Asia Pacific Journal of Management, 21, 75–101, 2004

Turning Around a State Owned Enterprise: The Case of Scooters India Limited*

SUNIL KUMAR MAHESHWARI† sunilm@iimahd.ernet.in
Associate Professor of Management, Indian Institute of Management, Wing 1, IIM, Vastrapur, Ahmedabad, Gujarat 380 015, India

DAVID AHLSTROM ahlstrom@cuhk.edu.hk
Associate Professor, The Chinese University of Hong Kong, Department of Management, Shatin, NT, Hong Kong

Abstract. Past research on firm turnaround shows that the propensity of an organization to undertake a successful turnaround depends on a complex interaction between action choices in the organization and constraints in the business environment. This article extends this line of research by examining corporate decline and turnaround in an environment with numerous challenging environmental constraints: the state-owned sector in India. Using an in-depth case study of a state-owned enterprise in India, this research found that the business environment, the firm's decision-making process, its leadership characteristics, and the stakeholders' responses were are all found to influence the firm's action choices and turnaround process. This study also shows that in addition to the strategic and operational changes so commonly associated with firm turnaround, the importance of leadership and the basic credibility of the firm's top management with major stakeholders and government officials also play key roles in the turnaround.

Keywords: action choice, decision-making, leadership, turnaround

Introduction

Globally the incidence of firm decline has been on the increase (Cameron, Sutton and Whetten, 1988a; Witteloostuijn, 1998) causing the study of organizational decline and turnaround to be a major topic for researchers, consultants, and managers (Bruton, Ahlstrom and Wan, 2001; Chanda, 2002; Collins, 2001; Mone, Mckinley and Barker III, 1998). Most studies of firm turnaround have been conducted on firms domiciled in more developed economies and primarily in the West (Bruton, Ahlstrom and Wan, 2003). Studies typically assume that managers have a great deal of autonomy to cut assets, lay off workers, hire new management, raise money, and shift firm strategy (Bruton, Ahlstrom and Wan, 2001). These turnaround options are more constrained in a transition economy and may not be as readily open to organizations attempting to reverse declines (Peng, 2004). Given the additional constraints that state linked firms can face in transition economies, how are turnarounds undertaken in these enterprises? This is a particularly salient question given the quantity

*Portions of this paper were presented at the *Asia Pacific Journal of Management* Conference on Corporate Turnaround, Bangkok, Thailand, Dec. 10–11, 2003.
†To whom all correspondence should be addressed.

Exhibit 1. Income statement (Unit: Rs. in 10 Million).

Year	74–75	84–85	93–94	94–95	95–96	96–97	97–98	98–99	99–00
Sales	0.39	5.52	29.58	50.53	86.18	120.21	128.91	125.68	135.91
Other income	0.10	0.23	−9.34	−2.54	0.53	14.76	14.10	3.57	8.14
PBDIT	−0.15	−3.21	−9.41	−2.62	0.40	13.89	13.92	8.95	8.66
PBDT	−0.89	−12.57	−75.61	−80.93	−91.17	11.57	12.72	7.25	6.96
PBT	−1.06	−14.08	−76.23	−81.56	−91.82	10.90	11.88	6.31	5.99

of state-owned enterprises that still exist and the trend toward privatization and further rationalization and improvement of the state sector of many transition economies (Peng, 2000, 2004). This article addresses this problem by using an in-depth case study of a single state-owned enterprise in India's transition economy. In doing so, it develops a framework for turnaround management that also accounts for constraints faced by its ownership status. This article also contributes to research on turnarounds by examining managerial choices that lead to both decline and turnaround of organizations.

The firm studied in this article was a major producer of a key niche vehicle in India—the motor scooter. That firm, Scooters India Limited (SIL) with more than 3000 employees and annual revenue of US$ 50 million annually, has continued to survive in spite of reporting operating losses for nearly every year since its inception in 1972. During these years SIL could have been classified as a "permanently failing organization" (Meyer and Zucker, 1984). It was one of the ten top loss-making companies in India in the late 1980s. Its net worth actually turned negative and only in 1992 it was declared a "Sick Company" by Indian regulatory authorities. It carried a negative net-worth of US$ 185 million in 1995–96. Yet after twenty-five straight years of losses and stultifying management practices, it did start to earn since undertaking a turnaround in 1996 (Exhibit 1). This study examines the process that led to decline and subsequent turnaround of the firm, especially the constraints of operating as a state owned firm in a transition economy.

