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TURNAROUND STRATEGY IN INDIAN ENGINEERING INDUSTRY: CASE STUDY OF A PSU
Review of Literature on Turnaround Strategy in Indian Engineering Industry

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1. INTRODUCTION

Corporate Turnaround[1] is defined as, "the implementation of a set of actions required to save an organization from business failure and to return it to operational normality and financial solvency. Turnaround management usually requires strong leadership which can include corporate restructuring and redundancies, an investigation of root causes of failure and long term programs to revitalize the organization". A successful turnaround depends on developing an appropriate turnaround prescription and effective implementation. The first point addresses "what" needs to be done and the second addresses "how" to do it.

Companies that come out of turnaround are often stronger in terms of management, operations and responsiveness to market conditions. Having been through massive change during the turnaround, they are better able to plan, manage and respond to changes in their business environment. The key to success is ensuring that the organization focuses on achieving immediate results, with senior management adopting a short-term, result-oriented leadership style that creates momentum and a catalyst for change.

Typically, if a company is in the early stages of business failure, then it will show the following signs of financial distress:

1. A significant shortage of cash.
2. Suppliers starting to push for faster payments.

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1. According to BNET Business Dictionary.

3. Monthly accounts showing that the business is consistently losing money.

Unless these symptoms are quickly addressed and reversed, for example, through a strategic turnaround program, the business may enter into a vicious circle of decline – ending in business failure and liquidation.

From an academic point of view, the definition of "Turnaround Strategy" can be stated as under.

"Turnaround strategy is an analytical approach to solve the root causes of failure of a loss-making company to decide the most crucial reasons behind its failure. Here, a long-term strategic plan and restructuring plans are designed and implemented to solve the issues of a sick company."

2. STRATEGY

A business strategy consists of a series of business decisions that lead to achieving a business goal and involves planning, analyzing and implementing a business strategy. Strategic management involves looking into the future rather than dwelling in the past i.e. procreative rather than reactive and it is more of a state – of – mind rather than a rigid process. A business strategy is the means by which it sets out to achieve its desired goal. Typically a business strategy will cover a period of 3 – 5 years (sometimes even longer). It is concerned with major resource issues e.g. raising finance to build a new factory or plant or to save a company from immediate closure. Two main categories of strategies can be defined:

a) Generic (general) strategies.

b) Competitive strategies.

The main types of generic strategies that organizations can pursue are:

- Growth i.e. the expansion of the company to purchase new assets, including new businesses, and to develop new products.
- Internationalization/globalization i.e. moving operations into more and more countries.
- Retrenchment involves cutting into focus on the best lines.

Competitive strategies are concerned with doing things better than rivals. To be competitive, a firm shouldn't just copy the ideas of rivals. They should compete with the opponents either by selling goods at lower prices than rivals or by differentiating the product from those of rivals – which enables one to charge a higher price if desired.

Strategy taken in case of turnaround is a systematic and rapid implementation of a range of measures to correct a seriously unprofitable situation.

3. TURNAROUND STRATEGY

Turnaround is a strategy adopted by firms to arrest the decline and revive their growth. The strategic causes of performance downturns include increased competition, raw material shortages, and decreased profit margins, while operating problems include strikes and labour problems, excess plant capacity and depressed price levels. The immediacy of the resulting threat to company survival posed by the turnaround situation is known as situation severity. Low levels of severity are indicated by declines in sales or income margins, while extremely high severity would be signaled by imminent bankruptcy. The recognition of a relationship between cause and response is imperative for a turnaround process and hence, the importance of properly assessing the cause of the turnaround situation so that it could be the focus of the recovery response is very important.

3.1 Causes of Business Decline and Failure

Determining what constitutes a turnaround and restructuring situation is not easy. Too often business owners and executives focus on the symptoms of the business decline rather than determining the causes of the business decline.

3.1.1 Symptoms of Business Decline

Some of the common symptoms of business decline can be noticed by a rapid turnover of senior management and employees, factoring customer invoices, declining customer services, increased disputes with leading suppliers, inability to pay debt service, taxes, contract obligations payable, inability to pay salaries, commissions, fringe benefits or pensions, excessive debt/equity ratio, flat or declining sales, eroding gross margin or operating margin, increasing labour or material costs as a percent of sales, decreasing capacity utilization, decreasing profitability, the buildup of inventory, and the low employee morale pervasive through the company.

