Managing Change in Organizations

Prof. K.B.L. Srivastava
Department of Humanities and Social Sciences
Indian Institute of Technology, Kharagpur

Lecture – 36
Turnaround Strategy

So, I welcome you to this. In the last week of this course that is 8th week of Managing Change in a Organization. And in this week basically we are going to talk about some other issues ok. So far we have discussed about how we are going to manage change in the organizations, and we talked about all kind of issues starting with initiating change to implementing. And then in the last week we talked about how it could be linked with innovation, and how an organization can become a learning organization if it continuously goes for improvement and innovation.

There are some other issues that is left out that is what we are going to discuss in this week. And in this week we are going to start with another kind of change which is considered as more transformational or radical change. So, we will talk about a different kind of change which is known as turn around, and then we will see that how this turnaround strategies is another kind of change where we go for total transformation. And this is necessitated because the organization is not doing well.

So, if an organization is not doing well, then you need to bring about a change in everything in the structure, system, product, process everything. Because if an organization is the market is declining and then its not able to perform well, and this performance is continuously deteriorating, then in that case the only option that most of these organization has to bring about a total transformation.

It means that you need to turn it around to make it a profit-making company from what you call a loss-making company. So, this is a much bigger change that is there. So, in this lecture especially we are going to talk about the turnaround a strategy, and what is turnaround and we will also discuss about that how turnaround happens in most of the organization.

(Refer Slide Time: 02:20)

Now, if you look at this figure, it would be clear to you that what is happening. Now, what is happening here? See this, this shows what this is the profit index of the company, now from here the company is continuously making losses. So, if the company is making losses, you need to develop a strategy or you have to go for some kind of change, so that you make again make it again a profit-making companies. So, where we use this kind of turnaround the strategies, where we want to convert, change or transform a loss-making company into a profit-making company

So, this a different kind of change, a bigger change where you are going for a total transformation of a company to ensure that it becomes a profit-making organization right. The idea here is that a loss-making company become more profitable again and that is why we say that turnaround is related to ensure that a loss-making company becomes a profit-making organization and that is why we try to implement a turnaround a strategy. It means to turn the company from a negative point to a positive point right.

So, what is the outcome? If you are able to turn, turn it around, then a sick company or any company is going to stand again in the market and it starts making profit. So, basically this is what we call a complete U-turn of a planned strategy. So, it is a planned strategic change where you try to bring about a change to ensure that a loss-making company becomes a profit-making company. So, if you look at the last point, these could be the reasons for a companies making losses, global competitions, technological turbulences, high costs of capital. And there could be other factors also which may cause turnaround to make business viable right.

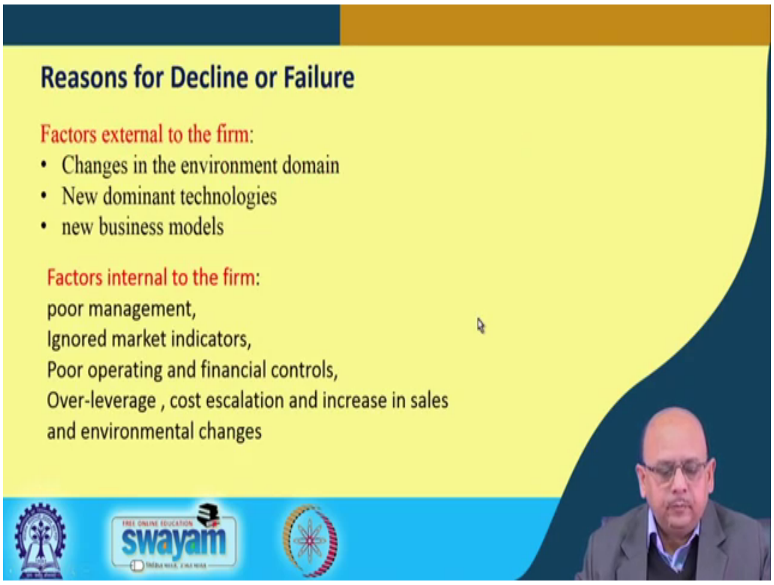
So, if you are not able to compete, if you are technically technologically you are not able to compete with others, and if your cost of operations become very high, then start making losses. In that case you need to think about a strategic change which will help you to ensure that you area able to start making profit right, and that is where we are going to talk about the turnaround strategy.

(Refer Slide Time: 04:55)

Now moving further if you look at the definition, it says it is a as a series of rescue efforts aimed at arresting the declining trend of business activities of the firm right, that means, you want to ensure that the loss-making company again starts making profit right. So, now if you look at the definition, it talks about three things. In general sense, it says that to transform a loss-making company into a profit-making, this is what we call turnaround; in business sense, you also need to identify what are the issues because of which the company is making losses, so to deal with the issues of loss-making company.

