answer sessions at most of the training programmes, mixed with the staff at air terminals, created an environment where ideas were welcome, and regularly communicated with the staff via video. A "brain waves" programme was initiated to encourage employee suggestions and inputs. The management became much more "open" and participative.

Half of the bonus to managers was based on what they achieved; the other half on how participatively the results were achieved. The new performance appraisal system especially emphasized customer service and development and subordinates' development. To reinforce behavioural change, each year, the manager's performance was evaluated along a list of 60 statements of behaviour taught during training programmes.

Awards were instituted for rewarding outstanding contributions, and a new bonus system was introduced that demonstrated management's commitment to sharing British Air's financial gains. An interesting innovation was the development of an emotional support system to ease emotional exhaustion due to expenditure of energy needed to provide high quality service in an uncertain environment. Also organized was peer group support for behavioural change for those who had undergone training.

There was much greater emphasis on servicing the customer. With the help of Saatchi and Saatchi, a spectacular advertising and promotion campaign with the caption "The World's Favourite Airline" was launched worldwide; a motto "Fly to Serve" was adopted; and the airline redefined itself as being in the services rather than transportation business.

British Air also took a number of hardheaded business decisions that improved operations. The route structure was rationalized and British Caledonian was acquired to gain access to routes to the US south, Saudi Arabia, West Africa, South Korea, etc. The airline also entered into a joint venture with United Airlines to gain access to the huge market of passengers in the US wanting to travel abroad. Some surplus aircraft and real estates were disposed off but 17 Boeing 757s were later added to service route expansion. The money from divestitures, about half a billion dollars, was paid to finance a generous VRS that enabled reduction in the staff from 52,000 to less than 40,000. Over 20 overseas offices were closed as an economy measure and over a hundred pilots were redeployed as cabin staff. Airport and on-board

services to customers were sharply improved. First class and Concorde fares were raised and a sharper passenger market segmentation was attempted. Flying schedules were made more passenger-friendly. A fancy public relations campaign was launched in the US to combat the scare created by hijackers and terrorists. The reservation system was computerized. Bottoms-up budgeting was introduced and, at the same time, country managers were asked to provide detailed objectives and research support for their budget proposals with more accurate forecasts of cost-volume-profit relationships. MIS was made more user-friendly. A quality control division was set up, as also an intercontinental services division. Also set up were eight geographic market centres, three business units handling cargo, air charter business, and packaged tours, and 11 profit centres under the marketing director.

British Air invested a great deal into diagnosis (Price Waterhouse report, diagonal task forces, extensive use of survey-feedback to generate a participatively derived agenda of change). It attempted a huge mindset change towards a far stronger customer and employee development orientation and an "open" and participative mode of management. It invested a great deal in training, managerial professionalization, and creative problem solving at all levels. And it also engaged in many vigorous operations and structure-related changes.

It was not as if British Air did not use consultants. It did hire several consultants. But, the bulk of restructuring was internally and participatively conceived and innovatively and participatively implemented. British Air did not just weather hyper-competition. It topped it, and until 1987, under government ownership.

Evidence on Performance of Creative Restructurings

British Air is not a unique example of successful creative restructuring. In my study of 120 business turnarounds in India, US, UK, and a dozen other countries, I have identified and studied 42 creative restructurings for turnaround (Khandwalla, 2001, Ch. 15). Across 14 categories of turnaround action, on eight categories, these 42 differed significantly from 47 non-creative restructurings for turnaround (Table 3). To sharpen contrast, I have ignored the remaining 31 restructurings that were only modestly creative. The largest differences, in order, were vis-a-vis making a credible diagnosis; building greater internal cohesion for the turnaround agenda; mobilization of the internal stakeholders for the turnaround; multi-pronged actions to achieve operating excellence; decentralization and staff empowerment; co-optation of external stakeholders into the turnaround; attempts at mindset change (towards greater concern for quality, productivity, innovativeness, a more commercial orientation, greater customer orientation, etc.), and asset-cost surgery. The performance turnaround from the pre-turnaround worst loss situation of the creative restructurings was about 16 per cent higher than that of the non-creative restructurings, despite, on the average, operating in a significantly tougher situation. Even more important, the inflation-adjusted annual growth rate for two years after turnaround was 50 per cent higher, and since the post-turnaround profitability (the ratio of net profits to total revenues) was just about the same, the much higher growth rate implied much faster growth in net profits. This evidence clearly suggests that creative restructuring builds up a large momentum for growth and growing profits by turning on the internal as well as the external stakeholders, by paving the way for numerous, operations-related innovations in response to a credible, widely accepted diagnosis of the corporations' weaknesses and of what needs to be done about them.

