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Turning Around Sick Companies—The Indian Experience

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A great many large and medium-size companies, and an even greater number of small units are ailing in India, and the number appears to be growing exponentially. A great deal of the country's capital is locked into these ailing companies. The author tries to discover the causes of the widespread sickness and describes the strategies that have been used for effecting a turnaround. However, only a small percentage have been successfully turned around.

A turnaround can be defined as a process by which companies reduce their losses and achieve increased profitability. It is a process of converting a 'failed' organization into a 'successful' organization—an unsatisfactory result into a satisfactory result—a 'sick' company into a profitable company.

Today in India with the gradual opening of the markets due to the liberalization policies of the government, pressures from the World Bank, the trade policies followed by the Japanese, Koreans, and other developed countries, the un-integrated mergers and acquisitions, and other such external and internal factors, more and more companies are becoming insolvent or sick. This is more predominant in developing countries, especially with the liberalization of the economies coupled with the local labour laws. For example in India alone, there are around 2000 large firms and a very large number of small units which are in decline. According to one estimate around Rs.60bn is held in these sick units.

A challenge for the 1990s will be the emerging competition not only from local producers but also from overseas players. Indian organizations therefore must become more market-oriented than before. Given this difficult situation, there is an obvious and pressing need for managements to take preventive actions lest their companies fail.

There are several definitions of a 'Failed Unit'. We define a failed unit as follows:

'A Failed unit or a Sick unit can be defined as one that has failed to earn a reasonable return on capital or when the repayments to the financial institutions become uncertain or when the unit fails to generate an internal surplus on a continuous basis and depends on frequent infusions of cash for its survival.' What are the causes of corporate sickness? What strategies can be used to turn around these companies?

With the objective of trying to find an answer to these questions we studied several organizations in India. This article summaries the results of this study.

The major causes of corporate sickness can be broadly classified as follows:

(A) *Internal Causes*

☆ Poor quality of top management
In 50 per cent of the cases it was found, that the top management did not have a general management overview. They tended to be more functional oriented.

☆ A weak board

☆ Conservatism in management

☆ Excessive complacency

☆ Premature corporate expansions

☆ Weak financial management policies

☆ Unacceptable market prices and costs

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