And finally, in the academic sense, what does it mean what are the reasons to solve the root cause failure of a loss-making company, why this company is making losses right So, these are the three definitions that is given in general, in business sense and also academic sense. So, we will look into these issues further to see that how we are able to manage a turnaround.

(Refer Slide Time: 06:02)



See what are the reasons or the decline or failure right. It could be external to the firms or it could be internal to the firms. For example, if you have gone for a change in the environment domain, you have been doing something else and then you have started doing something else.

And in the new domain you are not able to succeed or compete, the technology on the technology front, you can say you are not able to compete or companies have gone for a new business models and you are not able to adopt this new business models because of which your company is not able to make profit and your business is going down. So, technology environment and business models could be the reasons which could be external to the firm ok.

Then internal to the firms, the management skills are not good right. You have not been looking at the market indicators, what the market requires, what the customer's require right, and you are not going for product and services which is required by the customers, you still doing your business in the wrong way. The best example that I had given yesterday also like HMT or Hindustan Motors did not go for a change. They ignored the market indicators what people preference is, customer's requirements are. And your operating system is very very and not only operating systems and financial controls is very very bad.

Then you go for over-leverage because you are having some kind of a strength, cost escalation is means cost of the operation is going high or even increase in sales and environmental change means that your cost is going high and your profit become less right. So, there could be lot of factors which could be considered as internal to the organization because of which you are not able to make profit.

So, this necessitates to bring about some kind of change in the organization in structure, its process, its system, its technology right or developing a new business model, so that you are going to be successful and that is where you will link it with the change.

(Refer Slide Time: 08:05)

So, why we go about turn turnaround the strategy, we have already talked about factors. So, this could be the reasons right. Your market share is going down right, your gross or national income is going down. So, margins have reduced that margins have gone down. If you look at the cost effect analysis, you are not profitable; I mean your company is making losses, the cost has gone up.

Then a revenues are the revenues are not coming from the markets in the profits have gone down ok. Your performance measures are declining. Your structure has there is a change in the structure of the company the how other companies are doing, how what kind of competition is there. If look at just say aviation market or their telecom market and you can see that some of the companies are not able to stay or not able to perform well right, or even if you look at the automobile market all right.

So, if there is a change in the industries structure in terms of product, industry and competition what will happen look at the two vehicle say automobile markets two wheelers you know that the scooter market has completely gone down now, and most of the companies have stopped making scooters.

So, if you are making a scooters definitely, you are not able to compete with others. Look at the aviation markets how the nature of the industry and the competition has changed with the introduction of new low cost airlines ok, or we will look at the telecom sector what is happening here, the structure of the industry and the competition the when the nature of the competition has changed.

So, if you are not able to follow it, then what will happen? Look at the case of BSNL, if BSNL is not going to bring about a change in structure, it would be very difficult for them to compete with private players, today and that is why they are going to see that what kind of transformation would be required, so that they are able to compete. BSNL is still with 3G while other companies are thinking about 5G, so how they can compete with others because the kind of technologies that we are using is different.

Then your ROCE that is return on capital employed is going down. So, if you find that these things are happening, these are the indicators which suggest that you need to go for some kind of transformation or what you call the total transformation of the company. So, that you can arrest these things right, and that is why turnaround would be required. So, you need to bring about the change.

(Refer Slide Time: 10:45)

So, that is what we have been talking about. So, how do you identify, look at the internal factors and also external factors right, poor management, neglecting key tasks, you do not change you do not bring continuous change right. You have over expanded without realizing whether it is going to help you or not right, integration is very bad, do not have resources to manage organizations.

Similarly, if you look at external forces, we have already talked about like competitive forces, economic changes, political changes, changes in the demand of the products in the market, lifestyle changes that also requires some kind of changes in your product and processes or services. Bring in change in the technology, whether consumer confident in your products and services or not, whether you are able to bring about new products. So, so all these sources basically suggest that you need to go for a change in your product, process, and what you call your services. And if you do not bring about the change probably it would be very difficult for you to compete.

And then what will happen these indicators will pop up, and then it will be very difficult for you to manage your business effectively, and this calls for this calls for what you call a turnaround. So, you need to see that how you can turn in around by identifying those factors and see that how you are going to work on these factors to ensure that your organization is going to be successful and productive.

(Refer Slide Time: 12:18)

Moving further what kind of strategies are adapted by say businesses if they want to turn around. So, two kind of turnaround happens; one is operational and one is the other than is strategic, we will discuss it in detail again. But here when you are talking about operational strategies, so you basically try to look into that how you can improve efficiency right of the business to make it more cost effective by increasing and lowering down the cost, improving the quality, bringing improving the productivity, so that you can reduce the or arrest the decline right.