3.1.2 Causes of Business Decline

Both internal and external issues can cause business deterioration.

- **Internal causes**: high manufacturing/administrative costs, the lack of an effective marketing effort, implementing big projects that places a drag on the organization, implementing acquisitions, following weak financial policies and organizational confusion, and;
- **External causes**: changes in market demand, competition, adverse movement in prices i.e., energy, currency, supplier terms and finally outside intervention like some changes in the rules of business for a specific company or a sector or the economy as a whole by the regulator, government or legislator.

Widely known and most often the causes of business decline include:

- Poor Management.
- Inadequate financial controls.
- Poor Working Capital Management.

3.2 Objectives of Turnaround Strategy

The overall goal of turnaround strategy is to return an underperforming or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow.

3.3 Turnaround Process

The Turnaround Process begins with a depiction of external and internal factors as causes of a firm's performance downturn. A turnaround is typically accomplished through a two stage process.

The initial stage is focused on the primary objectives of survival and achievement of a positive cash flow. The means to achieve this objective involves an emergency plan to halt the firm's financial hemorrhage and a stabilization plan to streamline and improve core operations. In other words, it involves the classic retrenchment activities: liquidation, divestment, product elimination, and downsizing the workforce.

The second phase involves a return-to-growth or recovery stage[2] and the turnaround process shifts away from retrenchment and move towards growth and development and growth in market share. The means employed for achieving these objectives are acquisitions, new products, new markets, and increased market penetration. The importance of the second stage in the turnaround situation is underscored by the fact that primary causes have been associated with this turnaround process and the recovery response[3]. For firms that declined primarily as a result of external problems, turnaround has most often been achieved through strategies based on revenue driven reconfiguration of business assets. For firms that declined primarily as a result of internal problems, turnaround has been most frequently achieved through recovery responses that were heavily weighted towards efficiency maintenance strategies. Recovery is said to have been achieved when economic measures indicate that the firm has regained its pre-downturn levels of performance.

2. Bibeault, 1982; Goodman, 1982
3. Hofer, 1980 ; Schendel et al, 1976

3.4 Turnaround Situations: Severity and Speed of Strategic Response

The nature, extent and speed of the appropriate strategic response depend primarily on two dimensions of the turnaround situation: severity and causality. Severity of the crisis is a measure of the firm's financial health; it gauges the magnitude of the threat to company survival. Since the immediate concern to the firm is the extent to which the decline is a threat to its short-term survival, severity is the governing factor in estimating the speed with which the retrenchment response will be formulated and activated. Of course, performance that declines relative to that of competitors, but not absolutely, may necessitate almost no retrenchment. Rather, a reconsideration of strategy with a probable reconfiguration of assets would usually be deemed appropriate.

O'Neill (1986) investigated the relationship of contextual factors to the effectiveness of four primary turnaround strategies:

1. Management (new head executive, new definition of business, new top management team, morale building among employees),
2. Cutback (cost cutting, financial and expense controls, replacing losing subsidiaries),
3. Growth (entering new product areas, new product promotion methods, acquisitions, add markets), and
4. Restructuring (change in organizational structure, new manufacturing methods).

3.5 Basic Requirement for a Successful Turnaround

Not all distressed businesses can be rescued. Understanding the business components is necessary in determining if the business can be salvaged. Businesses with little to no chance of survival should do operation to maximize creditors' return. The stakes in a business restructuring and turnaround situation are big and have many dimensions. The timing constraints can be immense. As many stakeholders are involved, dealing with the complexity of angry creditors, frightened employees, cautious customers, and highly concerned directors require prudent and decisive decisions.

3.6 Turnaround Strategy Components

The management consulting firm **Corporate Renewal Solution** (**CRS**), Johannesburg, South Africa (specialised in corporate renewal, including business transformation, turnaround, change management and management consulting), maps the turnaround strategy components to the natural stages of a turnaround in their turnaround strategy model.The components of turnaround strategy are:

- Managing the turnaround in terms of turnaround leadership, stakeholder management, and turnaround project management.
- Establishing the distressed company by ensuring the short-term future of the business through cash management, demonstrating control, re-introducing predictability and ensuring legal and judiciary compliance.
- Funding and recapitalising the distressed business.
- Fixing the distressed company in strategic, organisational and operational terms.

