

STAKEHOLDERS IN TURNAROUNDS: LESSONS FROM STATE LEVEL PUBLIC ENTERPRISES OF KERALA

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ABSTRACT

The State Level Public Enterprises (SLPEs) are an important component of Public Enterprises system in India. The incidence of sickness among them looks quite extensive. Turnaround attempts are made to rejuvenate/revive large number of sick or underperforming units in the SLPEs especially in Kerala. The study has established the role of stakeholders in deciding the success or failure of turnaround attempt. The analysis revealed that 'Central Government agency in tie up with Financial Institutions' increases the chances of turnaround whereas 'State government agency with its own fund' lessen the possibility of turnaround.

Key Words: *Turnaround, Stakeholders, Public Sector Enterprises, SLPEs.*

INTRODUCTION

Though Public Sector Enterprises in India have contributed significantly to the industrialization of the country, the performance of this sector is highly deplorable. Out of the 240 Central Public Sector Enterprises (CPSEs), 128 are running at a loss as on 31st March 2005 (Department of Public Enterprises, 2006). A study conducted by the Institute of Public Enterprises ([IPE], 1997), Hyderabad, showed that out of 1128 State Level Public Sector Enterprises (SLPEs) in India, about which information is available, 538 units were making losses. The state of Kerala which is having the highest concentration of SLPEs in India also reports a bleak picture. Of the 113 SLPEs of Kerala, only 38 (36.54 percent) are making profits (Bureau of Public Enterprises [BPE], 2006) and the rest are either running at a loss or at different stages of their liquidation or closed. Altogether, they produced a net loss of Rs. 221.69 crores at the end of March, 2005.

At present, the industrial scenario in Kerala is marked by a shift towards revival of existing SLPEs rather than establishing new units in the Public Sector (SPB, June 1990; SPB, March 1997; GOK, 2001; GOK, 2003). The growing magnitude of sickness warranted adequate turnaround responses in the external and internal environment of SLPEs. The State Government has set up specialized institutions like the Public Sector Restructuring and Internal Audit Board (RIAB) and the Enterprise Reforms Committee (ERC) to undertake reforms and restructuring on a war footing. At the Central Government level, the Sick Industrial Companies (Special Provision) Act, 1985 (SICA, 1985) was enacted by parliament to deal with the growing menace of sickness. It contained provisions for setting up of a quasi – judicial body called Board for Industrial and Financial Reconstruction (BIFR) to spearhead the process of revival. Moreover, the State of Kerala is spending crores of rupees every year for the revival/restructuring of her sick SLPEs. During 2001-2002, an amount of Rs. 124.56 crores (Comptroller and Auditor General of India [CAG], 2004) was released to 40 units and in 2002-03, the money released to 45 units amounted to Rs.280.55 crores. Apart from the initiatives at the external environment level, individual SLPEs are also undertaking lots of measures at the enterprise level to reverse the company sickness. In spite of all these measures, the number of companies making profit/loss remains more or less same every year. Compared to 36 units making profit in 1990-91, only 38 companies could make profit in 2004-05, showing only a marginal increase (BPE, 2006). In 2004-05, 49 loss making SLPEs reported a total loss of Rs. 501.50 crores. 26 SLPEs were non-working owing to their huge financial losses and unviable businesses and were either closed in the past or were under different stages of liquidation/closure/merger. Even though intensive efforts from different quarters failed to turn around the performance of many loss- making sick SLPEs, there are many instances of successful turnaround which completely reversed the loss situation. Therefore, turnaround attempts in SLPEs shall be continued with the insights gained from successful turnarounds in the past. In this context, it is worth exploring the role of stakeholders in the success or failure of Turnaround attempts in SLPEs in Kerala.

REVIEW OF LITERATURE

'Stakeholder' refers to any individual, group or institution that may affect or be affected by the business activities (Freeman, 1984). They are government, trade unions, employees, customers, suppliers, share holders (owners), creditors, general public, etc. In the Public Sector context, government assumes the role of both regulator and owner. However, unlike private institutions, PEs are exposed to controls by Parliament/State legislature, administrative departments, the Minister concerned, government officials, Planning Board, Audit departments (CAG), Vigilance agencies, etc.