Conceptual framework

The literature on firm decline and turnaround management seeks to address the several questions. These include why firms fall into decline (e.g. Argenti, 1976; Hambrick and D'Aveni, 1988; Hannan and Freeman, 1977; Khandwalla, 1992; Singh, 1986; Witteloostuijn, 1998; Zammuto and Cameron, 1985), the social, psychological, economic, and political consequences of firms' decline (Harris and Sutton, 1986; Khandwalla, 1992; Sutton and Callahan, 1987), and how firms respond to a decline? (Barker and Duhaime, 1997; Bruton, Ahlstrom and Wan, 2001, 2003; D'Aveni, 1989; Ford and Baucus, 1987; Khandwalla, 1992; Navarro, 1998; Sutton and Callahan, 1987; Witteloostuijn, 1998). The focus of this article is primarily on the last question, though the first question will also be addressed.

Organizational decline itself has been examined from the economic, psychological and sociological perspectives (Argenti, 1976; Cameron, Sutton and Whetten, 1988a; D'Aveni, 1989; Kahneman and Lovallo, 1993; Kelly and Amburgey, 1991; Khandwalla, 1989). The common thread in these works has been the inquiry about managerial action-choices and their determinants that led to the organizational decline. From the so-called action choice perspective, the decline of firms could be for two reasons: (a) lack of action in response to environmental changes and (b) faulty action choices. Both these could be operational simultaneously in an organization. Integrating them, Weitzel and Jonsson (1989) explained the decline process from stage theory perspective that included five stages: blinded, inaction, faulty action, crisis, and dissolution.

Many firms in Asia were not prepared for the Asian financial crisis of 1997–98 and failed to respond to the economic downturn (Bruton, Ahlstrom and Wan, 2001; Clifford, 2000). This led to significant declines in organizational performance, which were often attributed to macroeconomic causes. Yet top management's role in turnaround cannot be ignored, even under difficult macroeconomic circumstances (Bruton, Ahlstrom and Wan, 2001; Chanda, 2002). Evidence from studies on managerial decision making to strategic management suggests that managers often prove unable to account for environmental change in their plans owing to resource constraints, inadequate information, or blindness to environmental changes (Mezias and Starbuck, 2003; Pfeffer and Salancik, 1978). Consequently, organizations are at varying risk of experiencing changes in the environment for which they are not prepared (Aldrich and Pfeffer, 1976; Carrol, 1984; Kelly and Amburgey, 1991; Khandwalla, 1992; Mone, Mckinley and Barker III, 1998).

That firms have trouble responding to environmental jolts is well understood. But organizations may also not respond to relatively slow environmental changes owing to internal inertia (Christensen, 1997; Pfeffer and Salancik, 1974). Agency theory (Eisenhardt, 1989), prospect theory (Kahneman and Tversky, 1979) and the resource dependence model of firm (Pfeffer and Salancik, 1978) examine a number of causes of such inertia. According to these theories, inertia arises from sunk costs, specialized assets, bureaucratic control, internal political and cultural constraints, external restrictions, and managerial commitment to status quo due to long tenure of managers in the organization and in the industry (Hambrick, Geletkanycz and Fredrickson, 1993). Lack of organizational slack triggers excessive centralized control (Bozeman and Slusher, 1979; Staw, 1982). Such control triggers vicious circles that afflict declining organizations (Khandwalla, 1992). Similarly, excessive slack may also lead to complacency causing minimal adaptive initiative (Greenley and Oktemgil, 1998; Hambrick and D'Adveni, 1988).

Organizations that undertake change initiatives may still decline owing to faulty actions. For example, empirical findings indicate that excessive domain initiatives may lead to decline (Hambrick and D'Aveni, 1988). These faulty actions could be genuine mistakes, committed by corporate managers or they could be action choices undertaken by corporate managers for their own subjective reasons (Kahneman and Tversky, 1979).

To minimize genuine error in action choice, organizations adopt multiple mechanisms such as environment scanning, competitive profiling and strategic action choice making process. Two streams of research examine this dimension of action choice process. The normative stream explores how action choices should be made in different contexts (Goodwin and Wright, 1998). The descriptive stream explores how action choices are actually made in organizations and what are the influencing variables. It assumes bounded rationality of managers (Argyris, 1973; Ghemawat, 1991; Hammond, Keeney and Raiffa, 1998; Kahneman and Tversky, 1979).

Organizations also may try to adopt action choice making and monitoring processes that minimize the possibilities of inadequate action choices owing to subjective reasons. Some of these mechanisms include corporate governance, auditing, team-based decision-making, and reward mechanisms. The underlying theme in these mechanisms is to enhance the transparency of action choices and accountability of people in organizations. Agency theory (Eisenhardt, 1989) contributes significantly to this stream. It examines the relationship between the manager as an agent and the shareholders as principals. The theory suggests how agents could shirk their responsibilities towards the organizations to protect their own interests. The shirking tends to increase with decrease in transparency in organizations.