Lest it be thought that creative restructuring works only for sick organizations, there are numerous examples of reasonably healthy organizations availing of creative restructuring to get to world class and face up to hyper-competition. Two post-liberalization Indian examples, one from the public sector, and the other from the private sector, will suffice. The first example is that of Clariant (India), an MNC

Table 3: Design of Creative versus Non-creative Restructuring for Turnaround

Turnaround Action Categories	Average Score of 42 Creative Restructurings (%)	Average Score of 47 Non-creative Restructurings	Difference (1-2) in % Points
"Tough" Action Categories			
1. Managerial Overhaul	111	84	27
2. Asset-cost Surgery	133	73	60
3. Tighter Controls and Financial Mending	82	106	-24
"Tender" Action Categories			
4. Credible, Participative Diagnosis	200	22	178
5. Co-optation of External Stakeholders	138	62	76
6. Mobilization of Internal Stakeholders	200	44	156
7. Attempts at Mindset Change	135	70	65
8. Attempts at Internal Cohesion and Teamwork for Turnaround	186	29	157
9. Restructuring (Decentralization, Divisionalization, More "Staff" Departments) and Staff Empowerment	143	52	91
External Focus Action Categories			
10. Strategic Shift	114	83	31
11. Product Market Refocusing	106	94	12
12. Sales Push	117	78	39
Internal Effectiveness Directed Action Categories			
13. Multi-dimensional Actions for Operating Excellence	150	45	101
14. Cost Shedding Actions (Other Than Those Involving Mass Layoffs)	100	85	15

(Indian Business Intelligence, 1998; Rastogi, 1999; *Business India,* 1999; Mukherjee, 1997); the second example is of Bharat Petroleum, a public sector company owned by the Government of India.

Creative Restructuring of Clariant (India)

When Sandoz divested its chemical businesses worldwide in 1995, Sandoz India's dyes and chemicals businesses went to Clariant (India) Limited (CIL). The staff experienced some post-separation anxieties. More important were deficiencies in functional and general management capabilities. Mr P R Rastogi, an insider with a strong marketing and corporate planning background, was given charge as CEO. The medium-sized company with a staff of 1,500 had an ingrained hierarchical and functionally sharply differentiated culture. It vigorously set about restructuring and reorienting itself.

Rastogi emphasized a new vision and a new identity. The big hierarchical differences symbolized by separate canteens for workers, supervisors, managers, etc. were substantially erased. At the first quarterly target meeting, 170 executives grappled with some tough questions — how did they want Clariant (I) to be known three years later by its customers, owners, employees, and vendors? Out of the deliberations emerged a shared vision of being a customer-driven company with the mission of providing high quality products. Transparency in all corporate actions became a shared core value. An effective effort was made to improve corporate communications. Inspiring and involving the staff in corporate businesses became a way of life in order to create a high internal "mindshare." Boards were put up at each plant to keep employees informed about targets and achievements. Executives could access any report

prepared by any department. Members of the Board talked to shopfloor staff.

An organization transformation programme called Operation CLAP (Clariant Participation to Improve Profitability through Performance of People) was launched. Every month-end, all the managers met to discuss priorities for the next month. Every manager set four priorities for himself/herself. A system was established in which service departments entered into agreements with their internal customers for greater accountability and improved services. To make the organization customer-oriented, customers were invited to Clariant's manufacturing facilities and were made to interact with the staff. They communicated to the staff their concerns about product and service quality. Cross-functional teams of employees were despatched to work with important customers to understand better the customers' needs, and also the complexities of competition and Clariant's markets, including the importance of speed and service. The company sought a stronger integration with Clariant International's global operations, and this enabled it to increase its exports rapidly. To ensure superior quality, Clariant set up a technical service centre. Market development was given priority. The company has been exiting from high volume/low margin commodity markets and been moving aggressively into product innovation, innovative processes and solutions, high service standards, customized specialty chemicals, and fashionable and eco-compatible products. In 1997-98, for instance, 30 new products were introduced. At the same time, it outsourced a number of products that could be produced more cheaply outside. It avoided vertical integration.

Clariant has done well. Its sales and profits have grown from Rs 145 crore and Rs 7 crore respectively in 1995-96 to Rs 232 crore and Rs 15 crore respectively in 1998-99.