Stakeholder management is a critical element that contributes to firm performance, especially during the turnaround attempt (Hambrick, 1985; Arogyaswamy et al., 1995). During decline, the firm experience an erosion of stakeholders' support, and whatever support remains comes only at an increased cost. Managing stakeholders' interests may be the most challenging job for the top management during turnaround. In the public sector context, the top management needs to maintain good ties at the government level. Support of the Minister in charge, government officials and politicians may be extremely important even to rope in other stakeholders, e.g., banks and financial institutions. Unless enough attention is given to stakeholders, they may withdraw their support, which can eventually lead to firm failure. The more effective the stakeholder management, the more the support they give during turnaround attempt.

A study on turnaround in PEs also needs to consider the totality of PE environment or at least its major constituents that exert a significant influence over its working. The main stakeholders in PE set-up (i.e. government related) which are likely to exert considerable influence on SLPE turnaround attempts in Kerala are the Administrative ministry, Ministry of finance, Planning Board, Bureaucracy headed by the secretaries to government departments, Parliamentary committees, Bureau of Public Enterprises (BPE), CAG, Vigilance and Judiciary, employees/trade unions, Special Purpose Bodies set up by government such as Board for Industrial and Financial Reconstruction (BIFR), Public Sector Restructuring and Internal Audit Board (RIAB) and Enterprise Reforms Committee (ERC). The multifaceted structure of PE administrative set-up creates lots of functional problems to the company management. The management spends lots of time in dealing with these agencies/bodies, leaving little time to address strategic issues. It is observed that PEs are over-administered and under-managed, making PE management weak at the unit level. Though this was recognized (GOI, 1956; ARC, 1967) right from the infancy stage of PE, the issue has not been properly addressed yet. Apart from the influencing agencies in the government level, market related stakeholders such as Suppliers, Customers, Public and Financial institutions/ banks are also likely to play an important role in the turnaround of SLPEs. So far no studies have examined the role of these stakeholders in the turnarounds of SLPEs. The objective and the hypothesis of the study, therefore, are stated as follows,

OBJECTIVES OF THE STUDY

- *To evaluate the role of 'Stakeholders' in the turnaround of SLPEs under Sickness.*

HYPOTHESES OF THE STUDY

- *There is no significant difference between turnaround and non-turnaround SLPEs with regard to the relative contribution of 'Stakeholders' in the Turnaround of SLPEs under sickness.*

METHODOLOGY

The study makes use of both primary and secondary data. The secondary data for the study were collected from the published reports of government, reports of various committees and task forces appointed to study PEs, annual reports of individual PEs, research journals, books, magazines, newspapers, websites, etc. The primary data were collected using structured interview schedule. The variables identified through the review of literature were screened with the help of experts to see that only relevant variables were included in the interview schedule. The interview schedule prepared was further tested for its validity and reliability through a pilot study covering five respondents. The interview schedule was redrafted based on the feedback received.

The dominant approach to study turnaround is to compare the companies that turned around with the companies that failed to turn around. While selecting the sample turnaround and non-turnaround companies, the researcher has followed a set of criteria which ensured that the companies selected had really gone through the situation of sickness and undertaken turnaround measures resulting in either success (turnaround companies) or failure (non-turnaround companies).

The turnaround units were selected on the basis of the following criteria:-

1. The company selected should have gone through a sickness period prior to its turnaround, i.e., the company should have incurred a loss (PBT) for at least two years continuously or should have incurred a loss (PBT) in two out of three years immediately preceding the turnaround period.
2. It should have received funds for reforms from the government/ financial institutions
3. The company should have achieved turnaround, i.e., the company should have made profit (PBT) for at least two years continuously after the sickness period.
4. It should have commenced business at least 10 years immediately preceding the turnaround period, to avoid the effect of newly started companies that normally show a few years of initial loss followed by a few years of profit.

