TURNAROUND MANAGEMENT

(TEXT AND CASES)
(As Per Revised Syllabus of T. Y. BBI, Sixth Semester for Mumbai University w.e.f. June 2014)

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Dedicated to

Goddess Saraswati and Lord Shiva
It gives us immense pleasure to present this new Edition of the book “Turnaround Management” into the hands of students and teachers of T.Y. BBI Semester-VI of Mumbai University.

The book has been written exactly as per the Revised syllabus (w.e.f. June, 2014) framed by Mumbai University. We have tried to keep the language in the book student – friendly and as simple as possible. At the end of every chapter, questions for self practice have been given.

We would like to express our gratitude to Staff of Himalaya Publication and many people who motivated us to write this valuable book.

We hope that the students and the teachers would find this book immensely useful to them and we welcome your constructive suggestions for further improvement of this book.

Authors
SYLLABUS


TURNAROUND MANAGEMENT
(TEXT AND CASES)

B.Com. (Banking and Insurance), Semester-VI
(BBI THIRD YEAR: SIXTH SEMESTER)

Objectives
- To enable students to understand the need of revival of sick business units.
- To make students aware of the different turnaround strategies.
- To give an overview of the recent business scenario.

<table>
<thead>
<tr>
<th>Unit</th>
<th>Topic</th>
<th>No. of Lectures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Introduction to Business</td>
<td>(15)</td>
</tr>
<tr>
<td></td>
<td>Meaning, Definition, Importance, Features, Symptoms</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Different Approaches for Growth and Survival (Internal and External)</td>
<td></td>
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<tr>
<td></td>
<td>Globalization and Liberalization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Features</td>
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<td></td>
<td>– Positive and Negative Impacts</td>
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<tr>
<td></td>
<td>– Role of MNCs</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Industrial Sickness</td>
<td>(15)</td>
</tr>
<tr>
<td></td>
<td>Meaning and Reasons for Sickness</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Symptoms</td>
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<tr>
<td></td>
<td>Various Attempts to Overcome Sickness by Stakeholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Role of BIFR in Sick Industries</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Turnaround Strategies</td>
<td>(15)</td>
</tr>
<tr>
<td></td>
<td>TQM (Importance and Restructuring)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Restructuring (Only Concept)</td>
<td></td>
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<td>Selling of Sick Unit (Only Concept)</td>
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<tr>
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<td>BPR</td>
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<td></td>
<td>– Meaning, Features, Steps, Need, Implications</td>
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<tr>
<td></td>
<td>– Achievements and Drawbacks</td>
<td></td>
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<tr>
<td></td>
<td>– Approaches (External Consultant, BPR Leader, Process Owner, Top Executives, Kaizen and Adam Smith, Flow Charts, Mapping, etc.)</td>
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</tr>
<tr>
<td></td>
<td>– Practical Examples</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Recent Business Scenario</td>
<td>(15)</td>
</tr>
<tr>
<td></td>
<td>SIFIO (Serious Fraud Investigation Office)</td>
<td></td>
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<td>SOHO</td>
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<td>Outsourcing</td>
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<td>Networking</td>
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<td>Freelancing</td>
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<td>Self-financing</td>
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Maximum Marks : 75

Q.1 Unit I (15 Marks)

OR

Q.1 Unit I (15 Marks)
Q.2 Unit II (15 Marks)

OR

Q.2 Unit II (15 Marks)
Q.3 Unit III (15 Marks)

OR

Q.3 Unit III (15 Marks)
Q.4 Unit IV (15 Marks)

Q.4 Unit IV
Q.5 Write Short Notes on any 3 out of 5 (15 Marks)

OR

Q.5 Explain the Concepts/Terms (five concepts/terms) (15 Marks)

Note: 15 Marks Question of Question No. 1, 2, 3 or 4 can be divided into 8 and 7 Marks.
CONTENTS

UNIT I – INTRODUCTION TO BUSINESS
1 INTRODUCTION TO BUSINESS AND TURNAROUND MANAGEMENT 1 – 22
2 DIFFERENT APPROACHES TO GROWTH AND SURVIVAL 23 – 34
3 GLOBALIZATION AND LIBERALIZATION 35 – 47