Lack of action and faulty actions may emerge in SOEs for some different reasons. It has been widely quoted that SOEs in India have remained in poor financial condition owing to political forces that constrain their function (Rao, 1987). This results in the bureaucratic interference that slows down decision-making or make it financially irrational (Ahlstrom, Bruton and Lui, 2000). It is not uncommon to find the interests of political leaders, bureaucrats and managers to be at loggerhead. It triggers their efforts to have greater influence at the workplace, thus, affecting the action choices (Brown, 1984). In developing economies where unemployment rate is high, even declining SOEs continue their operations. Such organizations have increased inertia because of employment security and part financial security provided by the government, high formalization, and bureaucratic control.

Consequences of organizational decline

The consequences of decline both within and outside the organization (Mone, Mckinley and Barker III, 1998; Khandwalla, 1992; Sutton and Callahan, 1987; Harris and Sutton, 1986) are examined primarily to delineate the impact of decline on behaviour of suppliers, customers, employees and top management, learning process in the organization, control and information flow processes in the organization (Williamson, 1985; Pfeffer and Salancik, 1978). Suppliers, creditors, customers and other organizational audience try to disengage themselves from the organization, reduce the quality of participation, bargain for more favorable exchange relationship, denigrate the organization via rumors and denigrate the organization via confrontation (Sutton and Callahan, 1987).

Such hostile reactions adversely affect the career, reputation, and self-efficacy of the top management in the declining organization. Consequently it influences the action choice in three ways. First, managers try to avoid or delay emergence of such reactions by increased secrecy, rigidity, centralization, formalization, scapegoat, conflict, and conservatism. Senior managers may leave the organization before decline of the company becomes widely known. It leaves a vacuum at senior management positions in the organization. Secondly, managers may show escalating commitments to past actions (Ghemawat, 1991). Both these reasons may further lead the organization towards crisis (Khandwalla, 1992). Thirdly, managers may undertake the challenge to turnaround the company. Managers are required to reestablish their managerial credibility among hostile stakeholders to achieve turnaround.

Response to decline

This stream of research is concerned about the process of turnaround of declining organizations (Bruton, Ahlstrom and Wan, 2001, 2003; Khandwalla, 1992; Robbins and Pearce, 1992; Ruiz-Navarro, 1998). Most of studies in this field seem to be using contingency-rational model of organizations to develop typology of turnaround strategies. For example, Khandwalla (1992) identified four basic types of turnaround processes namely surgical-reconstructive, surgical-innovative, non-surgical-innovation, and non-surgical-transformational. His analysis of sixty-five published turnaround cases indicates that domain initiative, cost reduction and top management changes are some of the universal activities in the turnaround process. Robbins and Pearce (1992) based on the focus of turnaround process identify two types of strategies: efficiency driven with belt tightening and streamlining of operation and competitive strategy oriented with changes in technology, products, or markets.

This all suggests that managers have two broad choices concerning significant environmental changes: no action or actions that could prove appropriate or faulty. The response is influenced by two sets of variables: endogenous and exogenous. Exogenous variables include the dynamism, munificence i.e. the carrying capacity of the environment, and response of external stakeholders. Endogenous variables include ownership, leadership, board functioning, availability of slack resources, decision-making system, response of internal stakeholders and organizational capability to scan the environment and responding to it. Integrating the variables of organizational decline and turnaround, this framework is shown in figure 1.

Methodology

Action choices of managers in the context of organizational decline and turnaround represent a complex phenomenon where multiple subjective realities coexist. Such an ontological context suggests the adoption of qualitative research. Further in epistemological terms, researchers need to observe the phenomena to understand the dynamics of action-choices in organizations, suggesting adopting a qualitative research route through the case method (Lee, 1999). For these and other similar reasons, turnaround and related decision processes have often been studied through case methods (e.g. Allison, 1971; Eisenhardt, 1989; Pettigrew, 1973; Harris and Sutton, 1986). The resultant theory through case research provides an advantage of novelty and testability (Eisenhardt, 1989) but it requires careful examination of validity of data and possible bias of researchers through collection and interpretation of data through multiple sources.