Companies under non-turnaround category were selected as per the following criteria:-

1. The company selected should have gone through a sickness period, i.e., the company should have incurred a loss (PBT) for at least two years continuously or incurred loss (PBT) in two out of three years.
2. It should have received funds for reforms from the government/ financial institutions.
3. The company should not have achieved turnaround or should have remained in sickness even after the turnaround attempt. The turnaround occurs when a company makes profit (PBT) for at least two years continuously after the sickness period.
4. It should have completed at least 10 years prior to the turnaround attempt to avoid the effect of newly started companies that normally show a few years of initial loss.

The study surveys the experience of top management people in turnaround and non-turnaround companies during the turnaround attempt. The top management is categorized by BPE, Government of Kerala as 'Senior Executives' (BPE, 2006) consisting of CEOs and other senior managers in the level of heads of department and above. The population of the study, therefore, is the 'Senior Executives' of the Turnaround and Non-Turnaround SLPEs of Kerala selected as per the criteria. The following procedure was adopted for selecting the sample companies and respondents.

The examination of financial data since 1990-91 and other secondary sources relating to 40 Manufacturing SLPEs using the above-mentioned criteria provided 21 companies which could be considered for detailed study. For this, the researcher had made use of the information contained in the published documents of the Government of Kerala, such as White Paper (GOK, 1998) published by the Industries Department, annual reports of companies, annual reviews of public enterprises published by the Bureau of Public Enterprises and the annual Economic Reviews published by the State Planning Board. Of the 21 companies identified, 14 belonged to the turnaround category and seven to the non-turnaround category. From the list of 21 companies which were identified using the criteria, around 50 percent (approximately) companies from both groups were randomly selected for detailed analyses. Hence, seven companies from the turnaround group and three from the non-turnaround group were randomly selected for the detailed study.

The total number of 'Senior Executives' of the 10 sample companies (BPE, 2005) was 213, with 59 from the turnaround group and 154 from the non-turnaround group. The number of 'Senior Executives' contacted for interview was 73, consisting of 42 from the turnaround group and 31 from the non-turnaround group. However, interviews could be conducted only with 49 respondents, 33 from the turnaround group and 16 from the non-turnaround group. The response rate was high for the turnaround category (79%) compared to non turnaround category (52%). This is consistent with the experiences of past research on sickness where respondents of failing

companies have more resistance to share information (Hambrick and D'Aveni, 1988). The data collected using interview schedule were analyzed using appropriate statistical tools such as Mean, Independent Samples t-test and Factor Analysis.

RESULTS AND DISCUSSION

Stakeholder management is a critical element that contributes to company performance especially during the turnaround attempt. Unless enough attention is given to stakeholders, they may withdraw their support, which may eventually lead to company failure. The more effective the stakeholder management, the more the support they may be giving to turnaround attempt. The interview schedule measured the contribution of 12 stakeholders which are likely to play a dominant role during turnaround attempt. It was measured on a five point scale from 'small' to 'greater' extent, viz, 1 for 'Small', 2 for 'Moderate', 3 for 'Medium', 4 for 'Great' and 5 for 'Greater'. Factor analysis was administered on the collected data to reduce the number of dimensions into a manageable few so as to make better interpretations. The factor analysis provided five factors that accounted for 79.19 percent of the total variation when the usual procedure of considering all factors showing Eigen-value greater than one was adopted. The corresponding factor loadings obtained through varimax rotation were used for further analysis. A detailed description of these five factors along with their suggested label by considering variables with factor loading greater than or equal to 0.5 is given in Table 1.

Table 1, Factors Extracted – Description of Stakeholders

Stakeholders		Factor Loadings
Factor 1	Motivated beneficiary group	
	Administrative Ministry	0.629
	Trade unions	0.709
	Employees	0.834
	Customers	0.809
	Suppliers	0.844
	Variance Explained : 25.47 percent	
Factor 2	Outside Public through auditors	
	Statutory Auditors	0.723
	Public	0.864
	Government officials	0.525
	Variance Explained : 15.92 percent	
Factor 3	Central Government agency in tie up with Financial Institutions	
	BIFR	0.909
	Financial institutions	0.846
	Variance Explained : 14.82 percent	
Factor 4	Administrative department.	
	BPE	0.892
	Government officials	0.549
	Variance Explained : 12.64 percent	
Factor 5	State government agency with its own fund	
	RIAB / ERC/ KIRFB	0.915
	Variance Explained : 10.34 percent	

Source: Survey data

The mean scores and corresponding Standard Deviations of the 5 factors extracted and the result of hypothesis testing using t-test are reported in Table 2.

