

GROWTH STRATEGIES DURING AND AFTER A CORPORATE SICKNESS

by

Dr. R. Gopal
Director,

D.Y.PATIL Institute of Management Studies,
Belapur,
Navi Mumbai.

Tel. No. © 022 –2528 6428, © 9322517368

E Mail: gopaldoctor@gmail.com; gopaldoctor@yahoo.co.in

INTRODUCTION

Corporate sickness is of considerable significance today. In the U.K., U.S.A. and other developed countries, there are a large number of companies suffering from this. In India there are more than 1000 large and medium sized units and more than hundred thousand small units, which are sick, with millions of rupees provided by the financial institution / banks locked up in these units.

In India, the problem of sickness especially in large units is getting worse. The number of new businesses falling sick seems to be growing exponentially especially because of competition and the new technologies which have entered into the market. Several of these units which had become sick, have been safely nurtured back and are today doing extremely well while a few of these units have deteriorated severely.

Several of these sick organizations have risen back from their sickness and today are flourishing, while some of these organizations have not been able to achieve their past glory. Strategic Management practices should lead the organization in the ultimate analysis to a path of growth -- to be recognized as one of the top companies in India and finally in the globe.

RESEARCH OBJECTIVE DEFINED

The issue therefore is two fold:

- Identification of the causes of failures and the development of suitable strategies for eliminating this corporate sickness.
- Identification of strategies, which the company should or have adopted to continue on the growth path after their recovery from CORPORATE SICKNESS.

RESEARCH METHODOLOGY

The exploratory survey technique was used. A questionnaire was initially designed but was discarded and the pointer technique was used in the discussion with the CEOs and the senior staff members of the organization.

A total of 30 medium to semi large units in and around Navi Mumbai – (especially in the Thane – Belapur—Turbhe belt) was studied. Discussions were held with around 100 personnel. Most of the officials were willing to discuss issues concerning the causes of failure and / or strategies followed only on condition of anonymity.

The sample dispersals are given below:

Sample Dispersals

Location of the Unit	No. of Units sampled
Sanpada	2
Turbhe	6
Belapur	2
Taloja	4
Panvel	6
Thane	10
Total	30

Sector wise classification	No. of Units sampled
Cement	2
Chemicals	12
Engineering	13
Others	3
Total	30

Total Number of Officials contacted = 100

FINDINGS

CAUSES OF FAILURE

Before trying to understand the causes of failures, the author tried to probe the yard stick used in measuring the success of an organization. 95% of the CEOs said that the success of an organization is always measured in terms of the RATE OF RETURN of INVESTMENT (ROI).

Most of the CEOs felt that it is important that companies should not only be profitable but also be able to sustain this profitability in the long run.

For the CEOs, ROI can be improved ONLY by two methods viz.

- Margin Improvement i.e. How much can the firm extract from the market and
- Quick delivery of its product to its customer i.e. how it can reduce its turnaround time (i.e. customer to customer cycle time).

This is explained below:

$$\begin{aligned}
 \text{ROI} &= \frac{\text{Return}}{\text{Investment}} = \frac{\text{Return}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Investment}} \\
 &= \text{Margin Ratio} \times \text{Capital Turnover Ratio} \\
 &= \text{External Efficiency} \times \text{Internal Efficiency.}
 \end{aligned}$$



The Key Issues therefore are:

External Efficiency = How much can we extract from the market place ?