Eight in-depth interviews were initially conducted with the CEO, Directors and functional department heads of the company. The first three interviews were largely unstructured and open-ended as the process of decline and turnaround of the organization under these constrained conditions was examined. These three initial interviews provided a detailed list

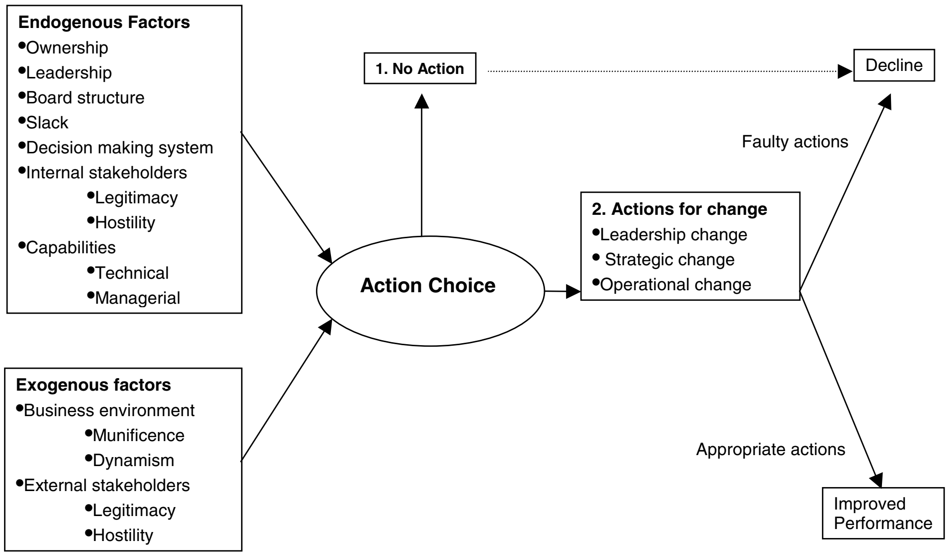

Figure 1. Action-choice model.

of actions in the history of the company. The remaining five interviews were semi-structured; guided by the information gathered in the original interview. During the subsequent five interviews some predetermined questions to understand firm actions were asked. Fifteen additional semi-structured interviews were subsequently conducted with other managers in the company. Another nine interviews with external stakeholders were conducted: one dealer, two major customers for the firm's products, two members of the main audit team, two suppliers, and the firm's banker, all guided by the initial interviews and the need to gather more information to fully explain the emerging process of turnaround of a state owned firm in a transition economy. External stakeholders were also asked how they interacted with SIL in different phases of the firm's decline and turnaround and how management established legitimacy and support with key stakeholders such as the government and labor for their actions.

The interviewers were all cross-validated as well (Strauss and Corbin, 1990). For this purpose, some managers were interviewed twice to validate statements. The paper reports only such validated statements. These interviews provided data on decision-making process, leadership characteristics, stakeholders' response, industrial relations and key actions in the history of the organization. To further facilitate data gathering and cross validation, seven days were spent at the plant of the company as an observer. In the process workers were also interviewed informally. It helped to assess industrial relations and workers' viewpoints. The agenda and minutes of 156 meetings of the board of directors, 30 annual reports of the company and 3 consulting reports were examined. Interviews with the board members and scanning of minutes of the meetings of the Board provided an understanding the role of the members of the Board in different actions. Annual reports provided information on the financial performance of the company on year-to-year basis. It also helped to validate the timings of some of the actions reported during interviews. Annual reports also helped in updating the industry analysis, which was prepared primarily with the help of published information on two-wheeler industry.

Finally, the interview data and its interpretation were validated through their follow presentation to the top management team, which consisted of the CEO (Managing Director), the COO (Director of operations), and the other seven most senior managers of the firm. The comments were sought on the understanding of different actions and their linkages with variables, listed in the framework. This is consistent with a replication logic approach to collecting, augmenting and validating the data (Eisenhardt, 1989).

Final commentary of the senior managers were also taken on the documented case to ensure validity of data and its interpretation. This validated case summary was then given to four faculty members at the Indian Institute of Management Ahmedabad. They read the interviews and case summary and commented on the summary and interpretations of the researchers. Where discrepancies occurred, follow up questions were given to the relevant senior managers for clarification (Eisenhardt, 1989; Strauss and Corbin, 1990).

Being a sufficiently mature company, SIL provided two advantages for this research. First, it ensured that the decline was not purely for inadequate early project implementation phase. Second, distinct phases could be identified in the history of the organization. There have been four CEOs (the fifth CEO was posted by the Government in the company for a very short period) in the company who managed it differently in different environments. Their actions choices were different and they achieved varied outcomes. It suggested four natural phases in the history of SIL. The phase between 1972 and 1979 was divided into two phases. In the phase between 1972 and 1976, SIL was expanding. People in the company and outside the company were enthusiastic. However the period between 1976 and 1979 characterized the decline of morale of people owing to failure of SIL to earn profit and respect in the environment. The other phases were periods between 1979–1984, 1984–1990 and 1990–2002.