UNIT II – INDUSTRIAL SICKNESS
4 INDUSTRIAL SICKNESS 48 – 60
5 REMEDIES TO OVERCOME SICKNESS 61 – 70
6 ROLE OF BIFR IN SICK INDUSTRIES 71 – 75

UNIT III – TURNAROUND STRATEGIES
7 TURNAROUND STRATEGIES OR TQM, RESTRUCTURING AND SELLING OF SICK UNIT 76 – 85
8 BUSINESS PROCESS REENGINEERING 86 – 112
9 APPROACHES IN TURNAROUND STRATEGIES 113 – 153

UNIT IV – RECENT BUSINESS SCENARIO
10 RECENT BUSINESS SCENARIO 154 – 177
REFERENCES 178
MODEL QUESTION PAPERS 179 – 183
UNIT – I INTRODUCTION TO BUSINESS

INTRODUCTION TO BUSINESS AND TURNAROUND MANAGEMENT

CHAPTER 1

STRUCTURE

1.1 Introduction to Business and Turnaround Management
   1.1.1 Meaning
   1.1.2 Definition
   1.1.3 Importance of Business
   1.1.4 Features
   1.1.5 Objectives of Business Organization
   1.1.6 Functions of Business Organization

1.2 Strategic Management
   1.2.1 Meaning of Strategic Management
   1.2.2 Steps of Strategic Management
   1.2.3 Importance of Strategy for Business

1.3 Turnaround
   1.3.1 Introduction
   1.3.2 Creating Background for the Introduction of Turnaround
   1.3.3 Meaning of Turnaround
   1.3.4 Definition of Turnaround
1.4 Turnaround Management

1.4.1 Meaning

1.4.2 Definition of Turnaround Management

1.4.3 Characteristics of Turnaround

1.4.4 Implications of Turnaround

1.4.5 Need of Turnaround

1.4.6 Indicators of successful Turnaround

1.4.7 Selecting Strategy/Approach for the Introduction of Turnaround

1.4.8 Steps of Turnaround Strategy

1.4.9 Features of Turnaround Management

1.4.10 Symptoms

1.5 Questions for Self Practice

1.1 INTRODUCTION TO BUSINESS AND TURNAROUND MANAGEMENT

1.1.1 Meaning of Business

Every day, we come across the word ‘business’ or ‘businessmen’ directly or indirectly.

Now-a-days it has become an essential part of the modern world. So, all human beings are continuously engaged in some activity or the other in order to satisfy their unlimited wants. All of us need food, clothing, and shelter just to be satisfied with our daily lives. We meet all our requirements from the shopkeeper. The shopkeeper gets from the wholesaler and so does the wholesaler from the manufacturers. Thus the shopkeeper, the wholesaler, the manufacturers are doing business and therefore they are called as Businessmen. Business is an economic activity engaged in as a means of livelihood or profit or an entity which engages in such activities. Business can also be understood as the planned efforts to provide all the services to consumers and satisfy their wants to get the maximum returns.

Business varies in size, nature, tastes and preferences of consumers, price of products, demand and supply, etc.

Earlier, the only aim of business was to earn profit but now it goes beyond that limit. Various social responsibilities have changed the aim of mere profits.

A business, also known as an enterprise, company or a firm is an organization or an entity involved in the provision of goods and services to consumer. Businesses are prevalent in capitalist
Introduction to Business and Turnaround Management

economy where most of them are privately owned and provide goods and services to customers in exchange for other goods, services, or money. Businesses may also be social, or on-profit enterprises or state owned public enterprises targeted for specific social and economic objectives. A business owned by multiple individuals may be formed as an incorporated company or jointly organised as a partnership. Countries have different laws that may describe different rights to the various business entities.

Business can refer to a particular organization or to an entire market sector, e.g. "the music business". Compound forms such as agri-business represent subsets of the word's broader meaning, which encompasses all activity by suppliers of goods and services. The goal is for sales to be more than expenditures resulting in a profit or gain or surplus.

1.1.2 Definition

Lewis Henry defines business as “Human activity directed towards producing or acquiring wealth through buying and selling of goods.”

“The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through satisfaction of human wants.”

– Stephenson

“It refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted.”

– Dicksee

Prof. Haney defines business as “Business activities are all the human activities which are directed towards the production in processing of wealth.”