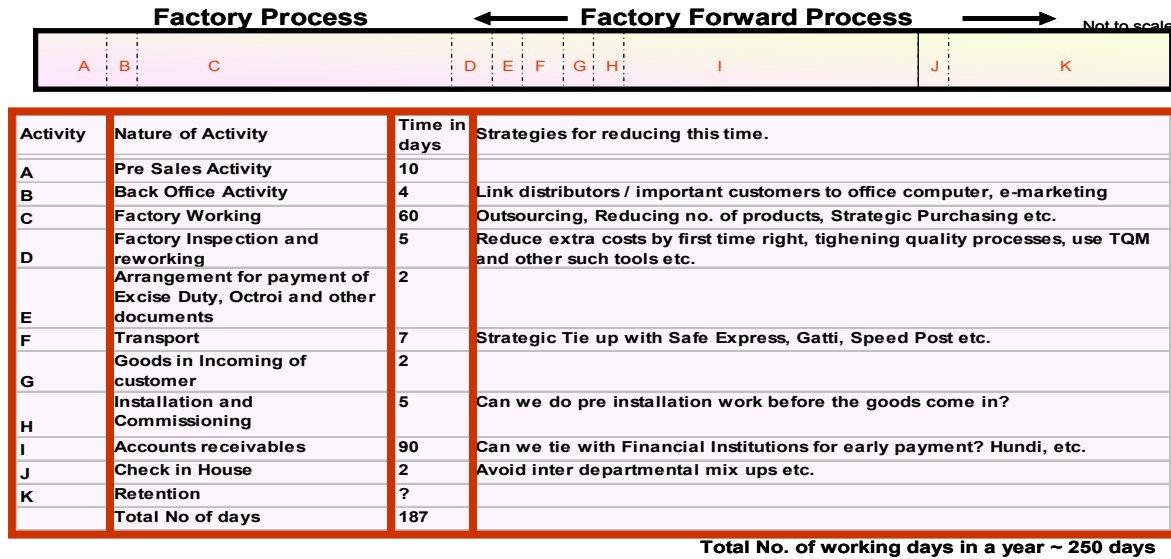
Internal Efficiency = By how much can we reduce our customer to customer cycle time?

Source: Discussions with the Senior Officials of the companies + Authors' analysis. Fig. 1

The internal efficiency of the company can be improved by decreasing the customer to customer cycle time. This customer to customer cycle time comprises of several processes e.g. back office activities, factory working, transportation, debtors etc.

For a typical electrical firm manufacturing switches for the local market, the time required on an average is indicated in Fig. 2. From the figure, it is quite clear that the customer to customer cycle time is **dependant** on

- Factory working and
- Debtors.



The customer to customer cycle time.

Source: Innovation the key strategic weapon to increase competitiveness, by Dr. R. Gopal. Paper published at the 10th International Annual convention on Strategic Management for firms in developing countries. May 2007. Fig.2

The detailed discussions with the senior official indicated that the causes of failures can be broadly classified as follows:

- Poor Quality of the Management: In most of the cases it was found that the top management did not have a general management overview. They tended to be more functional oriented. In quite a large number of cases it was found that attaining market share was of paramount importance even at the cost of profitability. (20%)
- High Investments based on too optimistic a planning. (5%)
- Weak Financial Management Policies: In most of the companies it was found that the debt level was very high. In fact it was observed that some of the companies would borrow only to repay the earlier debt. In some cases it was also observed that companies kept on increasing their debt indiscriminately. Surprisingly money was borrowed from the unofficial money market channels. The logic was NOT to repay the loans to the official channels like the Bank etc. In the case of the unofficial channels, repaying the loan was paramount as it was a question of prestige and / or facing dire questions. (25%)
- Indiscriminate manpower addition instead of manpower productivity. (15%)
- Total Break down of systems and procedures. (25%)
- Family Squabbles. (40%)
- Others. (15%)

Fig in Bracket indicates %age of managers attributing the factor to the cause of sickness. Please note Factors are not mutually exclusively.

In most of the cases it was found that there was not one particular reason which could be attributed to the cause of the failure. Failure of the firm is due to a combination of many of the above factors.