3.7 Generic Turnaround Strategies

The financial objective of a turnaround is to achieve improved cash flow, profitability, solvency and financial returns. The generic business turnaround strategies found to address these focus areas were improved sales, improved marketing, cost reduction, quality improvements, improved responsiveness, improved information and control systems. It further emphasized that when considering production or operating strategies necessary for the effectiveness of business turnaround, some of the measures include raw material costs reduction, investment in R&D and innovative technologies so as, to achieve competitive advantage.

3.8 Operational Turnaround Strategy

- **Revenue enhancement**.
- **Cutback action**, which has two dimensions - **cost reduction** and **asset reduction**.

3.8.1 Revenue enhancement turnaround strategy

Revenue enhancement as a turnaround strategy which focuses on increasing sales through improvement of systems processes and technology in the primary value chain activities.

3.8.2 Cost reduction as a turnaround strategy:

Cost reduction is the turnaround strategy having the fastest impact on the bottom line. Overhead and direct costs in the primary value chain and support functions are normally reduced to a level that can be borne by the level of sales.

3.8.3 Asset reduction as a turnaround strategy

If the distressed company is too far below breakeven, revenue enhancement and cost reduction strategies alone will not suffice. In this situation, the turnaround strategy is normally to shrink the business into profitability. In such cases, 'cutback action' takes the form of shrinking into profitability by means of portfolio disinvestment. This 'cutback action 'involves closure or sale of business units, divisions, operations and assets, and outsourcing of value chain activities in order to focus on the remaining profitable or potentially profitable business units or sections of the value chain. Such downsizing represents a kind of **strategic repositioning** by itself.

3.9 Financial Turnaround Strategy

This turnaround strategy refers to financial restructuring with a view to strengthen the balance sheet and/or provide funding.

3.10 Reorganisation as a Turnaround Strategy

Operational turnaround implies changes to the value chain, which in turn requires changes in the organisational structure of the underperforming or distressed business. Reorganisation may also entail changes to the leadership team.

3.11 Strategic Repositioning as a Turnaround Strategy

Improving effectiveness and efficiency may not be enough. Often the turnaround is also based on chances the business domain and value proposition of the business. Strategic repositioning holds the most potential but is the most neglected turnaround strategy according to academic researches. When properly employed, strategic repositioning yields the most spectacular and sustainable turnaround results.

Strategic repositioning is in practice more often employed after **cost reduction** has been successful, if at all. These turnaround strategies are normally employed in combination rather than individually.

3.12 Impact of Stakeholder Support on Turnaround Strategy

Stakeholders often require short-term results first before finally approving a longer-term plan. In turnaround management it is therefore imperative to resolve the financial crisis, and rapidly show an impact on cash flow and the bottom line to prove survivability.

3.13 Essential Generic Ingredients for a Successful Turnaround

Crisis Stabilization—the objective is to conserve cash liquidity that will provide a "window of opportunity" to develop a turnaround plan and time to restructure the business and finances.

Leadership—the objective is to reconfigure management for the restructuring period and for when the business moving towards sustained performance.

Stakeholder Buy-in—the objective is to rebuild relationships with key debt and equity providers, creditors, suppliers, customers, management and staff, and governmental regulators.

Strategic Focus—the objective is to redefine the business and develop the restructuring plan's strategic moves for a successful turnaround.

Organizational Change—the objective is to adjust the organizational structure, motivate staff, build capabilities, and enhance the employee conditions.

Critical Process Improvements—the objective is to enhance core and support processes.

- **Time improvement**—focusing on making the business more responsive and flexible
- **Cost improvement**—focusing on optimizing processes to reduce variable and fixed costs (to some extent, if possible)
- **Quality improvement**—focusing on improved processes for better quality products

3.14 Financial Restructuring

The objective is to improve the financial position of the company by restructuring the financial matters, reduce the cost of funding, and enhancing liquidity by increasing the number of funding alternatives.

4. LITERATURE REVIEW

The concept of strategy has been in existence for several decades now and it is not likely to leave the research scene anytime in the future because it is intertwined with long range planning which must be present for organizational future success. According to Porter (1980) strategy concerned what an organization does in order to gain a sustainable competitive advantage.

Hill and Jones (2001) defined strategy as an action that a company takes to attain one or more of its goals and therefore superior performance. Thompson and Strickland (1993) defined strategy as "the pattern of organizational moves and managerial approaches used to achieve organizational objectives and to pursue the organization's mission". Aosa (1998) defined it as "a means of solving strategic problems, which were a mismatch between the internal characteristics of an organization and the external environment in order to exploit opportunities existing in the external environment".