Results

Decline between 1972 and 1990

Early decline phase (1972–1979). Scooters India Ltd. (SIL) was initially set up as a joint venture between Innocenti of Italy, Automobile Products of India Limited (API), and the central government of India. It was set up in 1972 in the industrially backward city of Lucknow in northern India to manufacture motorized two-wheeled scooters at a time when the licenced production capacity of scooters in India was far below the demand. API already had some technical collaboration with Innocenti and was manufacturing Lambretta scooters, a brand of Innocenti. An old plant of Innocenti that was lying unused in Italy for two years owing to labour problems was to be purchased. Condition of the machines assured a varied life from four to eight years to produce 100,000 scooters a year with investment in some additional machines, backup facilities, tools, and equipment.

Innocenti sold available technical documentation, world rights to manufacture two-wheeler Lambretta scooters, and the old plant at an FOB cost of US$ 2.4 million on "as is where is" basis to SIL. Soon after the sale, Innocenti dissolved itself and did not contribute to the joint venture. One of the executives in the company recalled: "The price that we paid for the old plant was so low that even the sale of the plant as scrap would have fetched similar price to Innocenti."

The government appointed forty-five year old Mr. S. Soundararajan, an officer from the Indian central government, as the first Executive Director (ED) in November 1972. Employees in SIL remember him as an autocratic, quick decision-maker, optimistic, and extremely bright leader. He adopted a centralized decision-making process. Another senior manager called him "a man of principles, work addict, ambitious, and simple." One of the other executives added: "He was a man in haste. Perhaps he had plans to stay in SIL for five years and looked for greater challenges after that."

Project implementation during this period. Mr. Soundararajan planned to achieve the production target of 30,000 scooters in 1974, the first year after plant installation, 60,000 scooters in 1975, and 100,000 scooters from 1976 onwards. To achieve such targets he had started the construction of the plant immediately after taking over. While commissioning the plant, SIL engineers found that concrete columns in the plant would obstruct the movement by overhead cranes. SIL had to plan the movement of materials through forklifts and trucks.

On opening of the cases, dispatched by Innocenti, SIL engineers discovered that some of the machines, components, accessories, and drawings were missing. Most of the documents were in the Italian language. Engineers required continuous help of translators. A senior manager explained:

> The initial organizational structure was not well developed. We lacked human resource plans. People were recruited in the first year itself to operate at full production capacity of 100,000 scooters. Selection of people was not planned. Many persons were selected with similar expertise from ordnance factories.

Soundararajan started expanding the activities of SIL right from its early stage. He could get his expansion proposals approved with the help of government nominees on the board. These nominees used their service network in different ministries for early approval of SIL proposals. SIL set up a foundry shop that was not part of the initially approved project. This and other additional manufacturing facilities led to an increase in the project cost from Rs. 119 million to nearly Rs. 200 million in 1973.

Early expansion. Soundararajan negotiated with Innocenti to purchase its three-wheeler plant at an FOB price of $500,000 in 1973. "It was a throwaway price for the plant," some managers commented. The purchase, however, strained the relationship between SIL and API as API wanted to takeover three-wheeler manufacturing on its own. Soon afterwards, API withdrew from the joint venture. Soundararajan also negotiated with state governments to set up scooter-assembly plants in their states and to procure power packs (a compact unit consisting of engine and gearbox) from SIL. He agreed with seven manufacturing units in different Indian states to supply 100,000 power packs to them. State governments set up these new units with the help of SIL.

Product launch. The Vehicle Research and Development Establishment tested the first prototype of SIL scooter, named Vijay Deluxe, in late 1974. It reported few problems regarding inferior quality of components. Suppliers had not invested in technology to meet specified quality parameters of these components. Further, the lead-time to procure the components from far off suppliers varied from a week to a few months owing to poor infrastructure in the region. SIL continued with its original plans to start commercial production in February 1975 without addressing the identified quality problems adequately and then took steps to set up ancillaries and in-house production facilities to ensure adequate supply of quality components in future. The company issued public shares in 1975 to fund its expansion initiatives. The government owing to lack of public interest bought all the shares.

The Vijay Deluxe scooter provided 9.6 BHP horsepower against 6 to 7 BHP of competitive scooters. It was a chain driven vehicle, unlike shaft driven scooters of competing firms. It required frequent preventive maintenance for which Indian customers were not accustomed. The absence of preventive maintenance led to frequent breakdowns. The breakdowns created a general perception in the market that chain-driven technology was inferior to shaft-driven technology. Vijay Deluxe was also priced lowest in the market. Yet, it failed to fill the demand-supply gap of scooters in India at that time owing to its lower quality image. SIL produced 25,617 scooters and 11,173 power packs in 1976–77 against a plan of 100,000 scooters and power packs.

Responses to early decline. SIL responded strategically by developing new products. It developed a 50cc moped in 1976, a petrol-driven three-wheeler and a petrol-driven six-passenger carrier in late 1977 and a 125 cc scooter in 1978. But, none of them could be launched successfully. SIL planned to equip three-wheeler with a diesel engine to reduce the fuel cost (diesel fuel is significantly subsidized in India).