The Strategy adapted to Turnaround

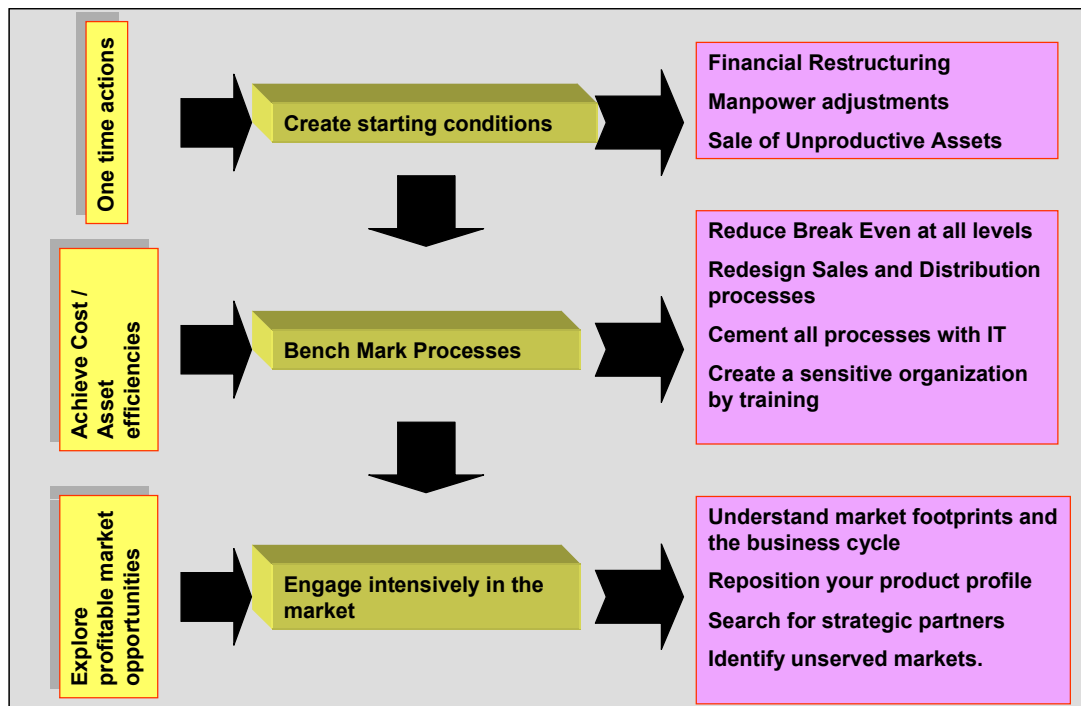
The strategy adapted by all the sampled companies to turnaround and become successful could be classified as follows:

- One time activity
- Achieve Reduction in Cost
- Engage actively in the Market place.

The details are given below as fig. 3.

The strategy one-time activity involves those activities, which cannot be repeated again and again for e. g restructuring the balance sheet, Voluntary Retirement Schemes, selling off businesses or assets etc. Many of the companies studied have reworked their borrowings from the bank. In one case, one of the companies sold of the adjacent land to a BUILDER and utilized the money to set the company in its growth path. This company utilized this money for training of its employees and for installing a robust IT system.

Achieve Reduction in cost is one of the most important tools the strategist has to look at when trying to revive a sick organization. It involves in the first place identifying the various processes both at the factory as well as the factory forward process and then benchmarking the various activities so as to achieve cost efficiencies. Most of the companies used Management Consultants to achieve a reduction in cost. 80% of the companies mentioned that this was the most difficult part in the entire turnaround implementation.



Strategies adapted by firms to turnaround. Source: Detailed discussions with officials + Author's analysis. Fig. 3

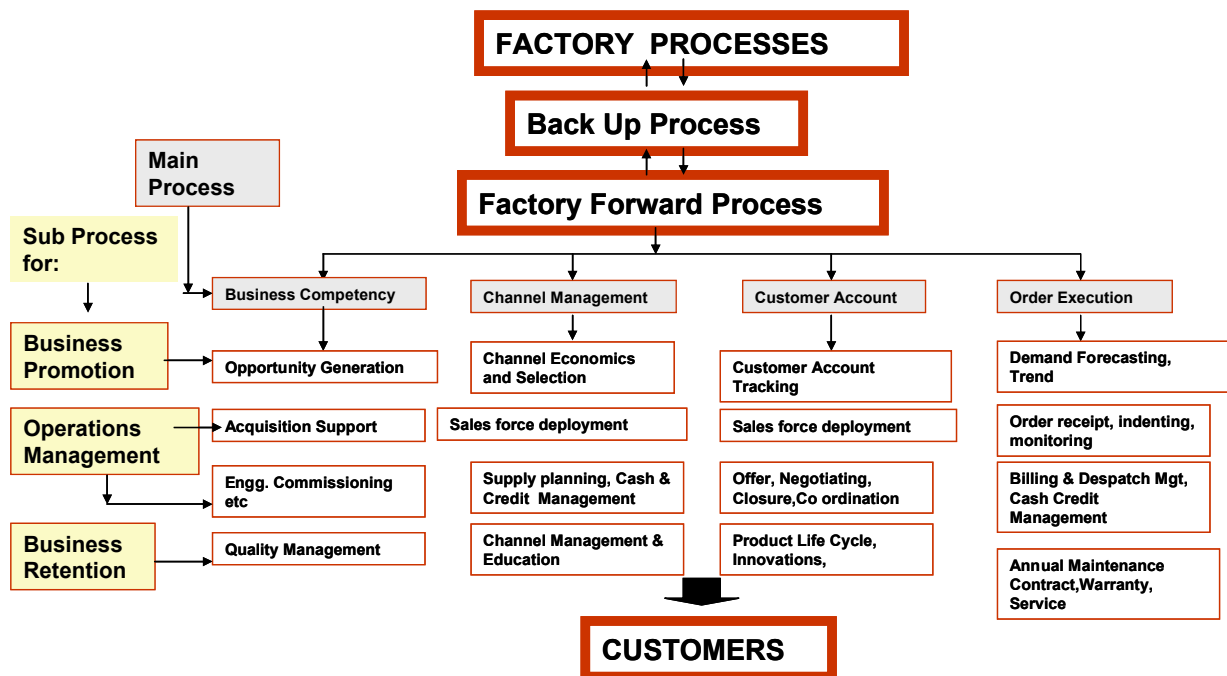
Achieving cost efficiencies was considered the most difficult process in the turn around implementation. It involved studying the process both the factory process as well as the factory forward process i.e. process involved beyond or outside the factory premises. Such processes could be for e.g. business development process, channel management, customer account management etc. The detailed analysis indicated that any improvement in the factory forward process invariably leads to an improvement in cost efficiency.