So, the idea here is this is basically we are not trying to concentrate on internal factors right which is related to improving your operational efficiency. Now, moving further when you are talking about a strategic orientation, this is related to the market or the external factors. So, this is related to external, internal sources, and this is related to external sources. Here you are trying to adjust the strategic focus of the business to ensure that what kind of products markets you want to serve to halt the decline right.

So, you look at the market and you see that what others are offering, and what you need to offer in terms of product, and market, services through which you are able to compete, and accordingly you bring about the change in your strategy. And here you try to bring about a change in your efficiency. So, you go for improving your operations, so that you can bring efficiency, and this efficiency could be measured in terms of improving quality right, decreasing cost, increasing efficiency and productivity through which you try to decline the to ensure that this decline does not happens sorry.

And here you look at the market. So, here you look at yourself that how you can improve yourself as a business and here you see that how you can compete with others, and sometimes both the approaches are adapted by the organizations to ensure that there is a the company is able to turn it around.

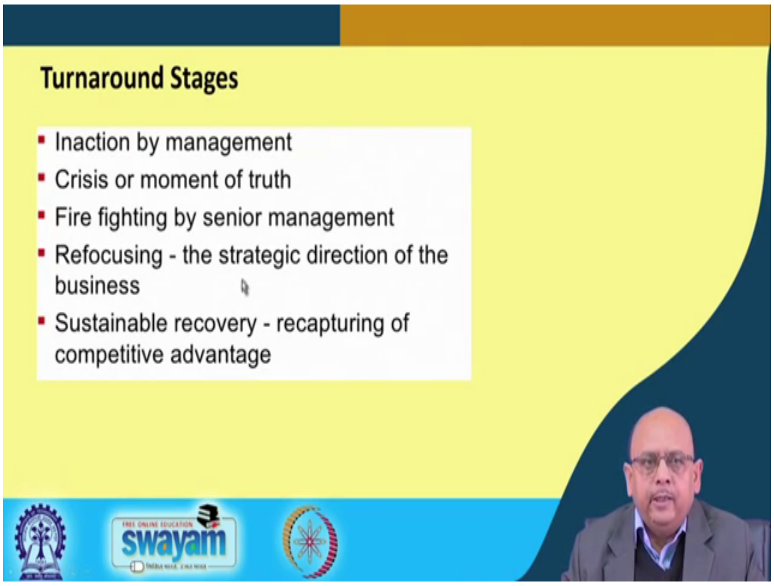
(Refer Slide Time: 14:28)

Now, what kind of strategies are adapted based on what we have talked about. Cost reduction it is a internal strategy; asset reduction it is a part of operational strategy; revenue increasing strategy again operational strategy. Financial restructuring, product market redefining strategy, this is a strategic this is a strategic say turnaround. And here what we have been talking about cost reduction, asset reduction, revenue increase, financial restructuring, all this is a part of what you call operational efficiency.

And then management and cultural change strategy this is also related to what you call operational efficiency, bring about you change in the culture of the organization to make it more effective more (Refer Time: 15:15), and to see that how this cultural changes is bringing about better performance right.

So, these kind of a strategies which could be considered either a operational strategies or strategic orientation is going to going to help a company to ensure that it is able to turn it around right.

(Refer Slide Time: 15:34)

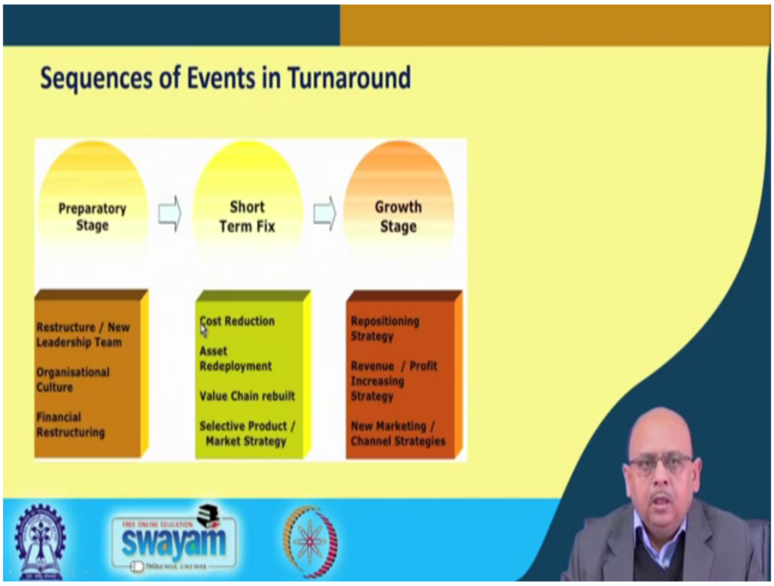


Now, moving further what are the different stages at which you can go for this right. When you find that management is not active, it does not it is not acting right, the first stage. The second stage could be when you find that yes there is a crisis people have understood that, yes, we are not doing well this is what you call moment of truth where people realize that, yes, we are in a crisis because we are not able to make profit and that loss is continuously improving. It means that there is a continuous decline in the profit right, where there is a fire fighting by the senior management. So, with senior management things that what needs to be done in order to ensure that you are able to make it a profitable company.