For organizations to realize their strategic objectives, they must ensure that, their strategies are not only implemented but successful. Whonderr-Arthur (2009) defined implementing strategy or strategy implementation as "the translation of strategy into organizational action through organizational structure and design, resource planning and the management of strategic change". Thompson and Strickland (1999), pointed out that implementing strategy entails converting the organization's strategic Plan into action and then into results.

According to Peter Drucker's definition, strategic planning is the continuous process of making present entrepreneurial (risk taking) decisions systematically and with the greatest knowledge of their futurity; organizing systematically the efforts needed to carry out these decisions; and measuring the results of these decisions against the expectations through organized, systematic feedback. Pearce and Robinson (2007) emphasized that, the three critical ingredients for the success of strategy are: the need for strategy's consistency with conditions in the competitive environment, need for strategy to take advantage of existing, emerging opportunities and minimization of the impact of major threats, and finally the need for strategy to place realistic requirements on the firm's resources.

Machuki (2005) emphasized that one of the keys to successful strategy implementation was for management to communicate the case for organizational change so clearly throughout the ranks to carry out the strategy and meet performance targets. Management's handling of the strategy implementation process therefore, can be considered successful if and when the company achieves the targeted strategic and financial performance and shows good progress in realising its long range strategic vision (Machuki, 2005).

A lot of research efforts have continued to be put in this area of implementation of strategy because it touches on the very nerve of achievement of strategic organizational goals. For instance, research by Johnson (2004), indicated that 66 per cent of corporate strategy is never implemented, which is an indicator that many organizational failures occur due to lack of implementation of strategy and not because of lack of formulation of strategy. Crittenden and Crittenden (2008) found that the source of failures associated to lack of implementation of strategy originates from a likely possible gap between the formulation and implementation process of strategy.

David (2003) cited in Machuki (2005) postulates that, management issues to strategy implementation include: annual objectives, devising policies, allocating resources, altering an existing organization structure, restructuring and reengineering, revising reward and incentive plans, minimizing resistance to change, matching managers with strategy, developing a strategy supportive culture, developing an effective human resource function and if necessary downsizing.

Organizational turnaround strategy implementations are usually an indication of a corporate crisis, which arise out of something threatening in its survival. Manimala and Panicker (2011) called such crisis "corporate sickness" while Pandit (2000) described them as organizational sickness that presents themselves gradually or suddenly with a threatening decline in performance after a series of internal actions or inactions or by external circumstances and other environmental factors. Research on management of business turnaround span more than three decades and yet so much remains undone. For example, very low rates of successful recoveries from corporate sicknesses are still being, registered in research. The challenges associated with business failures have continued unabated therefore attracting continuous and further research. According to Ahn, Cho, and Kim (2000), most business failures are due to bad or poor management. Scherrer (2003) avers that 80 percent of business failures occur due to management's inefficiency to control the internal functions of business.

Khandwalla (1998) identifies a corporate decline as a loss situation and turnaround as equivalent to reaching at least a breakeven from loss situation. Maheshwari (2000) attributes organizational decline to an outcome of inaction of managers characterised by past experiences, sunk investment, specialized assets bureaucratic control, internal political/cultural, managers commitment to status quo or outcome of inappropriate actions of managers in response to environmental reality characterized by legal, political, social and economic constraints. Wheelen and Hunger (2001) described Business Turnaround strategies as a form of retrenchment that emphasizes the improvement of operational efficiency. Turnaroundstrategy.net (2013) described a turnaround strategy as "an action plan that can give struggling business owners the guidance and direction they need to revitalize their company".

Pandit (2000) suggested that any definition of turnaround should address the definition and measurement of performance; and the definition of turnaround cycle - that is a period of poor performance (decline phase) followed by a recovery in the performance (the recovery phase) and further emphasized that turnaround candidates are firms whose very existence is threatened unless radical action is taken and successful recovery cases demonstrate improved and sustainable environmental adaptation.

Pretorius (2009) summarised and proposed a definition of turnaround using the following words, "a venture has been turned around when it has recovered from a decline that threatened its existence to resume normal operations and achieve performance acceptable to its stakeholders (constituents) through reorientation of positioning, strategy, structure, control systems and power distribution".