1.1.3 Importance of Business

Business organization is a group of people working together to achieve a specific goal. Business provides a lot of services to the human being. The growth of business organizations is the proof for the vitality of the business:

1. Supply of Goods and Services: Business provides goods and services to the society. It produces different products, provides different services which are ultimately sold to the customers. The only way to satisfy the consumers is to give them all what their requirements are. So it is business which targets at supply of goods and services.
2. **Creating Wealth:** Every business has to create wealth. Normally, business purchases raw material, then the processing is done to produce finished goods. At each and every stage an additional margin is created on the same. This margin is the money created by the company.

![Importance of Business diagram]

3. **Satisfaction of Wants:** The sole aim of a business organization is to satisfy the human wants. The business produces all goods and services which meet the daily requirements of all human beings. As customer is the king of the market so the efforts are taken by the organization to satisfy their wants.

4. **Motivate the Employees:** Since every business organization needs the best customers as their green customers, so the companies try to motivate the employees to give their best and avoid wastages in the production. Business organization will be successful only if the employees are motivated.

5. **Self-employment and Provision of Employment:** Business provides employment to the businessmen. Also, in all the areas of employment related to manufacturing and trading number of employment opportunities has increased.
6. **Income Generation**: Business generates income for the individuals. It utilizes the factor of production like land, labour, capital and organization and generates income like wage, rent, interest and profit to the factor of production and creates the utility.

7. **Development of International Relation**: Business imports necessary products and exports the products thereby earning foreign exchange and also maintains good international relationship.

8. **Research, Development and Innovation**: Business organization mainly focuses on alternative resources, develops new products and methods and thus it makes new innovations. Newly developed and innovative products through research give the business a growing path.

9. **Contributes to Social Development**: Business contributes to the welfare of society, also it grows so that the national income increases which ultimately develops the society. Profit making organizations provide a lot of money as a way of corporate taxes to the government and then the government uses it in the development activities of the country. Also, in this modern business environment the concept Corporate Social Responsibility (CSR) has led to the development of society.

10. **Creation of Customers**: Today’s business organizations are creating market for its customers all over the world by introducing new and innovative products, new methods of distribution such as e-commerce, tele-shopping, etc. Due to all these, new customers are created as the satisfaction of their wants is given importance by the organizations.

### 1.1.4 Features

Following are the features of Business:

- Exchange of Goods and Services
- Connected with Production
- Risk and Uncertainties
- Deals in Various Transactions
- To Satisfy Human Wants
- Profit Motive
- Continuity
- Art as well as Science
- Economic Activity

*Fig. 1.2: Features of Business*
1. **Exchange of Goods and Services**: The only motive of business is to earn profit with the help of the exchange of goods and services. All business activities are directly or indirectly connected with exchange of goods and services for money or money’s worth.

2. **Connected with Production**: Activities are connected with the production of all goods and services. So it is also an industrial activity. It either is a primary or secondary activity. Without production of goods there will be no worth of organization.

3. **Risk and Uncertainties**: The business is fully subjected to risk and uncertainties. Risk arises due to fire, theft, damage to goods and services and also uncertainties such as loss due to change in demand or sudden reduction in price, etc. Every organization has to bear profit as well as risk and uncertainties.

4. **Deals in Various Transactions**: In day-to-day life, various goods and services are exchanged for the worth of money. So to satisfy the human wants business has to deal in various transactions like purchasing of goods, manufacturing, selling, distribution, etc.

5. **To Satisfy Human Wants**: By producing and supplying various goods and services to the society for the exchange of money, the desires are satisfied and even the growth is expected by the business organization.

6. **Profit Motive**: The basic aim of every business activity is earning profit. The amount of the product for every transaction gives the profit. Thus, the profit is the reward for the business.

7. **Continuity**: A business activity is a regular activity of production and distribution of goods and services. An isolated transaction of buying and selling cannot be treated as business transaction. Any transaction can be called as business transaction only when it is repeatedly conducted by a person.

8. **Art as well as Science**: Business is an art because it requires personal skills and experience. It is also a science because it is based on certain principles and laws.