Creative Restructuring of BPCL

BPCL restructured in the late 1990s in response to the impending deregulation of the hydrocarbon sector and the potential benefits from getting closer to the customer. Arthur D Little (ADL) and ICICI were appointed as consultants for re-engineering the business processes of BPCL. Under the stewardship of Arun Maira, formerly of TELCO and later an associate of Peter Senge, ADL facilitated BPCL's own restructuring effort. Throughout the restructuring, the guiding principle was involvement of employees at all levels. An internal team of 25 representing all the functional areas worked closely with ADL. Six teams were formed to cover activities related to refining, logistics, LPG, lubricants, marketing of remaining products, and support services and management processes. Not only the top management but every division and department was encouraged to develop its vision of excellence and an action plan to achieve it. ADL, on its part, provided guidance, including its repertoire of global best practices. The result was the Change Plan running into 1,600 pages that included an assessment of current reality, definition of corporate values, vision for each critical activity of the organization, and listings of initiatives needed to be taken to get closer to the vision. Synergy was attempted by thinking through the linkages across opportunities for improved operations. The Change Plan was widely disseminated throughout the organization at all levels, including unions, and its gist was included in all communication exercises involving employees.

The Change Plan envisaged a new structure better adapted (through SBUs) to BPCL's customers. Further, it envisaged a new way of developing and modifying business strategy. It also covered several other processes like how to create/strengthen brands and HR processes. It was to be used extensively to support business needs. And it envisaged the development of the culture of change readiness through the adoption of certain organizational learning methodologies.

Implementation of the agenda of change was substantially decentralized. To facilitate this process, ADL provided coaching to identified change agents who were called coaches. These coaches, some full time, some part time, have been working with various business teams to help each team develop its collective vision and

enhance its capacity to achieve results. To facilitate these objectives, these teams participate in Foundations of Organization Learning Training Programmes and Visionary Leadership and Planning Workshops. An enabling, mentor-like role has been created, that of Area Manager, for providing guidance to territorial managers.

The post-restructuring performance of BPCL has been excellent. The gross sales have doubled from Rs 18,000 crore in 1996-97 to Rs 36000 crore in 1999-2000 and the profits have increased from Rs 427 crore to Rs 717 crore. In early 2001, BPCL came up with a 1:1 bonus issue.

Implications for Practitioners

The point made in this paper is not that Indian corporate managements should avoid restructuring consultants including WIMCs. These consultants have many competencies and a selective and intelligent use of these may be quite beneficial. The point made is that a pre-determined course of action seldom works well. Stakeholders need to own the vast organizational changes implied by corporate restructuring. Distinctive and innovative solutions need to be participatively sought. Implementation too needs to be participative. Few national or international management consultants have skills in creative restructuring. They are well advised to get them.

For those interested in creative restructuring, the following minimum steps may be useful:

- Carry out a diagnostic study, through an interview schedule and/or questionnaires, that involves both internal as well as external stakeholders. In particular, in the context of an increasingly competitive and technologically turbulent operating environment, seek perceptions of the organization's strengths and weaknesses vis-a-vis the organization's competitive and growth strategies, its structure and management systems, its decision-making and decision implementation processes, the style of management, levels of management and staff competencies, work culture, etc. If necessary, hire consultants to provide professional help in the diagnostic study. Involve all the stakeholders in participatively evolving an exciting vision for the organization and a sense of mission that emphasizes not only the peaks the organization wishes to scale but also what the organization can contribute to a larger purpose. Participatively evolve a consensus on the organization's core values.
- Discuss the findings of diagnosis widely with internal and external stakeholders, brainstorm on possible solutions, and participatively develop an agenda of change and a phased plan of change.
- Form cross-functional task forces of dynamic go-getters to probe deeply into specific issues like poor worker and managerial productivity, poor product quality, resistance to change, poor inventory control, poor maintenance, inadequate HRD, etc. The findings and recommendations of these task forces should be widely shared and discussed, and a consensus should be sought on what needs to be implemented on a priority basis and how.
- For those matters of implementation where the internal competencies are poor, selectively hire consultants to secure professional help to build the needed competencies.
- Create an MIS that periodically provides management with reliable information on the progress of implementation of the various changes.
- Periodically and participatively review the progress of restructuring and participatively decide on the needed course of action.
- Instal a system that rewards innovation and achievement. The rewards should not be only pecuniary. Public recognition and greater responsibilities are also necessary. These rewards should signal that management encourages creativity, initiative, resourcefulness, cooperation, and getting results.
- Consolidate the experience, draw lessons, and build forward.

Concluding Comments

A Greek philosopher used to say that you never step into the same river twice. Change is the way of life in a world of flux. But, change in human institutions needs to be humane and that means that change makers must listen both to their heads and hearts and also to the heads and hearts of those with a stake in the organization. And then, humans are also creative. It would be criminal not to use the creativity of stakeholders for the sustainable well-being of the organization. Cold facts and logic that most international consultants and some top managements use are just that — cold. They do not have the charge to move mountains. And moving mountains is exactly what we need to do in the Indian corporate sector. Only creative restructuring can do this job.

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