According to Burbank (2005) a five step turnaround process accepted and supported by the Global Association of Turnaround Professionals is composed of: situation analysis, changing the management, emergency actions, business restructuring and returning to normalcy (profitability). The purpose of turnaround strategy implementations in any company therefore, is to return the company back to a profitable and reducing debt situation and they are deemed to take a period of between five months even up to three years to complete, so that, if they were to be considered a success, then the company has to be financially strong and on its own for at least two years the turnaround plan is completed (Turnaroundstrategy.net, 2013). John and Richard (1987) observed that business Turnaround strategy implementation, involved the reallocation of resources, in which management was, singled out as the most commonly reallocated resource. Lohrke, Bedeian and Palmer (2004) confirmed that, it was the top executives whose responsibility was, to implementing Turnaround Strategy.

Formulating and implementing effective business turnaround strategies needed to reverse declining organizational performance. Francis and Desai (2005) explored the ability of situational variables, and specific responses to decline in order to classify performance outcomes in declining firms and found that contextual factors such as urgency, and severity of decline, firm productivity and the availability of slack resources and firm retrenchment would determine the ability of firms to turnaround. They concluded that "overall, factors under control of managers contributed more to successful turnarounds than situational characteristics".

Bruton, Ahlstrom and Wan (2003) found that in the west, a firm in decline had to retrench or reduce its expenses before it would begin the turnaround process, which was the same for East Asian firms. They further found that in the west a greater success occurred when the firm's turnaround efforts focused on the single most important cause of the firm's decline (operating or strategic problems), while in East Asia it was, reported that problems facing most firms had little to do with operating problems related to cost in the firm's core business. Further, in the west there was an assumption that the CEO of a firm had to be, replaced in a turnaround effort while in East Asia due to high levels of stock ownership by owner/manager in most cases at over 50% CEO replacement in turnaround would not be mandatory. It was also, generally believed in both the west and East Asia that the faster the turnaround efforts began the more likely it would be successful.

Slatter, Lovett, and Barlow (2006) developed an approach for achieving a successful business turnaround or recovery plan whose seven essential ingredients were: i. Crisis stabilization, ii. New leadership,iii. Stakeholder management,iv. Strategic focus, v. Critical process improvements,vi. Organisational change and vii.Financialrestructuring. Further suggestions by Slatter et al. (2006) were that, to succeed in realising critical process improvements during business turnaround of a company, required focus on cost, quality, and time.

Hofer (1980) suggested that the valuable strategies for the successful corporate business turnarounds are market penetration and niche positioning. Again Rosario, Kawamura and Peiris (2004) maintained that successful businesses competed on quality rather than on costs, with a view to developing competitive advantage. The measures for marketing strategies necessary to promote successful business turnaround include: promotional activities, aggressive pricing, entering newer markets and focusing on core business (Rosario, Kawamura&Peiris, 2004).

Scherrer (2003) emphasized the need for a management turnaround to begin with the identification of a state of decline to be followed by an immediate turnaround although he attributed a successful turnaround to the presence of a strong management team and sound business core. He further clarifies that the key elements to any successful business turnaround were from the highest priority: sound core business followed by; leadership of competent management followed by; capital for use throughout the process; and finally followed by the trust and support of the company's stakeholders. He however, concluded that the frame of the turnaround will vary depending on the above elements and on the severity of the decline.

Panicker and Manimala (2011) suggested that bringing organizations back to health required entrepreneurial strategies at two levels namely from the negative to breakeven and from breakeven to the positive terming it "a doubly entrepreneurial act". Their study confirmed that "successful turnarounds were accomplished through progressive building up of organizational competencies in line with various stages (through strategies such as employee engagement, cost rationalization, lean management, image building, and focusing on core business) before taking up aggressive growth and expansion strategies".

5. CASE STUDY

5.1 Steel Authority of India Ltd (SAIL)

Turnaround by Government's belated decision

Period of Loss: 1997-98 to 1999-00

Period of turnaround: 2000-01 to 2004-05

Introduction of the company

SAIL traces its origin to the formative years of an emerging nation – India. After independence, the builders of modern India worked with a vision – to lay the infrastructure of rapid industrialization of the country. To propel the economic growth, in 1954 Hindustan Steel Ltd was set up which was restructured as Steel Authority of India Limited (SAIL).