The Factory Forward process in itself has many sub processes. It is the most complicated and most difficult process. The Factory forward comprises of four main sub processes:

- Business Competency Management Process
- Channel Management Process
- Customer Account Management
- Order Execution and Logistics Management Process.

Each of these processes has several sub processes, which needs to be optimized and streamlined. Thus for e.g. in order to optimize or maximize the results of the channel management process, one would have to optimize the following sub processes:

- Channel Economics and Selection
- Sales Reporting and Deployment
- Supply Planning and Controlling
- Credit and Cash Management and
- Channel Education and Communication.



The factory forward process as seen in a manufacturing unit.

Source: (1) Innovation the key strategic weapon to increase competitiveness, by Dr. R. Gopal. Paper published at the 10th International Annual convention on Strategic Management for firms in developing countries. May 2007

(2) Discussion with management consultant to revalidate this concept. Fig.4

The role of the Management Consultant was essentially to improve the back office processes. Many of the consultants it was also found during the study restricted themselves to offering training to the employees.

The discussions also revealed that debtor collections were one of the major factors in turning around

the companies. Similarly the Debtor Management process is another very important process from the firm's point of view. Like the Inventory Management process, the Debtor Management process is also a cash gurgler and there are several sub processes, which influence this main process.

The debtor turnover ratio is another very important measurement tool in the hands of the turnaround manager. A higher debtor turnover ratio would indicate that a large amount of sales is locked up at the customer's end. For the practicing manager, the issue then is:

Is the credit policy appropriate? Does it need revision?

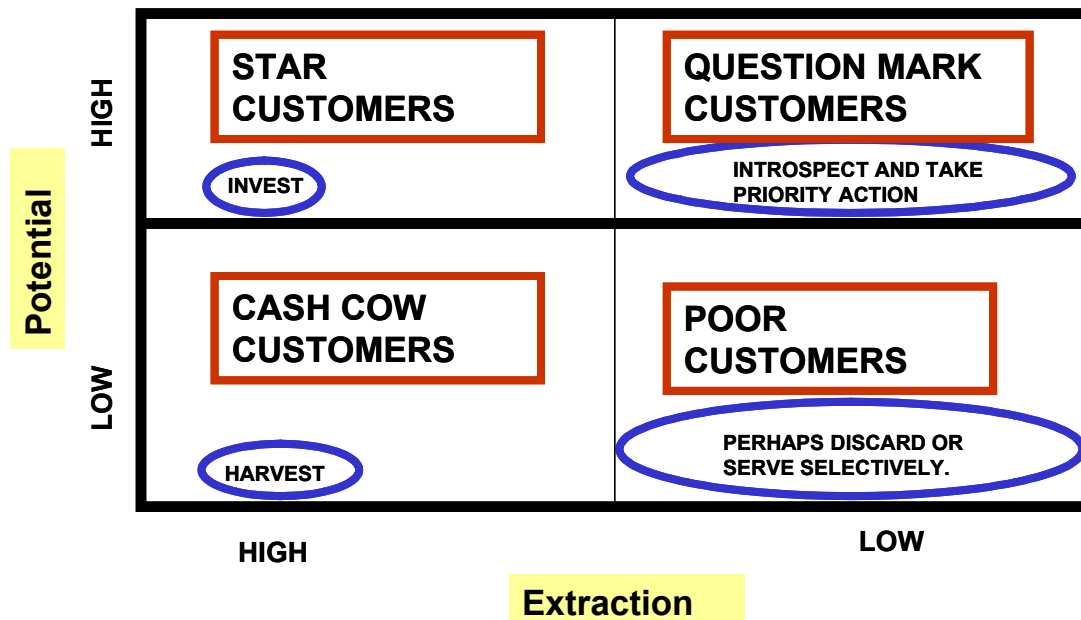
Are the 4 Ps of marketing in order? A high debtor level could also indicate that the firm's products are not moving at a fast pace in the marketing place? Are we giving the customer the right type of product? Is the Pricing okay? Is the Channel policy in order - both in numbers and location? And ultimately is the communication policy in order?