9. **Economic Activity**: Business is primarily an economic activity as it involves production and distribution of goods and services for the earning of money. Thus, business is also a social institution as it helps to improve the standard of living of people through effective utilization of scarce resources.

Thus the above features are common to all business enterprises irrespective of their nature, size and form of ownership.
**1.1.5 Objectives of Business Organization**

*Introduction*

Business is an economic activity engaged in as a means for earning bread and butter. Business can also be understood as the planned efforts to provide all the services to consumers and satisfy their wants to get the maximum returns. In other words, business means an organisation or enterprising entity engaged in commercial, industrial or professional activities. Its objective can be to earn profit, or a non-profit organization engaged in business activities such as an agricultural co-operative. Business includes everything from a small owner-operated company such as family business to multinational or transnational companies.

A business organization is one or more businesses controlled in common by a person or a group of people. Business and organization are inseparable. They are simply two aspects of the same thing. Organizations are a vehicle for collective learning, providing a collective storehouse of wisdom, capabilities and business model designs.

*Types of Business Organization*

![Diagram: Types of Business Organization](image)

1. Sole Proprietorship
2. Joint Hindu Family Firm
3. Partnership Firm

*Fig.1.3: Types of Business Organization*
4. Joint Stock Company
5. Co-operative Undertaking
6. International MNCs, TNCs

**Objectives of Business Organization**

Organizational objectives inform employees where the organization is going and how it plans to get there. When employees need to make difficult decisions, they can refer to the organization's objectives for guidance.

Evaluation and control allows an organization to compare its actual performance to its objectives and then make any necessary adjustments.

The most effective business objectives meet the following criteria:

1. **Specific objectives**: Specific objectives are aimed at what is the main function of the business, e.g. for airlines, the business objective is to fill 100% seats during peak season and at least 75% seats during off season.

2. **Measurable objectives**: A measurable business objective is something that can be quantitatively described. Measurable objectives are statistically tabulated and can help a business determine how effective a particular approach, product or service is performing from a number of different standpoints. For example, if the business has an objective of generating a certain volume of revenue in a predetermined period of time, the result of this objective can be measured by evaluating revenue reports for the time period in question. The objective can be measured in increments, with descriptions such as, “We came within 10 percent of meeting our objective.”

The main objectives of the business may be:

1. **Survival**: A short-term objective, probably for small business just starting out, or when new firm enters the market or at a time of crisis.

2. **Profit maximization**: The businessman tries to increase the profit and maximization of wealth for the stakeholders.

3. **Sales growth**: The amount by which the average sales volume of companies, products or services grows typically from year to year. Sales growth is considered positive for a company’s survival and profitability.

4. **Retention of customers**: Keeping the customers happy should be the primary objective of the organization. It helps to retain the customers thereby maintaining brand loyalty.
5. **Employee Retention**: Employee turnover costs the money in lost productivity and the costs associated with recruiting which include employment advertising and paying placement agencies. Maintaining a productive and positive employee environment improves retention.

*Alternative Aims and Objectives*

Not all businesses seek profit or growth. Some organizations have other objectives also:

*Other Objectives*

1. **Ethical and socially responsible objectives**: Organizations like the Co-operatives or Body Shop have objectives which are based on their beliefs on how one should treat the environment and people who are less fortunate.

2. **Service**: Public sector corporations are run to not only generate a profit but provide a well-organized service to the public in order to develop the economy.

3. **Following the Laws**: All the organizations whether public or private has to frame the objectives in compliance with the laws.

4. **Health care and education establishments**: The objectives of the business are to provide better healthcare and education to all the sections of the society by establishing Charitable Trusts and increasing the literacy level of the country.

5. **Charities and voluntary organizations**: Their aims and objectives are led by the belief they stand for.

**1.1.6 Functions of Business Organization**

![Fig. 1.4: Functions of Business Organization](image)

1. **Economy of scale**: For a large business, one of the main functions is to gain the economies of scale as they are supported by their capital. But small business organizations may find it difficult, therefore they can divide their multiple tasks among the suppliers and employees
to be completed within the sections and targeted period, so that they can meet the needs of the multiple customers efficiently and they can achieve their mission also.

2. **Adaptation to Market Changes:** A small business must adapt its organizational structure so that they can run their business operations in shifts with the necessary changes on time in the market.