This is where you are going for any strategic orientation, where you are trying to redefine the refocus of your business. So, you refocus, so you have a different kind of direction for your business. For example, say look at the I IBM which used to be in Software Company and after 2000 what they found they are not able to do well here. So, they shifted their business to another kind of business right. So, this is what you call an strategic direction of business. So, what IBM did was that they try to focus on consulting, services. So, they refocused on the business and they are trying to be successful right.

Then sustainable recovery, so you go through some internal sources improving operational efficiency, so that you are able to recover and recapture your market. So, that these are the different stages which basically calls for turnaround. You find that these are the things and this could be related to what you call that yes this calls for a turnaround.

(Refer Slide Time: 17:27)



Moving further if you look at this, what need to be done at different stage of the turnaround. So, these are the sequence of events in turnaround at different stages. At the preparatory stage and then the short term goals, because you need to go for some fixing at the short term, so that the losses are instead and then you see that in the long term what could be your approach right.

So, at the preparatory stage, in the beginning stage, what you need to do, these are the activities which is very very important like restructuring. If your structure is not going well, so you go for this designing or structure bringing about a change, close down departments, close down units ok, look at how peoples roles and responsibilities are distributed, you try to bring about a change.

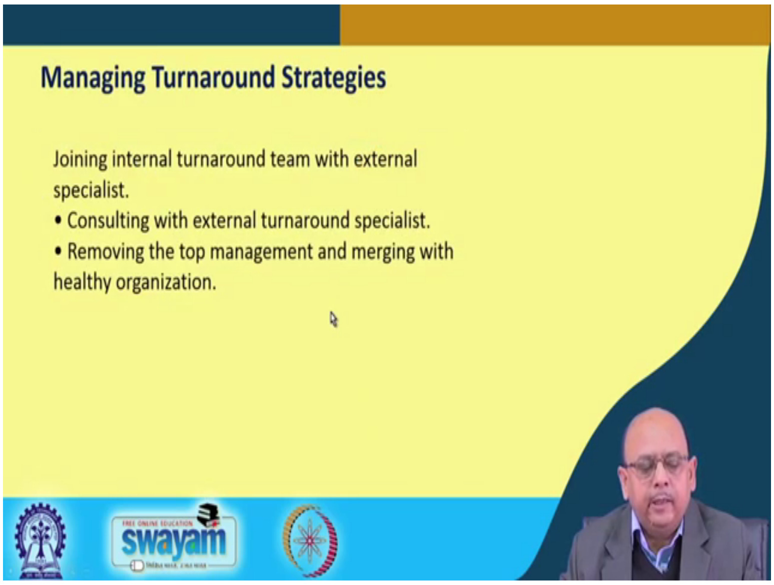
A move from a one particular type of structure to a different kind of a structure right, for example, if you have a functional structure and if it is not doing well then could move to a more organic structure or organic form of a structure right. Then you start working in instead of individually you start working on team. Then you also try to bring about a change in the culture of the organization, and also go for some kind of financial restructuring ok. See what are the use of financial arrangement, and in what way you can prioritize your finances, and what activities you need to focus more on in terms of finances.

So, to start with this stage you move to look at some short term gains, this is what is known as short term fix. So, you try to reduce the cost, make sure that unnecessary expenditures are reduced, you try to ascertain that you engage in all such activities which is going to reduce the cost of the operations. You redeploy those assets where it is required. So, you go for some kind of restructuring. You have seen the value chain what is happening, what are the activities which you consider is not providing any kind of value whether you can stop it. So, you go for rebuilding your value chain.

When you look at each of the activities in that chain, in the value chain and see that what kind of value is coming out from each of these activities right. And see that if a particular point or the chain you find that it is a non-adding value it is not adding any kind of value, then you can reduce it.

And then you see that what kind of product and market a strategy you are going to adopt, because your product market strategy is going to decide whether you are going to be succeed in future or not, and then you move to the next stage that is the growth stage, and in this stage you are going to repositioning strategy. Ensure that you revenue profit increases and you are able to capture new markets or channelize your strategy in the sense that you are see that how you can capture new markets right. So, these are the sequences that could be taken up at different stages right, so that you are able to turn it around.