Both the one time and the achieve reduction in cost strategies tend to look inward. These strategies help the firm in being COMPETITOR CENTERED rather than CUSTOMER CENTERED.

The CUSTOMER-CENTERED strategy involves actively interacting with the customer so as to give him value for the product or service that is offered to him.

One of the methods of giving value to the customer is through the use of the Potential – Extraction matrix. Classifying the firm's customers according to its potential and its extraction and then developing suitable strategies could also result in giving a very high intrinsic value to the customer. Potential is defined as the quantity that the customer buys in a given year and extraction is the amount that the firm is able to supply in the given year. Thus when the customer has a high potential (i.e. its purchases are quite high) but the firm's extraction rate (i.e. the value of business that the firm gets from its customer) is quite low, then it is necessary for the firm to introspect and take corrective actions.

The details are given in Fig.5



Source: Author analysis. Fig. 5

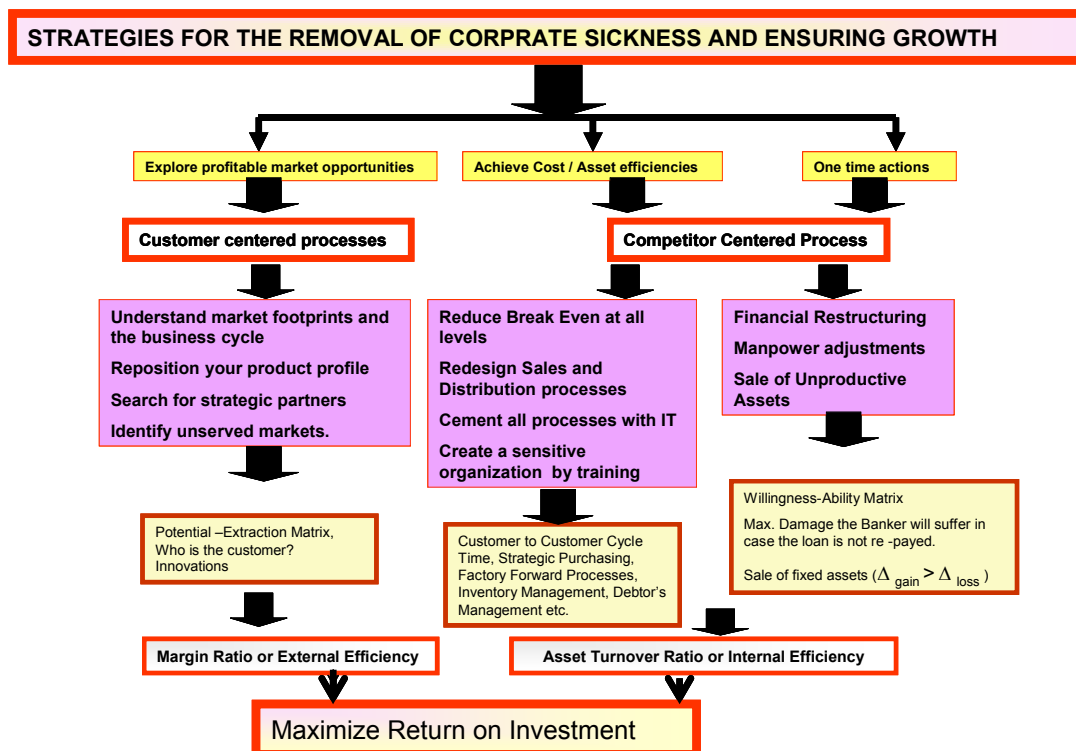
The data source for preparing the above matrix is given below:

Sample data format						All figures in Rs.'000
Sl. No	Name of the customer	Total Potential (w/o Excise duty)	Value with firm	Value not with firm	Other makes used	Action Plan to increase business
1	Cadburys	200	150	50	L &T, Anchor, SE	
2	Everest Pumps	170	70	100	GE, SE	
3	Venus Controls	150	45	105	GG,SE	
4	Pecon Engineers	400	100	300	Anchor, SE	
5	Automatic Controls	350	100	250		
6						
7						
8						
9						
10						
11						

Source: Internal documents – client data book --- Fig. 6

In today's context, innovations are the key to success. A firm must continuously keep on innovating new products and new processes to satisfy the customer needs. New Products could result in increasing the customer benefit while the new processes could help in driving the costs down and thus help in increasing the value of the product to the customer. It must be understood that while innovating it is also necessary for the firm to take care of the initial product defects. It has been empirically found that the cost of rectifying an error in the field is at least 100 times the cost of rectifying the error on the drawing board.

In the ultimate analysis, all these strategies are oriented towards customer, processes, finances and personnel. These strategies MUST contribute towards increasing the Return on Investment of a firm. Turnaround Strategists have to necessarily take all the three strategies together and apply them simultaneously in order to obtain the maximum effect. An integrated approach is a must for the success of any turnaround strategy



An integrated approach for the success of any turnaround strategy
 Source: Author's analysis Fig.7

AFTER TURNAROUND WHAT?

The next step after turning around is to sustain this initial success and thereafter continue on the growth path. The issue now is how does one go about it? What strategy does one use to grow?
 Detailed Discussions with the Knowledgeable persons indicated that:

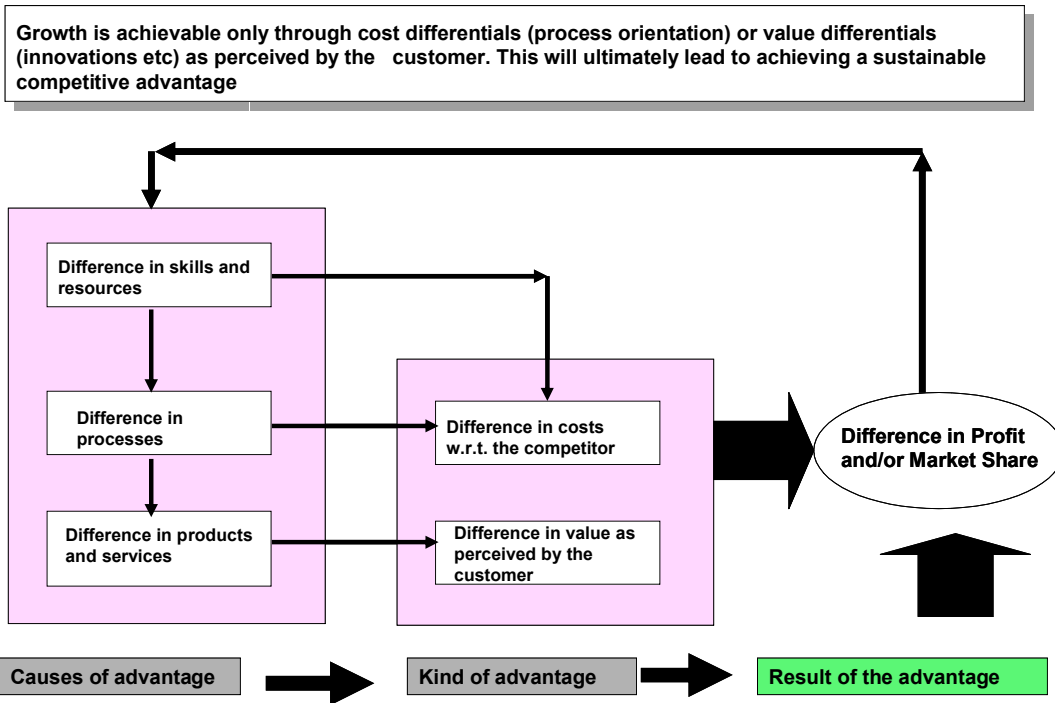
The Key to a successful growth is to ensure a sustainable competitive advantage. In order to achieve this sustainable competitive advantage, the CEOs felt that organizations must ensure OPERATIONAL EXCELLENCE.