SIL launched a modified version of its first scooter in the second half of 1977. However, quality continued to be a problem. One of the senior managers said, "Though the company was not performing, there was never a doubt about its survival. Diversification plans were being developed for rehabilitation purposes."

The initial enthusiasm and challenge of commissioning had started evaporating fast with the failure of the Vijay Deluxe model. SIL took over Precision Instrument Limited (PIL) in 1979 for about $50,000 (US) to manufacture speedometers and magnetos. PIL performed poorly in its first year of production and continued to make losses as did SIL.

Leadership changes (1979–1984). In response to the continuing poor financial and technological performance of the firm, Mr. V. Krishnan replaced Soundararajan in January 1979, the year in which losses of the company rose to about three fold to over three million dollars from in the previous year. He had come in from the Indian Defense and Accounts Services of the central government in Delhi. He continued the policy of expansion through backward integration and collaborated with the UP state government (where the plant is located) to produce tires and tubes. Internally some employees felt that he favored those who had come to SIL from ordinance factories. The visible divide between employees in his tenure led to the worsening of industrial relations in the company.

Mr. L. K. Joshi replaced Krishnan on May 6, 1981. Joshi belonged to Indian Audit and Accounts Service. He worked with external stakeholders to get their support. His good network of relations in the political and bureaucratic circles was helpful. He worked hard to improve relationships with external stakeholders. He set up one corporate planning group for important decisions. He started making senior managers responsible for internal management issues. This arrangement could not address internal problems of indiscipline adequately. In one of the incidences, one manager was killed in the factory premise. It led to dismissal of 38 employees from the company. One of the senior managers stated that Joshi had focused on external stakeholders after joining the company. To start with, he had faith in the ability of SIL to revive. This faith had shattered by the incidence of killing.

Mr. P. S. Kapoor replaced Joshi in July 1984. He was on deputation from Indian Railways. He did not believe that the company could be turned around. One of the managers recalled an incident in the mid-1980s. After attending a training programme, Kapoor said in a lighter mood, "Trainers were talking about communication of vision. Will they tell me how to communicate the vision of closing a company?"

Kapoor made it known to the employees that he would go back to his parent organization once his deputation was over. This caused one of the senior managers to remark, "Kapoor had very little concern for SIL, as his stakes in SIL were very low. He had a job to fall upon, in case of dissolution of SIL."

By now the company was in a dire state. No one believed that it could survive for long. All, including the CEO, but the employees and their union, were willing to close it. Unions were fighting a battle to retain jobs. They were constantly seeking support of political leaders in the central and state government.

The decline of the company had owed to a variety of operational and strategic reasons: the wrong choice of location of the plant, a lack of planning, centralized decision-making with little consultation, and a lack of consequences of failure for top management. Mr. Soundararajan was initially ambitious, the demand for the product exceeded the supply in the country, and funds were available with the help of government nominees in the board. Consequently Soundararajan took risks and skipped many logical actions. For example, he could have waited before national launch for technical corrections in the scooter after receiving the VRDE report. His decisions remained unchallenged owing to centralized decision-making. It shows that leaders who are risk-takers are likely to prefer expansionary action choices when the environment is munificent and stakeholders are supportive. Such action choices are likely to be risky and lack contingency plans.

The leaders that followed Soundararajan did not show high commitment to turn round the firm. Internal disturbances of union and interference of political leaders further diluted the faith of leaders in the revivability of the company.

Accelerated decline (1984–1990). The two-wheeler scooter market in India started opening up in the mid-1980s. The government granted new licences to LML Limited and Kinetic Motors Limited and allowed increased production by Bajaj Auto Limited. SIL also tried to collaborate with Honda Motors Ltd. for technology. The government did not approve the proposed collaboration as Honda had already collaborated with Hero Cycles Ltd. Hence, SIL could not have been able to use the "Honda" brand. According to managers, technological collaboration would have been extremely helpful to the company. However, there were political concerns, which prevented the agreement.

Increased availability of better quality scooters in the Indian market led to sharp decline in demand for SIL scooters. SIL tried to rationalize its product range. It shelved the moped project and decided to concentrate on a larger 100cc vehicle. The production volume declined from 25,828 scooters in 1984–85 to 4,547 in 1986–87. This led the company to crisis. SIL reported a loss of Rs. 217.7 million in 1986–87.

Stakeholders' response to decline. Virtually all the stakeholders in SIL became hostile towards the company after the mid-1980s. Instances of inferior quality supplies increased. The manager (material management) of that time recalled:

> It was extremely difficult to act tough with suppliers for quality owing to our frequent defaults on payments. While it was difficult to get supplies, it was extremely difficult to get supplies again on time after rejection. Hence, we frequently accepted supplies of sub-standard quality. Suppliers usually insisted on advance payment. At best we could get supplies against the letter of credit.