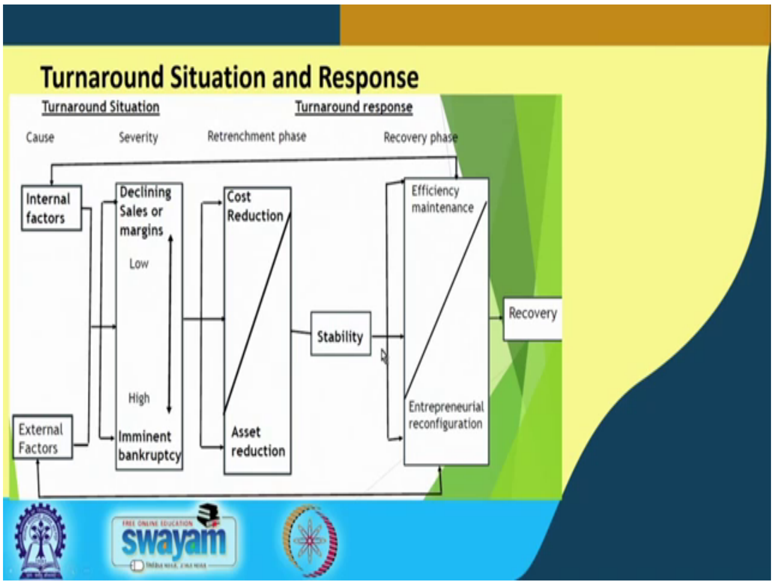
(Refer Slide Time: 20:34)



Moving further when we were talking about how to go about managing turnaround, and what kind of strategies that you talked about like operational strategies or strategic orientation that is required to bring about operational efficiency, and also look at them product market. So, one thing that could be done is that you need to have a team internally who is going to look after the turnaround process, who is going to see that how this turnaround is going to happen, and you also need some specialist from outside who are turnaround specialist.

So, you need to consult with those who have successfully turnaround some companies ok. sometimes what actually happens that if the loss-making companies, you remove the top management right, and you go for merges with the healthy organization, so that unit is much with the (Refer Time: 21:29) organization which is making profit, but some this study sometimes does not work right. So, what you need to see that you look at external expert, ask them to work with the internal team, and see that what needs to be done in order to turnaround while following the sequences that we have talked about.

(Refer Slide Time: 21:43)



Moving further look at the situation the responses that is required, this is a (Refer Time: 21:50) turnaround situation, and this is a turnaround response. Now, look at it, because your basic objective is to recover a loss-making company to make it a profit-making company. So, this kind of bigger change is very very important.

And for that you need to ensure that what kind of situation you are in right, and how severe that particular situation is. So, what you do, you look at the cause both the external and internal factors we have already talked about right, what are the internal external factors which calls for a turnaround, and whether these are leading to declining sales or margins or whether you are going to go bankrupt.

So, declining sales or margin, margin one thing that could be arrested if it is not a serious problem, but if you to improve may it goes up it becomes very high then there could be a situation where company could go bankrupt right. So, you need to ensure that these factors are able to identify what is the how severe the situation is right, whether a sales or margining margin is declining it is possible to adjust them or not or it has become so severe that it has created a situation of bankruptcy right.

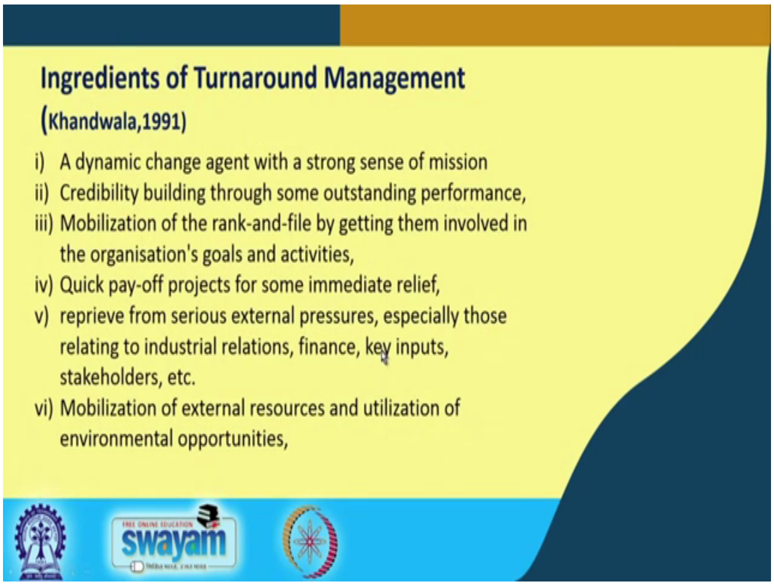
So, once you are able to identify the cause and this the extend of which the situation is there, you move further and see what kind of a strategies you adopt. So, this is what we know as retrenchment, retrenchment phase. At this stage you take two activities in your hand that is try to reduce the cost as much as possible, look at your activities identify value (Refer Time: 23:29) them, go for it ok. Refocus your finances re go for restructuring our finances in what you are going to reduce the cost of the operations and that would bring operational efficiency, and also reduce your assets right nonperforming assets.