The Operational Excellence is seen at the ground level in the following areas

- Processes
- People skill and resources and
- Offer different products and services.

The detailed discussions revealed that while on one hand this might be true for the survival of all organizations, this operational excellence assumes prime importance especially in the case of an organization which has just been turned around.

It is the sum total of the differences in processes, people skill and resources and new products / features which would help the firm in developing a very strong sustainable competitive advantage. It is this evaluation of the sustainable competitive advantage that will put the firm on the growth path.



The Key to achieve sustainable competitive advantage.

Source: Author Analysis. Fig 8

Most of the CEOs expressed that operational excellence could be achieved by following one or more or all of the following issues:

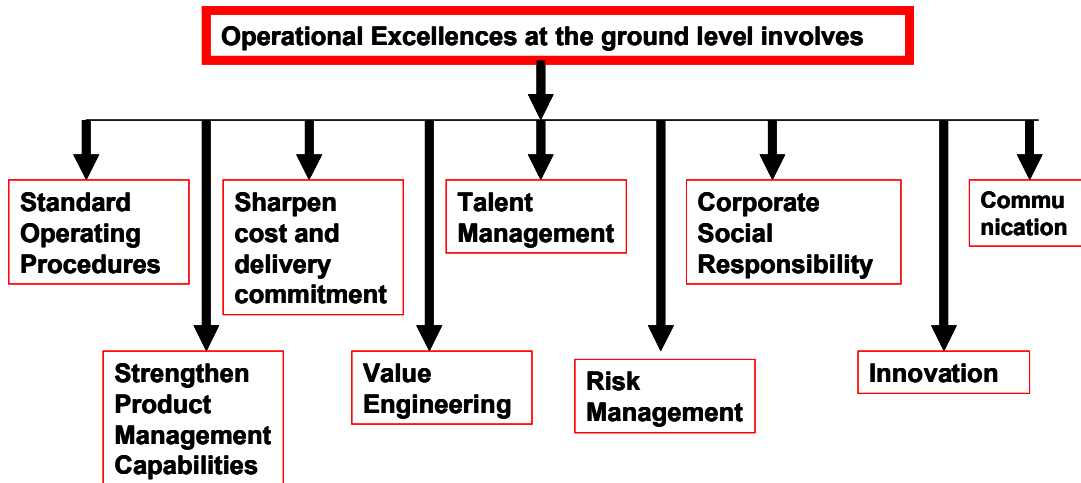
- STATING CLEAR AND CHALLENGING GOALS
- CONCRETE MEASUREMENTS
- DEFINING THE CONSEQUENCES.

And this needs to be clearly stated and communicated to all employees and customers.

At the grass root level, the term operational excellence involved

- Institutionalizing standard operations procedure
- Strengthening product management capabilities (e.g. through training)
- Sharpening cost and delivery competencies (e.g. through supply chain management, outsourcing non core manufacturing processes etc)
- Value Engineering through redesigning products and services to offer better value to the customer. Bringing in new technology product was one of the key success areas.
- Talent Management through behavioral skill improvement programs like leadership development programs, performance improvement programs and most importantly higher emoluments
- Risk Management The Business manager has to classify risk in terms of the probability of occurrence and their potential to cause repercussion. (The repercussion may be positive or negative). Most of the CEOs felt that amongst all the risks Business Risk was extremely critical viz. Adherence to the time and cost commitment.
- Corporate Social Responsibility was another area which most of the managers felt was important. However CSR practices were not very visible especially in the case of medium sized organizations. In the larger organizations CSR was more demonstrated seen in areas of HEALTH, SAFETY, ENVIRONMENT and EDUCATION.
- Innovation and finally
- Communication. Invariably all the CEOs expressed that COMMUNICATION was the key to success. It was felt that this communication has to be continuous. An Open door policy wherein any worker could walk into the manager's office to get a problem redressed or for any suggestions / recommendation helps in REDUCING all problems by HALF.

