

TURNAROUND MANAGEMENT

The present business scenario is one wherein constant change is the name of the game. For any firm to survive in any industry, there has to be constant monitoring and improvement of its systems and operations. When a firm faces severe cash crisis or a consistent downtrend in its operating profits or net worth, it is on its way to becoming insolvent. The slide cannot be prevented unless appropriate actions, both internal and external, are initiated to change the future prospects. This process of bringing about a revival in the firm's fortunes is what is termed as "Turnaround Management".

There are 3 phases in any Turnaround Management.

- 1 The diagnosis of the impending trouble or the danger signals
 2. Choosing appropriate Turnaround Strategy
 - 3 Implementation of the change process and its monitoring.
- Let us understand each phase individually

Phase I: Watching out for the danger signal

Do companies turn sick overnight and qualify as potential candidates for turnaround, or do they become sick slowly, which can be stopped by timely corrective action? Obviously only the latter is possible. But in reality, most companies do not recognize this fact.. The following are some of the universally accepted danger signals, which a company should watch out for:

- Decreasing market share / Decreasing constant rupee sales
- Decreasing profitability
- Increased dependence on debt / Restricted dividend policies
- Failure to plough back the profits into business / Wrong diversification at the expense of the core business.
- Lack of planning
- Inflexible CEO / Management succession problems / Unquestioning Board of Directors
- A management team unwilling to learn from competitors.

Phase II: Choosing appropriate Strategy

Hoffer, an expert management guru, classifies Turnaround Management into two broad categories. They are

1. Strategic Turnaround

As the name itself suggests, strategic turnaround choices may force the company to completely change its current way of operations. The choices under this method are

- A new way to compete in the existing business
- Entering into an altogether new business

Under the first choice, the focus is either on increasing the market share in a given product-market frame work or in repositioning the product-market relationship. The

increase in market share can be achieved by improving product quality perception through dealer push or by a consumer pull.

Alternatively, entering a new business as a turnaround strategy can be approached through the process of product portfolio management.

2. Operating Turnarounds

Basically they are of 4 types and the strategy adopted depends on the various situations in which the firm is. All these strategies focus on short-term effects only.

1 Asset reduction strategies

2 Revenue increasing strategies

3. Cost cutting strategies

4 Combination strategies

- If a firm is operating much below the Break-even level, it must take steps to reduce its assets. This will reduce the level of fixed costs and help in reducing the total costs of the firm.
- If the firm is operating substantially but not extremely below its break-even level, then the appropriate turnaround strategy is to generate extra revenues.
- Operating closer but below break-even levels calls for application of combination strategies. Under this method all the three namely- cost reducing, revenue generating and asset reduction actions are pursued simultaneously in an integrated and balanced manner. Combination strategies have a direct favourable impact on cash flows as well as on profits.
- If the firm is operating around or above the break-even level, cost reduction strategies are preferable as they are easy to carry out and the firms' profits rise once the unnecessary costs are cut down.

Phase III: Implementation of the change process

Implementation plays an important role in any turnaround management. Identification of an appropriate strategy by itself will not guarantee success. Similarly partial adoption of a strategy is also not useful. The selected strategy needs to be pursued relentlessly and with all-out effort to make it work. The success or otherwise of a Turnaround strategy depends on the commitment shown by the top management as also the operating management.

Success Stories

The case of Hindustan Machine Tools

HMT was formed to manufacture machine tools with a foreign collaborator. After nearly a decade of operation, it decided to diversify into Watch industry. The effect of this diversification was felt only after 5-7 years when the main business of HMT crashed and the company started incurring losses. The watch division came to the rescue and it generated cash profits to keep the company going.

The case of Bharat Heavy Electricals Limited

The company was started with the objective of producing power generating equipments and virtually enjoyed monopoly. But as the years went by because of the inability of the State Electricity Boards and private sector to set up new power plants, its capacity utilisation fell down tremendously. To offset this depression, BHEL ventured into Telecommunications, Metropolitan Transportation and Defense production. Due to this timely diversification, BHEL is now one of the rare profit making PSUs

Conclusion

It can be thus seen that for Turnaround management to be implemented, it is imperative for the management to be aware of its position in the industry in which it is functioning as also its status in the overall scheme of things. Consultants play an invaluable part here since they help in identifying and vetting the strategy in the light of the prevailing situations, thus ensuring effective turnaround of the organisation. With the corporate sector positioned for a giant leap in India, it is time organisations took stock of their performances, so as to stay in the race.

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