SIL had to make provisions for bad recovery. Often suppliers whose supplies were rejected for quality did not refund the advance to the company. Managerial efforts to solve quality problems in the 1980s proved futile as suppliers refused to invest in dies for redesigned components for scooters of upgraded design in the absence of reasonable volumes. The plant too could not be kept well owing to lack of supplies,

The local media were also hostile. The public relation officer of SIL recalled:

> The local media people would not even offer me a seat to sit in those days whenever I visited them. I used to feel ashamed to discuss about SIL since people had no regard for the company in those days.

SIL could not recruit skilled or properly qualified managers for nearly 10 years owing to its adverse image. Internally, employees had low morale. One manager recalled:

> Lambretta Cento, the first 100cc scooter in India, was launched without fanfare as we all thought that we had a poor name in the market, and fanfare would not be appropriate. It was a reflection of low self-esteem among the employees at that time.

Failed efforts to sell the company. There were attempts to sell the company in 1987. It was time when SIL could not sell its two wheelers. The production of scooters had declined to a mere 4547 units in 1987. One of the strong contenders to buy SIL wanted it to reduce its manpower to nearly half of the then strength of 3200 employees. This is consistent with research on the decline literature in exiting the business (Khandwalla, 2001).

The period now onwards was one of severe industrial unrest in SIL. Employees did not believe Kapoor. They preferred to approach political leaders to resolve their grievances rather than approaching the management. A manager described this period thus:

> Capacity utilization of the plant was very low. Unions were very aggressive. Union members usually sat outside the gate of the factory and did not allow the senior managers to enter the plant. Kapoor was forced to operate from his residence or city office, which was nearly 25 km away from the plant. Mistrust, conflicts, vitriol and secret information seeking characterized the environment of SIL. Senior managers were unable to work as a team.

This added losses to the company. SIL reported a loss of Rs. 404 million on sale revenue of Rs. 103 million in 1989–90. The accumulated loss stood at Rs. 2125 million in that year. By the end of Kapoor's tenure in 1990 government developed a sense that SIL was now beyond realms of possible turnaround. They decided to appoint a new CEO who could successfully dissolve the company.

The eventual turnaround of SIL (1990–2002)

With the constraints of the government, tentative leaders, uncertain stakeholders, a lack of vision, a restive labor market, and massive and continuing losses, how did SIL emerge from its financial troubles and convince all involved to get behind a turnaround effort? The results are generally consistent with the literature on turnaround, but also in accounting for the institutional regime of the firm domicile (Peng, 2004) and local cultural practices and constraints (Bruton, Ahlstrom and Wan, 2003).

Emergence of turnaround leader. Turnaround of SIL started with the crucial step of a change in leadership in 1990 (c.f. Collins, 2001). Dr. Arun Sahay replaced Kapoor. Sahay was with SIL since May 1977 before seeking voluntary retirement in 1988. However, his request was turned down. He proceeded on leave in the same year. He was requested to cancel his remaining leave and join the company as CEO in 1990. Sahay carried a conviction that the company could be revived. He had resisted in past all the plans for closing the plant. But, he was being pressurized to take over as CEO of the company precisely for what he had resisted strongly. When he asked the authorities the rationale, he was told, "We need an executive director even to close the company." He accepted the assignment with the condition that he would first work for the turnaround of the company. Sahay diagnosed six challenges for possible turnaround of the company: improving industrial relations, bridging the gap with the employees, influencing the government, solving the financial crisis, identifying a product-market niche to achieve sales volume and downsizing the organization.

Industrial relations. Sahay took some extremely bold decisions concerning the firm's labor relations. Management had regularly yielded to employees in the past with little question. In fact, Mr. Kapoor had not visited the factory for a long time owing to union threats. However, Sahay quickly announced after taking over as CEO that he would operate from the factory premises. No one, including the local police authorities, who apprehended the danger to him, could dissuade Sahay from this course of action. One of the managers said, "Sahay was known to have high commitment to SIL. It helped him take command of the situation."

There was a Joint Action Committee (JAC) consisting of representatives of workmen, supervisors, and managers. The members of JAC too were frequently behaving like trade union officials. They resisted Sahay's appointment as the executive director. Sahay recalled the culture of the organization as characterized by political activities, lack of trust and high conflicts. "Gambling within the factory premises was at rampage, employees going out for campaigning in election was customary and politicians coming to the factory gate was frequent," he recalled.