So, you need to ensure that you are able to reduce your nonperforming assets and also see that how you are going to restructure in order to ensure that the cost of the activities are reduced ok. So, this comes through operational efficiency right. So, this would bring some a stability to the business right.

And then once it you are able to stable stabilize it, then move to further, and this is what they call the recovery phase. On the recovery phase, what actually happens is that to start with gradually you improve you efficiency is maintained right through cost effectiveness, and then you are also able to see that you are able to configure your business what needs to be done and that is where you are able to recover your business right.

So, you need to identify your situations which by identifying the costs. The extent of which it has damaged your business and then intermediate a stage you need to look at these stage, and see that what needs to be done in order to recover the wages.

(Refer Slide Time: 24:56)

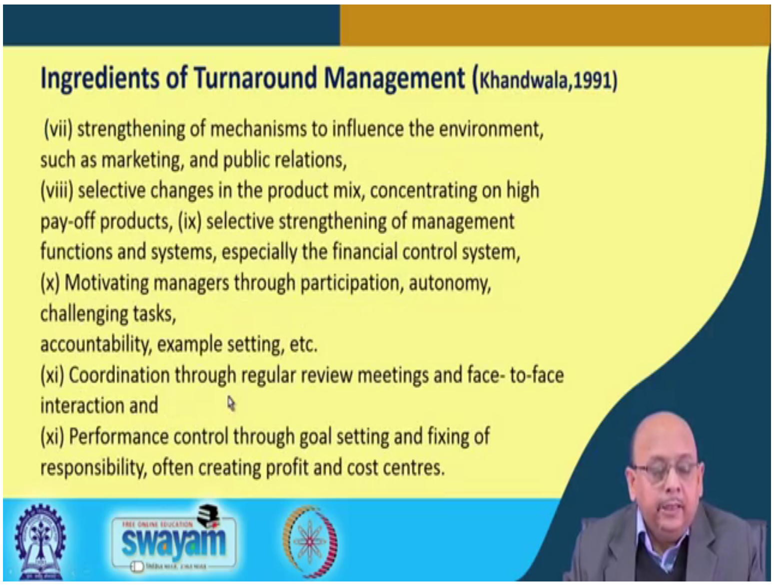


Moving further what we are going to talk about is what are the ingredients basically lot of work has been done by Khandwala. And he suggested certain activities which is required for turnaround management. It in includes you need to have a change as in strong sense of mission which is very very much required; then credibility building through some outstanding performance. Mobilization of the rank-and-file by getting them involvement in the organization's goals and activities, all this is a part of what you call operational efficiency. Quick pay-off projects for some immediate relief.

Reprieve from serious external pressures, especially those related to relations, finances, key inputs, stake holders, so that they are not going to influence you much, because the moment the say pressure starts declining you know that the union starts getting problem, there could be financial restructuring right stake holders starts creating problem right. So, these kind of pressures are not going to be there.

Then you also need to mobilize external resources right. So, you look at funds who can even venture capitalists who can fund your business, and see what are the opportunities which is available, and what kind of business you can operate better right.

(Refer Slide Time: 26:09)



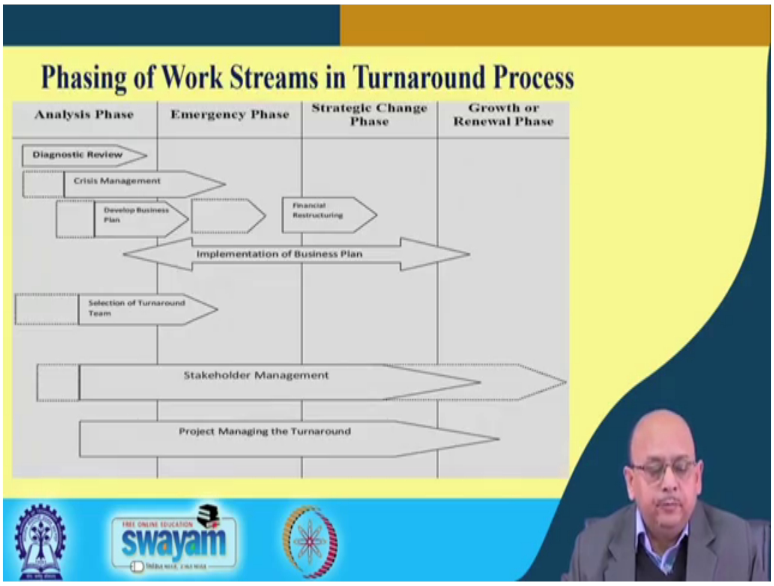
Then moving further he say that you need to strengthen the mechanism to influence the environment so like marketing and public relations that is very very important because that is going to help you to arrest the kind of reputation of image that you have developed for the organization. And you also try to bring about selective change in the product mix considering a high pay-off products.