3. **Workflow:** The roles of employees are not the only factors to consider in choosing how to organize the small business. As the business owner, one can examine workflow arrangements. If one wants work tasks to be completed through a logical progression, flowing from one worker to another. One also can analyze all of the steps in the workflow of a task and eliminate duplicate steps and unnecessary work. One wants to be sure that the work flows created also support the goals of the business.

4. **Communication:** Organization serves the function of information-sharing. Businessmen want employees to use modern means of communication for example, emails, as e-mail has been revolutionary in the world of business communication because information is quickly passed along with instantaneous efficiency and effectiveness. Employees are able to access information from a computer, phone or PDA nearly anywhere, and so are the company’s current and potential customers. The use of email within a business can greatly increase the productivity for employees and can be a quick way to increase sales as well. More companies are using email communications as part of the marketing mix to communicate and interact with its target markets.

5. **Control:** For some kinds of work that the employees do, one should implement managerial controls, which comprise another function of organization. One can establish control in different ways. For example, assign managers to oversee all work outputs of their direct-report employees. Another approach is to create managerial controls in workflow processes. Managers inspect work tasks at specific points in workflow processes. Managerial controls should support the business goals.

### 1.2 STRATEGIC MANAGEMENT

#### 1.2.1 Meaning of Strategic Management

The systematic analysis of the factors associated with customers and competitors (the external environment) and the organization itself (the internal environment) to provide the basis for maintaining optimum management practices.

Strategy provides overall direction to the enterprise and involves specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating
resources to implement the plans. Academics and practicing managers have developed numerous models and frameworks to assist in strategic decision-making in the context of complex environments and competitive dynamics. Strategy is not static in nature; the models often include a feedback loop to monitor execution and inform the next round of planning.

### 1.2.2 Steps of Strategic Management

**Five Steps of Strategic Management:**

As strategic management is a large, complex, and ever-evolving endeavor, it is useful to divide it into a series of concrete steps to illustrate the process of strategic management. While many management models pertaining to strategy derivation are in use, most general frameworks include five steps embedded in two general stages:

**Formulation:**

1. **Analysis:** Strategic analysis is a time-consuming process, involving comprehensive market research on the external and competitive environments as well as extensive internal assessments. The process involves conducting Porter’s Five Forces, SWOT, PESTLE, and Value Chain Analyses and gathering experts in each industry relating to the strategy.

2. **Strategy Formation:** Following the analysis phase, the organization selects a generic strategy (for example, low-cost, differentiation, etc.) based upon the value-chain implications for core competence and potential competitive advantage. Risk assessments and contingency plans are also developed based upon external forecasting. Brand positioning and image should be solidified.

3. **Goal Setting:** With the defined strategy in mind, management identifies and communicates goals and objectives that cor-relate to the predicted outcomes, strengths, and opportunities. These objectives include quantitative ways to measure the success or failure of the goals, along with corresponding organizational policy. Goal setting is the final phase before implementation begins.

**Implementation**

1. **Structure:** The implementation phase begins with the strategy in place, and the business solidifies its organizational structure and leadership (making changes if necessary). Leaders allocate resources to specific projects and enact any necessary strategic partnerships.

2. **Feedback:** During the final stage of strategy, all budgetary figures are submitted for evaluation. Financial ratios should be calculated and performance reviews delivered to relevant personnel and departments. This information will be used to restart the planning process, or reinforce the success of the previous strategy.
1.2.3 Importance of Strategy for Business

1. Strategic management is critical to organizational development as it aligns the mission and vision with operations.
2. Strategic management is critical to the development and expansion of all organizations.
3. The initial task in strategic management is to compile and disseminate the organization's vision and mission statement.
4. Strategic management is the art, science, and craft of formulating, implementing, and evaluating various functional decisions that helps the organization to achieve its long-term objectives.

1.3 TURNAROUND

1.3.1 Introduction

Introduction of turnaround strategy is a lengthy process. The process covers all aspects, which bring loss to the business unit and suitable remedial measures in relation to them. Execution of turnaround package is possible only when the “action package” is ready.

Plans should be made at three levels as noted below:
1. Creating suitable background for the introduction of turnaround plan/package.
2. Selecting the strategy for the introduction of turnaround.
3. Follow-up steps for the turnaround strategy.