SAIL is the leading steel making company in India. SAIL is also among the seven Maharatnas of the country's Central Public Sector Enterprises. SAIL produces iron and steel at five integrated steel plants and three special steel plants situated close to domestic sources of raw materials. This gives SAIL a competitive edge in terms of captive availability of iron ore, limestone and dolomite which are inputs for steel making. SAIL's wide ranges of long and flat products are much in demand in the domestic as well as international market.

The Government of India owns about 75% of SAIL's equity and retains voting control of the company. However, SAIL, by virtue of its Maharatna status, enjoys significant operational and financial autonomy. Since its inception, SAIL has been instrumental in laying a sound infrastructure for the industrial development of the country. It has immensely contributed to the development of technical and managerial expertise.

Reason for sickness

The crises of SAIL in the post-liberalisation period are

- The uneconomic nature of its production process, given the fact that most of the steel plants under SAIL had to contend with obsolete technologies and excessive manpower.
- Intense competition from imports aggravated by demand recession during the last three years (from 1997-98 to 1999-2000) has virtually crippled SAIL.
- The daunting magnitude of severance payments, for the surplus staff of around 50,000 whom the company may have to part with, would pose a formidable challenge.
- Even apart from the severe financial strains which the ailing steel giant would find difficult to withstand, on this account, the political fallout could by no means be underestimated.
- The decision to seek strategic partners for the Alloy Steel plant at Durgapur, the Salem Steel plant and Visveswarayya Iron and Steel, which was a euphemism for privatisation, couldn't be put through without the cooperation of the State Governments concerned.

- As for the beleaguered SAIL subsidiary, Indian Iron and Steel Company (IISCO), a mere write- off of accumulated losses can only be a palliative. Much as the West Bengal political establishment would resist it, privatisation of IISCO with an inexorable component of modernisation and downsizing seems to be the only viable course.

The Government of India, has had to watch helplessly while the dividend rate on the equity capital of Rs. 4,130 crores shrank from 6.6 per cent in 1995-96 to zero in 1998-99, after which in 1999-2000, the company suffered a net loss of Rs. 1,574 crores.

Turnaround Strategy

A comprehensive turnaround strategy for SAIL did work far beyond financial restructuring.

- The debt waiver and the Government's willingness to guarantee external borrowings of the company would facilitate.
- Annual interest savings of the order of Rs. 400 crores to Rs. 500 crores.
- Sale of the company's non-core facilities - power, oxygen, fertilizer and special steels generated much-needed cash support.
- The SAIL bail-out strategy involves a rather dubious device of applying the Steel Development Fund (SDF) towards the correction of an inflated debt component in the capital structure of the company. (That TISCO and other newer private sector steel companies could legitimately claim the benefit of SDF support for mending their own finances is a possibility which the policymakers seem to have overlooked.)

Effects after implementation

- The Union Cabinet seemed to have invested too much confidence in the proposed committee to be headed by the Cabinet Secretary and comprising the Secretaries for Finance and Steel, which was to be charged with the task of implementing the restructuring strategy for SAIL.
- That the market scenario for steel had qualitatively improved during the next few years - both in terms of domestic and export demand - was a good augury for SAIL. Yet without significant control of operational cost, especially employee cost, the company might continue to languish as a giant in torment.
- Amidst the new excitement experienced by the steel industry across the globe, SAIL has continued its consistent ascent. The performance of SAIL touched

a new peak with net profit zooming by 171% to a record level of RS.6817 crores during 2004- 05. The turnover also touched a record of Rs.38100 crores, registering a growth of 32% over the previous year.

- SAIL earned the enviable status of a virtual zero debt company during 2004-2005. This was a result of the company's strategic business plan, which enabled to reduce its borrowings to the levelof its deposits in various banks. At the end of 2004- 2005, SAIL's market borrowings, which were reduced by Rs.2900 crores over the previous year, stood at Rs.5770 crores, whereas it's short-term deposits also touched a similar magnitude. SAIL did not acquire any fresh loans in the last two years (2001-02 & 2002-03) and financed its entire VR scheme for more than 1400 employees during 2004- 2005 from internal accruals. Interest outgo for the company was lower by Rs.296 crores during the financial year 2004- 2005.