Table 2, Group Statistics and Testing of Hypothesis: Stakeholders

Stakeholders	Turnaround		Non - Turnaround		t-test df = 47		
	Mean	SD	Mean	SD	t	P Value	Remarks
Motivated beneficiary group	3.146	0.625	2.8	0.839	1.619	0.112	Non-Sig.
Outside Public through auditors	2.253	0.640	2.229	1.059	0.096	0.924	Non-Sig.
Central Government agency in tie up with Financial Institutions	3.046	1.201	2.281	0.912	2.245	0.029	Sig.
Administrative department	2.121	0.750	1.781	0.657	1.546	0.129	Non-Sig.
State government agency with its own fund	2.091	0.947	3.125	1.408	-3.043	0.004	Sig.

Source: Survey data.

From Table 2, it can be seen that the mean scores of ‘Central Government agency in tie up with Financial Institutions’ and ‘State government agency with its own fund’ were significantly different for the turnaround and non-turnaround companies. The mean scores of other factors showed no significant difference. The mean score of ‘Central Government agency in tie up with Financial Institutions’, was significantly higher for turnaround companies than for non -turnaround companies. The mean score of ‘State government agency with its own fund’ was significantly higher for the non-turnaround companies. The factors that were found ‘not significantly different’ played a more or less neutral role in turnaround in deciding the turnaround outcome. So, external agencies like BIFR and Financial Institutions played a key role in turning around companies in sickness. The greater chance of turnaround here may be the outcome of increased pressure exerted by these agencies even by threatening the very survival of companies in the case of turnaround failure. State government agencies like RIAB and ERC enhanced contribution seem to lessen the chances of turnaround. It appears that the State agencies might be looked upon by SLPEs as another government department with little pressure on them to turn around.

PRACTICAL IMPLICATIONS

1. Enhanced contribution of State government agencies like RIAB and ERC lessens the chances of turnaround. It appears that the State agencies might be looked upon by SLPEs as another government department with little pressure on them to turn around. Therefore, SLPEs undertaking turnaround should be encouraged to take up turnaround under the supervision of external agencies like BIFR and Financial Institutions. The increased monitoring by financial institutions occurs when SLPEs borrow funds from outside financial institutions. So SLPEs may be encouraged to borrow money from outside financial institutions.
2. Compared to the State Level agency like RIAB and ERC, the Central agency (BIFR) is rather independent and is vested with more powers. Hence, constitution of an independent agency with adequate powers or empowering the existing agency, RIAB, with more powers and operational freedom completely detached from the government can be thought of.
3. As the likelihood of turnaround success increases when Management in harmony with Trade unions and employees undertakes turnaround measures, the managements need to rope in their support before initiating any major turnaround attempt.
4. Since the government as a facilitator of turnaround can significantly contribute to turnaround, the government may take active steps to turn around companies in dire states. The government policy and mechanism to facilitate turnaround in sick companies need to be further strengthened. However, the government shall create an image that it will not continue to support companies that fail to turnaround. Such companies may be liquidated so that further drain of the state exchequer might be

stopped. It will also convey a message that government actions are serious attempts and if the company fails to improve its performance the company ought to be liquidated. As part of turnaround support, the government may provide sick companies with tax concession, arrangements for one time settlements with financial institutions, etc.

CONCLUSION

The study examined the relative contribution of various stakeholders in turnarounds. The analysis of data revealed the significant role played by different stakeholders in turnarounds in the SLPEs context in Kerala. It highlights the importance of stakeholder management in turnaround attempts as the success of turnarounds heavily depends on stakeholders and their relative contribution.

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