1.3.2 Creating Background for the Introduction of Turnaround

In order to introduce turnaround package, suitable background is to be created in the organizational structure. For this, following methods are used:
1. Execution of turnaround by the existing management team.
2. Appointment of consultant for the execution of turnaround package.
3. Removal/replacement of the CEO till the completion of turnaround process.

1.3.3 Meaning of Turnaround

1. Turnaround is a management technique applied to loss-making or sick industrial units.
2. Turnaround like re-structuring is a type of technique used to prevent or stop a company from making losses or going into closure forever. It believes in old age people saying “a stitch in time saves nine”.
3. Turnaround simply means the radical shifting of the performance of an enterprise towards improvement, from loss-making to profit-making.

4. “Turnaround” means the action plan (strategy) of turning around an enterprise from its path of decline to the path of prosperity. Hence, declining sales or profits are to be replaced by increasing sales and profits.

5. Turnaround is important aspect of strategic management.

6. Radical shifting of the performance towards improvements is called as turnaround. It is an attempt to remove various weaknesses and make it strong, stable and profit-making.

7. Turnaround Management is a process dedicated to corporate renewal. It uses analysis and planning to save troubled companies and returns them to solvency and to identify the reasons for failing performance in the market and rectify them.

### 1.3.4 Definition of Turnaround

1. According to the dictionary of marketing (edited by P.H Collin), turnaround means “making a company profitable again”.

2. “Turnaround is also defined as “a technique of brining failing companies back to life”.

3. “The turnaround is the situation where in a company’s trend of declining sales and earnings is reversed”.

4. “Turnaround is a technique of brining failing companies back to life”.

5. “Turnaround is one strategy which aims at converting a loss-making company in to a profit-making company”.

6. Turnaround can be defined as “A sharp positive reversal in the performance of a company or the overall market”.

### 1.4 TURNAROUND MANAGEMENT

#### 1.4.1 Meaning

1. Turnaround Management is a process of formulating and implementing a strategic plan and a set of actions for corporate renewal and restricting typically during times of severe corporate financial distress.

2. Turnaround management involves management review; root failure causes analysis and SWOT analysis to determine why the company is failing. Once analysis is completed, a long-term strategic plan and restricting plan are created. These plans may or may not
involve a bankruptcy filing. Once approved, turnaround professionals begin to implement the plan, continually reviewing its progress and make changes to the plan as needed to ensure the company returns to solvency.

1.4.2 Definition of Turnaround Management (May 09)

1. Arpi and Wejke defined turnaround management as ‘the systematic and rapid implementation of a range of measures to correct a seriously unprofitable situation. It might include dealing with a financial disaster or measures to avoid the highly likely occurrence of such a disaster.

2. Turnaround Management is defined as returning an insolvent or potentially insolvent business to operational and financial stability, while maximizing all shareholders’ interests.

3. The process of evaluating an underperforming business to determine the cause of its problems, developing potential solutions to address the problems, selecting and implementing the appropriate strategies and course of action and making corrections to the plan as circumstances warrant.

4. Turnaround Management refers to the management measures which turn a sick company back to a be healthy one or those measures which reverse the deteriorating trends of the performance indicators such as falling market share, sales (in constant rupees) and profitability and worsening debt-equity ratio.

1.4.3 Characteristics of Turnaround (May 06)

Although all turnarounds are different and one cannot prescribe a “format” for a turnaround, most Turnaround Managements require certain common elements.

1. Proving core viability.
2. Restructuring skills and experience.
3. Turnaround Management in finance area.
4. Turnaround Management classic cycle.
5. Duration of turnaround.
6. Combination of strategies.
8. Proper utilization of resources.
11. Main object.
15. Applicable to loss-making (uneconomic/sick units).

Fig. 1.5: Characteristics of Turnaround

1.4.4 Implications of Turnaround

Fig. 1.6: Implications of Turnaround
(I) Positive Implication of the Turnaround
(a) Company’s net profit improves.
(b) Company’s market share improves.
(c) The customer response improves.
(d) Share value will increase.
(e) Morale of employees increases as the productivity goes up.
(f) Employee productivity.
(g) As the productivity goes up.
(h) Company’s credit rating improves.