SAIL, for the first time, paid interim dividend of 15% during the year and now has recommended a final dividend of 18%, amounting to a total dividend of 33% on the paid equity. The total payout on this account will be to the tune of Rs.1363 crores. The share market recognized the company's efforts, boosting the company's share price from a level of Rs.34 to about Rs.62 during the year. **(Refer Annexure A: Financial Statistics of SAIL)**

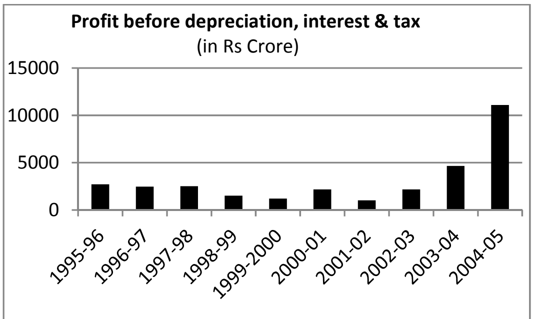
Learnings

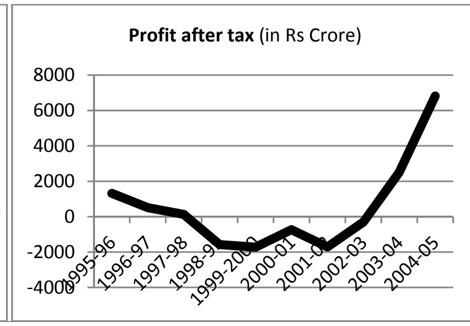
The decision of the Union Cabinet on the restructuring plan for the country's ailing steel conglomerate - the Steel Authority of India Limited (SAIL) - represents a belated acceptance of the inevitable.

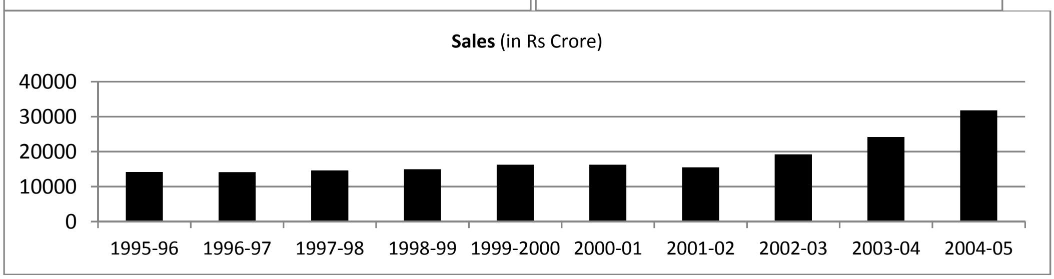
The SAIL turnaround strategy based on the reports of the Industrial Development Bank of India (IDBI) and Mckinsey's (consultants) has been with the Government for years and there was no valid reason for the decision on loan-waiver of the order of Rs. 5,454 crores to have been kept under wraps for so long.

What however marks a bold stroke in the Government's decision was the empowering of the management of SAIL to hive off power, oxygen and fertilizer plants which do not constitute the core business of the public sector giant with a turnover of around Rs. 15,000 crores in 1995-96.

These charts express the huge turnaround in SAIL's PBDIT, PAT and Sales figures.







6. KNOWLEDGE GAINED FROM CASE STUDY

Operating strategies designed for cost reduction were recommended for firms in less severe turnaround situations. Drastic cost reductions coupled with asset reductions were recommended for firms in more severe turnaround situations.

As the importance of external environmental factors assume importance relative to the internal factors, effective and innovative activities are more appropriate in the recovery phase of the turnaround process. If the reverse is true, efficiency maintenance activities are more appropriate. In either case, the recovery phase of the turnaround process is likely to be more successful in accomplishing turnaround when it is preceded by proactively structured retrenchment which results in the achievement of near-term financial stabilization. Innovative turnaround strategies involve doing things differently whereas efficiency turnaround strategies entail doing the same things on a smaller or more efficient scale. Revenue generating through product reintroduction, increased advertising and selling efforts, and lower prices represent modifications in existing strategy and can, therefore, be classified as innovative turnaround strategies In other words, innovative turnaround strategies involve product or market based activities while efficiency strategies focus on the production and management systems within the firm.