Cost and Delivery competency, Risk Management and Innovations are the keys to achieve Operational Excellence.



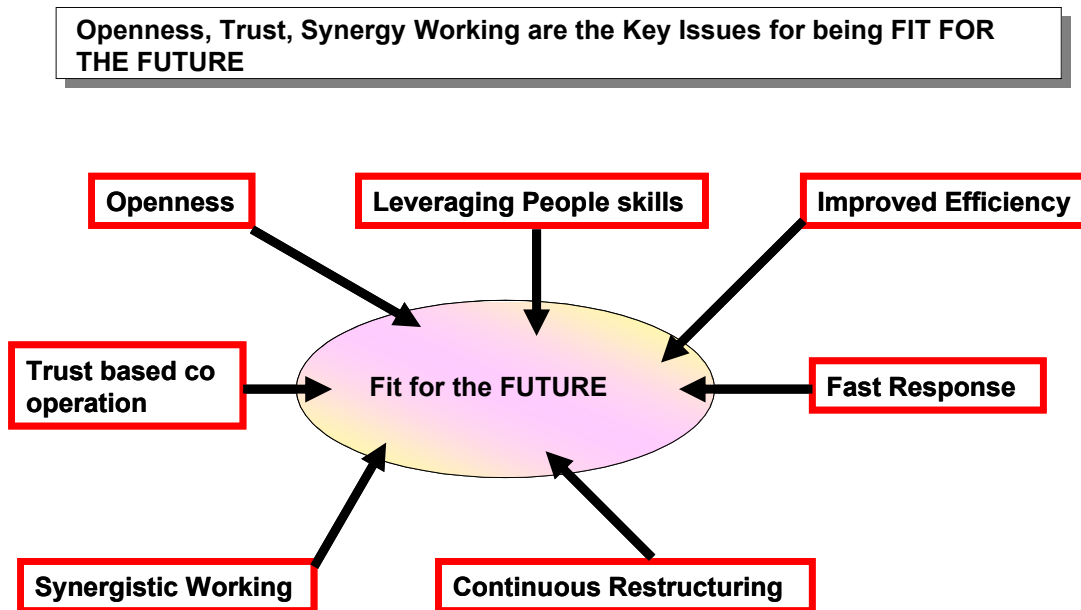
The Key to achieve Operational Excellence at the ground level.
Source: Author analysis. Fig. 9

CONCLUSIONS

This automatically implies that for FIRMS in order to be successful and FIT FOR THE FUTURE must adopt a culture that is based on:

- OPENESS
- CO-OPERATION BASED ON TRUST
- SYNERGISTIC WORKING AMONGST THE VARIOUS DIVISIONS
- CONTIONOUS RESTRUCTURING
- RESPONDING FASTER WITH INNOVATIONS AND WITH QUALITY TO THE MARKET PLACE
- A SYSTEM THAT ENSURES EFFICIENCY WITHIN THE ORGANIZATION
- LEVERAGING PEOPLE TO ACHIEVE THE GOALS.

This is depicted graphically as follows:



Source: Author Analysis Fig. 10

Thank you

Bibliography:

1. Corporate Sickness and Its Prevention by Financial Institutions by Khandwalla P.N. 1986, Paper provided by Indian Institute of Management Ahmedabad, Research and Publication Department in its series IIMA Working Papers with number 612.
2. How Telco is implementing the much-needed turnaround? Financial Express - July 2, 2001
3. Source: - Turning around sick companies –The Indian Experience by Dr. R. Gopal. International Journal of Strategic Management, U.K. June 1991.
4. Keniche Ohome,1982, The mind of the strategist, New York, Penguin Books
5. Porter Micheal 1985, Competitive Advantage: Creating and Sustaining Superior Performance, New York, The Free Press

Survey Instrument

A detailed questionnaire was first prepared and administered to the various officials, however subsequently this was abandoned as most of the respondents were not open to the idea of a questionnaire.

Subsequently a pointer method was used, wherein an exploratory nature of discussions were held. The discussions centered on the following points:

1. Parameters used to measure the profitability of the company --- at the CEO level and the Middle Management Level
2. Causes for the firm to be sick
3. Actions undertaken by the firm to turn around
4. Different processes used by the organization and steps undertaken to strengthen these processes.
5. Activities undertaken by the firm to achieve sustainable competitive advantage