(II) Negative Implication of the Turnaround
(a) Employee strength reduction.
(b) Good employees may quit.
(c) Productivity declines.
(d) Company may get amalgamated.
(e) Face closure.
(f) Globalization takes place.

1.4.5 Need of Turnaround
1. Liquidity problem.
2. Delay or part-payment of wages.
3. Low inflow and raising outflow of cash.
4. Shortage of liquid assets.
5. Falling sales and increase in stock.
6. Falling market value of shares.
7. Labour turnover because of non-payment of wages on time.
8. Underutilization of production facilities.
9. Fall in earning capacity and lowering of profits.
10. Delay in payment to creditors.
11. Downward trend in production, profit and sales.

1.4.6 Indicators of Successful Turnaround

Indicators of success in turnaround process are as follows:
1. Increase in the volume of goods produced and regular and orderly conduct of production activities.
2. Increase in the sales (month-wise or quarterly) or turnover.
3. Increase in the market share of the company.
4. Increase in the profitability of the company in place of losses in the previous years.
5. Financial stability accompanied by loan repayment capacity as per schedule, provision of financial benefits to employees and better working conditions and proper maintenance of plant, machinery etc.
7. Removal of sickness and signs of healthy corporate life.
8. Visible signs of optimum utilization of available resources indicating that the unit is becoming a visible one.

1.4.7 Selecting Strategy/Approach for the Introduction of Turnaround

Major Approaches to Turnaround Strategy:

It is necessary to select any conventional method/approach for the introduction of turnaround strategy. These strategies/approaches are as follows:

Fig. 1.7: Major Approaches to Turnaround Strategy
1. **Surgical Approach**: Surgical approach is a tough attitude and the CEO will take strict follow up measures and actions. He may close uneconomic plants/divisions and maintain effective control on financial and marketing operations. The surgical approach may be resented or even opposed by the subordinates but needs to be used very strictly if selected by CEO. It should not be given up in middle; as such a step will bring the whole process of turnaround in danger.

2. **Human Approach**: As an alternative to surgical approach, the CEO may use humane approach for the introduction of turnaround strategy. He also makes negotiations and settles the different conflicts peacefully. He takes efforts to solve the problems in a democratic manner and sees that the enterprise comes out of all difficulties and shows clear signs of recovery/turnaround.

### 1.4.8 Steps of Turnaround Strategy

1. Providing financial backing.
2. Identification of problems faced by an enterprise.
3. Preparation of comprehensive action plan.
4. Execution of action plan.

### 1.4.9 Features of Turnaround Management

The following paragraph discussed below lucidly explains the features of turnaround management.

<table>
<thead>
<tr>
<th>Involves restructuring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicable to a loss-making unit</td>
</tr>
<tr>
<td>Needs consultation of experts</td>
</tr>
<tr>
<td>Long and time-consuming Process:</td>
</tr>
<tr>
<td>Involves an in-depth planning</td>
</tr>
<tr>
<td>Capital intensive strategy</td>
</tr>
<tr>
<td>Optimum utilisation of resources</td>
</tr>
<tr>
<td>Leaves a permanent effect:</td>
</tr>
<tr>
<td>Needs co-operation of people</td>
</tr>
</tbody>
</table>

**Fig. 1.8: Features of Turnaround Management**
1. **Involves restructuring**: Turnaround involves restructuring the sick company. Restructuring means rearranging the resources of the company for improving its profitability and performance.

   Restructuring can be a:
   
   (a) Financial restructuring,
   (b) Technical restructuring,
   (c) Marketing restructuring,
   (d) Personnel restructuring, etc.

2. **Applicable to a loss-making unit**: Turnaround is a strategy of converting a loss-making or an uneconomic unit into a profitable one.

   (a) It is applicable to a loss-making unit.
   (b) It is done (applied or implemented) by making systematic efforts.
   (c) It is a solution to solve the problem of industrial sickness.

3. **Needs consultation of experts**: Turnaround can be done by consulting company's own (internal) experts or by external experts (hired consultants).

   These two types of experts have their own advantages and limitations:

   (a) **Internal experts** know the company's culture, resources, level of technology, etc., much better. However, they may be biased because their interests are involved.