So, you can lay off those products which are not doing well right, and you focus more on those products which are paying better. Then you strengthen the management functions in the system especially the financial control system, because finances are very very important. So, you go for some kind of restructuring of the finances.

You also need to motivate managers through participation autonomy and challenging. For example, you know that when layman brothers was not doing well, and most one problem that management fail at the at most of the managers become very very demotivating ok. After it merged with (Refer Time: 27:04), then things started becoming better right. So, you have to ensure that you are able to motivate managers through different activities.

Then better coordination through a regular review meetings, face-to-face interaction, so that people you know what is the status, how well the company has progressed. And then financial controls, so it is very very important fixing responsibilities, creating profit and cost centers. So, you know that which activities is related to cost, which activities related to profit, so that you can go for asset reduction as well as cost reduction both.

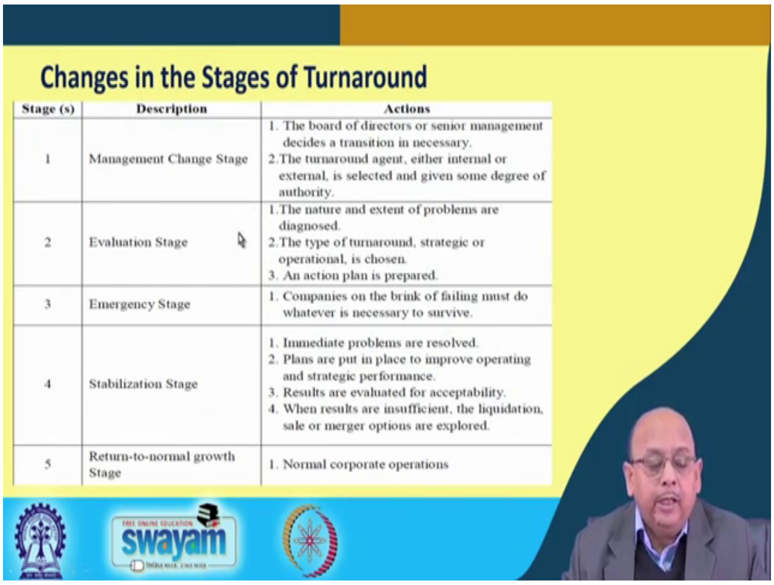
(Refer Slide Time: 27:34)



So, this is the phasing of work stream in the turnaround process. The first phase you go for diagnosis whether it is a crisis situation what kind of development plan you can have for the business, selecting a team for the turnaround, then this is the emergency phase. You start implementing the business plan. You also need to manage your stakeholders and consider this as a project where you are going to manage the project on the turnaround.

And this at this stage from the emergency phase, we move to the strategic phase you go for financial restructuring. And gradually you move to see that the growth or the renewal phase is there, because at this phase basically you are going to see that some results starts coming. It means that decline in the profits are arrested, and the company starts making profit again.

(Refer Slide Time: 28:26)



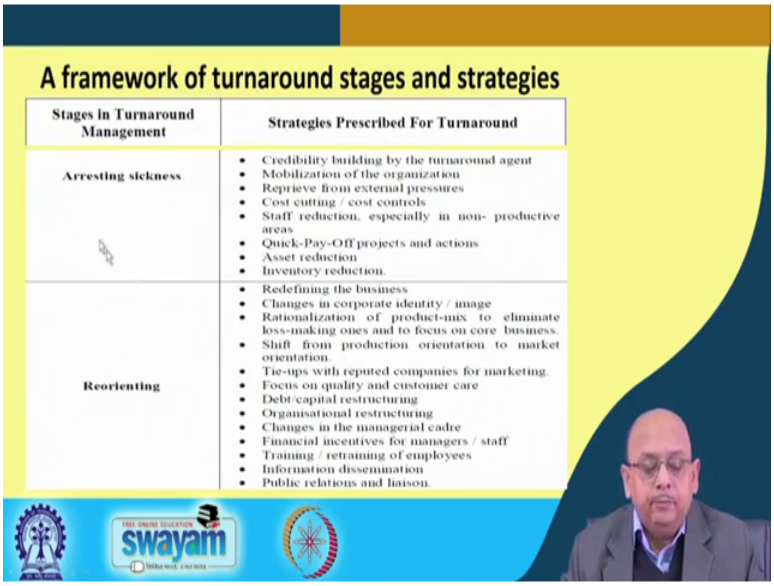
So, look at the changes at the different stages of the turnaround that happens. The first stage where you have going to the management change stage ok, where the board of director the senior managers decide that yes we need to go for some kind of transition. So, the turnaround as in the internal and external both internal team as well as external consultant is selected. And they are empowered to take decisions related to the organization with the first stage.