Turnaround strategy sometimes required due to the presence of external factors on particular company or sector i.e., firm or industry. Some external factors those affected the companies considered for case studies are

SAIL Financial Statistics (in Rs Crore)

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
Sales	14170	14131	14624	14994	16250	16233	15502	19207	24178	31800
PBDIT	2712	2458	2498	1503	1202	2167	1011	2165	4652	11097
Depreciation	585	691	795	1104	1133	1144	1156	1147	1123	1127
PBIT	2127	1767	1703	399	69	1023	-145	1018	3530	9970
Interest	808	1179	1554	2017	1789	1752	1562	1334	901	605
PBT	1319	588	149	-1618	-1720	-729	-1707	-316	2628	9365
Provision for Tax refund	-	73	16	-44	-	-	-	-12	116	2548
PAT	1319	515	133	-1574	-1720	-729	-1707	-304	2512	6817
Equity Capital	4130	4130	4130	4130	4130	4130	4130	4130	4130	4130
Reserves & Surplus	3807	3868	4359	2756	635	33	-1878	-2141	529	5881
Net Worth	7937	7998	8489	6886	4765	4163	2252	1989	4659	10011
Total Loans	14574	17421	20015	21017	15082	14251	14019	12928	8690	5770
Fixed Assest	8771	12624	14137	18307	15873	15177	14798	14036	13168	12485
(Net Block) Capital work-in-progress	8482	6389	6491	2589	1475	1221	556	361	382	366
Current Assets	9600	10587	12026	11399	8259	8362	7107	7282	8075	14187
Current Liabilities	4903	4606	4875	4880	5027	5274	4849	4777	6025	6608
Working Capital	4697	5981	7151	6519	3232	3088	2258	2505	2050	7579
Capital Employed (net fixed asset+ working capital)	13468	18605	21288	24826	19105	18265	17056	16541	15215	20064
PBT to sales (%)	8.97	4.16	1.02	-10.79	-10.58	-4.49	-11.01	-1.64	10.87	29.45
EPS (Rs)	3.19	1.25	0.32	-3.81	-4.16	-1.76	-4.13	-0.74	6.08	16.5

i. Product, technology and business model innovation: An existing or new competitor changes the competitive landscape of a sector or product category.

ii. Customer priorities: A sudden change in how and with whom customers choose to priorities their spending that can affect an individual company or a whole sector.

iii. Outside intervention: A regulator, government or legislator changes the rule of business for a specific company, a sector or the economy as a whole. SAIL could experience a fantastic turnaround after the debt waiver and the Government's willingness to guarantee external borrowings.

iv. Economic cycles: A particular industry or company may face crisis due to slowdown in that sector.

v. Failure of IPO: Poor response from investors may force a company to restructure its debts and other expansion plans.

If we look back to our study, Operational Turnaround Strategy is mainly divided into two major components, Revenue Enhancement and Cutback Action which again has two dimensions, cost reduction and asset reduction. In that part of discussion, Hofer model of turnaround strategy indicates which operational turnaround strategies to employ with reference to how far the turnaround situation is from breakeven.

7. CONCLUSION

The incidences of corporate decline have been increasing globally causing organizational failure and in this regard turnaround management to be one of the most important topics addressed by business education and research in recent years.

A successful turnaround is achieved when a company has experienced dramatic profit improvement by implementing turnaround strategies for two or three years and successfully rebuilds it position in the market place and motivates its people to complete the turnaround cycle. Global competition, technological turbulence, high costs of capital, and other nettlesome factors will cause more and more businesses to face occasional hard times. Businesses in mature industries face particularly difficult turnaround situations such as demand is flat, customer loyalties are relatively strong, and competition generally is zero – sum. Turnaround management is the systematic and rapid implementation of a range of measures to correct a seriously unprofitable measure. It might include dealing with a financial disaster of measures to avoid the high likely occurrence of such a disaster.

When firms are doing so badly that failure seems imminent then turnaround management can restore performance and profitability. But, due to management inefficiency, most of the corporate fail to identify the problems and therefore delay in taking precautionary measures affecting the owners, employees, customers, suppliers and the economy.

It is therefore, apparent to study and differentiate the seeds of business decline of the declining firms viz., internal as well as external. While most of the external signals of business failure cannot be fully controlled by the firms on the other hand the internal events are believed to be extremely important because the management has a direct control over them.

The attribute of successful turnaround strategies are often inferred from the actions taken in high profile success; quick and forceful decision making, deep cost cutting, diversities and an emphasis on quality. While interesting, such perceptions are neither universally accurate nor consistently beneficial.

Furthermore, they do not provide substantial prescriptions for managers of firms facing declining financial or competitive performance. The need is for systematic theory building based on carefully designed and skillfully executed empirical research on turnaround situations and responses. Hopefully, the theoretical search conducted in this article from prior empirical contributions will provide new momentum for advancing productive research on business unit turnaround.

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