   (b) **External experts** though may be unbiased, but their suggestions may not be practical and the sentiments of the employees may not be considered.

4. **Long and time-consuming process**: Turnaround strategy is a long-term strategy:

   (a) It is not a one-day task.
   (b) It is a lengthy and time-consuming process.
   (c) In some cases, it may even take a few years to turn around a sick unit.

5. **Involves an in-depth planning**: Turnaround involves stages like analysis, planning, rearranging, testing, rearranging, and re-planning.

   It goes through the following stages:

   (a) Turnaround strategy first involves detailed analysis or study of the failed model or structure of the sick company.

   (b) It begins with planning suitable, adaptable and result-oriented strategies to initiate the turnaround.
(c) The implementation of newly planned strategies takes place by arranging (orienting) the structure of the once failed model. It is done so as per instructions (orders) conveyed by a planning authority or committee.

(d) After this basic arrangement, planning is put to a practical test for some determined time period. Over a time, data is collected and analyzed statistically by experts to seek improvements or failures, if any, in its performance.

(e) The plan is enhanced or tweaked even further if some improvements are noticed in its testing phase.

(f) In case of witnessing some failures, the plan is corrected and again re-planned followed by making proper rearrangements.

(g) Thus, turnaround strategy involves in-depth planning with evidential testing.

6. Capital-intensive strategy: Turnaround is a capital-intensive strategy. It mainly requires a large amount of funds (money) to restructure the resources of a sick company.

For its initiation, company needs an excellent team of expert consultants and professionals. Along with utilizing the expertise of its internal staff, the company also needs external support and/or consultations of other professionals. It needs more funds to pay for the services of these professionals. Furthermore, since the time period of a turnaround cannot be fixed, it needs a continuous supply of funds for its uninterrupted operation until a satisfactory success is achieved.

This overall makes a turnaround strategy a costly affair. It is not a viable choice for those companies who cannot afford its capital-intensiveness.

7. Optimum utilization of resources: Generally, a sick company doesn't make an optimum utilization of its all available resources. These mainly consist of human resources, financial resources, physical resources, and so on.

The turnaround strategy helps to utilize the resources optimally.

(a) Turnaround helps to restructure and reorganize all available resources of the company.

(b) It tries to channel (use) resources only for profitable venture and not for non-profitable ones.

8. Leaves a permanent effect: Turnaround leaves a permanent effect (mark or impact) on the structure and working of the company. It helps a sick company to stop its all unproductive activities and concentrate on productive ones. It aids the company to change its technology from a labour-intensive (that involves many people working) to a capital-intensive (that requires large capital investment in modern equipment, high-tech machines, etc. and hence less people working) one. It may also help a sick company to amalgamate with some other company, thereby forming a totally new company.
9. Needs co-operation of people: For turnaround to be successful, full co-operation of employees is necessary. This is because the turnaround strategy will involve the employees.

Co-operation of other groups such as shareholders, financial institutions, suppliers, and others is also required for the turnaround strategy to be effective.

Thus, turnaround needs full co-operation of people associated (attached) with the sick company for its success.

1.4.10 Symptoms

Turnaround management is needed in the following situations:

1. Declining profitability
2. Declining liquidity
3. Declining solvency
4. Inability to pay Debt service
5. Inability to pay Taxes
6. Inability to pay contractual obligations
7. Inability to pay Accounts Payable
8. Inability to pay Salaries, Wages and Commission.
9. Inability to pay Fringes, Pensions, etc.
10. Inability to pay Purchase Commitments
11. Flat Falling Sales
12. Eroding Gross Margin
13. Closure of branches
14. Increasing Unit Labour Cost
15. Increasing Unit Material Cost

1.5 Questions for Self Practice

1. What do you mean by business? What are its features?
2. Define Business. Explain its importance.
3. Explain the objectives of business.
4. What is turnaround? What are the strategies of turnaround?
5. What is the need of turnaround?
6. What are the implications of turnaround?
7. What are the symptoms of turnaround?
8. Explain the various problems faced by SSIs in India. (April 2015)
10. What is turnaround strategy? Explain the reasons that lead to turnaround. (April 2015)
11. Define Turnaround Management. Explain the reasons that lead to turnaround. (April 2014)