Second stage where you are evaluate the extent of damage that has happened what right, where this really cast a situation emergency situation have only in the profits are declining or we are going to be bankrupt. So, depending upon that you are going to decide that what kind of turnaround strategy you are going to have. So, you are going to decide whether your turnaround is going to be strategic or operational. So, it is if it is not very severe, then you go for improving operational efficiency; if it is very serious then you go for a strategic right.

And then you create an action plan then the emergency stage where you find that yes it is a relay situation of crisis, the companies on the brink of failing and it must do whatever is require to survive right. Then the fourth stage that is stabilization stage, at this stage, you look at the immediate problems, and see that how it is resolved ok. You have plans in in place to improve your operating as well as strategic performance. Results are evaluated for account acceptability whether it is acceptable or not. And if results are not sufficient, you go for liquidation you go for either sales or mergers.

Because if you are not able to make profit, then you I explore other options whether you are going to sell this company or whether this company is to merge with other units or not. Because that could be an viable options because if it is taking or by a profit-making company then they will try to see that what needs to be done with this loss-making company to turn it around right. And then when you return to the normal growth stage, it means you start making profit again, then you continue with your normal corporate operations right.

(Refer Slide Time: 30:41)

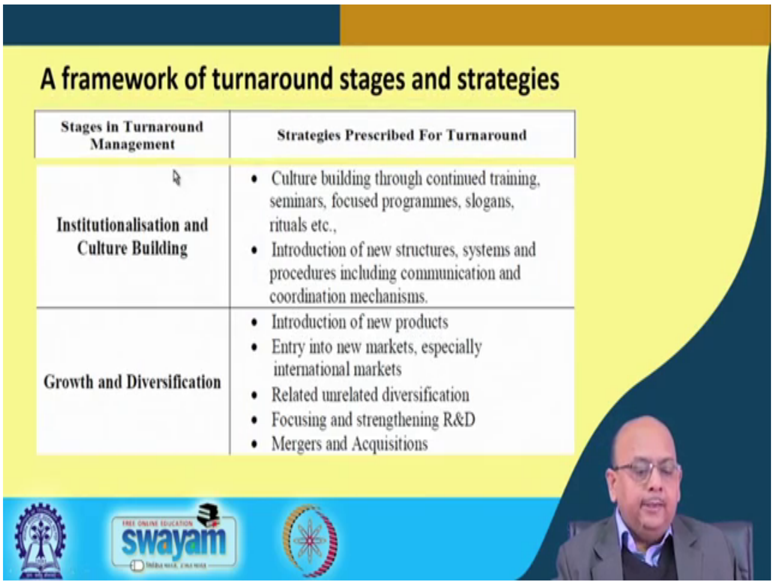


So, this is the framework that is suggested depending upon this stage and strategies right. So, the arresting sickness that is the first stage because the immediate problem is to see that the loss or the decline is arrested right. So, these are the activities we have already talked about. You go for cost cutting, make sure that external pressures are not there you are able to build credibility, especially the turnaround agent right. There is a quick pay-off; there is asset reduction, inventory reduction. So, you try to do all kind of things to arrest the loss.

The second stage we will go for reorientation you define the business, you try to bring about the change in the corporate identity or the image, so that you are branding is different. So, you also go for rationalizing the product mix which offer only those products which are making profit right. Then you can shift from product orientation to market orientation. In some cases, it happens where the companies are not able to make profit being a manufacturing company, then they turn into a marketing companies right.

Then you also tie up with companies for marketing focus on quality and customer that is very very important. You go for debt capital restructuring, organizational restructuring, change in the management cadre. So, you bring our some restructuring in the organization in the roles and responsibilities of the people. You also train people to take up new responsibilities. Give information to everyone and also go for public relationship and liaison, because this is what is going to help you to ensure that you are able to work effectively.

(Refer Slide Time: 32:20)



Then third stage that is where you go for institutionalization and culture building that is very very important. You develop a culture through it seminars, focused programmes right. You at this stage you are able to develop a new structure system and process including communication and coordination mechanism. And finally, you have a growth stage and diversification where you have been able to successfully come out with a new products, you have entered into new markets right.

You have gone for diversification could be related or unrelated fields. You have try to you try to focus on R and D, so that technologically you become more strength strong. And you also think about mergers and acquisitions. So, if you look at this turnaround stage and strategies, you need to see that what kind of activities you need to see at different stages of turnaround, so that your turnaround is going to successful. And you are able to change yourself or convert or transform yourself from a loss-making company to a profit-making company.

Thank you very much.