Local political leaders with trade union leaders had been intervening in the administration of the company. Sahay took a firm view of not allowing such interventions. He recalled, "I dealt issues strictly on merit. I did not concede to political pressures though it was risky for my career." The local political leaders stopped requesting him for any favour after having realised its futility.

Sahay discussed with trade union leaders his plans to revive the company and sought their cooperation. However, two warring unions made the matter extremely complex. Sahay stated:

> Union rivalry created many conflicting issues relating to day-to-day operation of the company. In such conflicting matters, I preferred to decide the matters on merit. I preferred to take the bull by horn on such volatile matters and where it could not be settled bilaterally, the issues were decided in the court of law. In one such matter, we were successful in negotiating a wage revision agreement with employees, as unions could not agree on a settlement. Each of the 3200 employees accepted the revised wage individually.

Bridging the gap. Sahay preferred to manage by "walking and talking" to bridge the gap between management and workmen. He championed the cause of workers at different forums. In one incidence, the concerned minister had announced in Parliament on January 23, 1992 that SIL would be closed down. Three days later on January 26, Sahay while addressing the workers after flag hoisting said, "No one is born to close down this company. I will teach a bitter lesson if he carries any ill intention towards SIL." Sahay had to face ire of the government officials for his emotional outbursts. Slowly workers developed confidence and trust in Sahay's efforts to turnaround the company. They started supporting his initiatives.

Influencing the government. In addition to improving the tense labor relations, Sahay knew that explicit support of key government stakeholders was needed to turnaround. However, creating a perception of possible turnaround among government officials was not easy, as SIL had continued to reported operating losses well into the millions of (US) dollars from 1990–92.

Sahay recalled a meeting with the concerned minister whom he asked, "Why do your [government] secretaries want to close my company when I am not asking any money from the government? Moreover SIL is providing employment to so many people in an industrially backward state."

That minister then called the secretary and repeated the same question to him, "Why do you want to close the company that is providing employment to so many people. What is the harm to let it continue if [the] ED does not want any financial help from us?"

Exhibit 2. Production counts of 2-wheelers and 3-wheelers (Unit: Numbers).

Year	75–76	80–81	85–86	86–87	90–91	95–96	97–98	98–99	99–00
2 wheelers	16024	35502	22440	4547	597	171	–	1	–
3 wheelers	–	532	1234	948	1616	11095	16000	15305	15335

Since then, SIL sought the support of government and key union stakeholders through the slogan: "We manufacture three wheelers in the factory but sell employment in the market." This slogan proved very effective in India where the rate of unemployment was around 15 percent in 1992.

The key final step with the government took place when the new secretary of the ministry pleaded before the Group of Ministers in 1992, "We had recommended for the dissolution of SIL earlier this year. But I happened to meet the new CEO. He has plans to turnaround the company; he should be given a chance."

Solving financial difficulties. Managers expressed their concern how to generate funds internally as Sahay had committed not to borrow from the government. None could believe that SIL could even pay salary to employees without such support. It was a big challenge to arrange working capital. Arranging money for timely payment of salary and suppliers' bills was proving difficult. Most of the machinery, land and building had already been mortgaged to banks against borrowings. It was not possible to sell any of these components. Banks were not willing to provide further advances in view of high debt, negative net worth of the company and mounting irregularity in the account. They refused to help SIL in the absence of guarantee by the government.

Financial help came from the dealers for Vikram—the three-wheeler, a vehicle that was launched in 1977. The three-wheeler generated considerable employment for taxi drivers. Inadequate public transport systems, narrow roads in cities and high unemployment created substantial demand for this kind of vehicle. However it had remained a neglected product in the product portfolio of the company (see Exhibit 2).

Owing to demand-supply gap, a three-wheeler carried a premium of Rs. 10,000 to 20,000 on delivery in 1992. Dealers were willing to pay in advance against its assured supply. The advances not only eased the problem of working capital of the company; it also developed some confidence for its possible revival among different agencies. Sahay could negotiate with banks for a fresh loan, though at higher interest rate. Suppliers could be paid through post-dated checks.

To control cash outflow, SIL stopped recruitment except at very senior positions. Employees were not promoted in the period between 1992 and 1995. SIL resorted to expenditure cuts in leave travel concessions, festival advances, and other employee benefits. Union members were cooperative in this testing period of company revival.

Financial problems also eased with the amendment of The Sick Industrial Companies (Special Provisions) Act (SICA), 1985 in 1992. The amendment allowed SOEs to be referred to the Board for Industrial and Financial Reconstruction (BIFR). BIFR was a semi-judicial body that devised possible turnaround plans of companies that were registered with it or approve the dissolution of the organization. Such registered companies got protection from recovery by creditors and other legal matters till cases were decided by BIFR. SIL was immediately referred to BIFR as its net worth had eroded long back.

One of the BIFR members in its first hearing on SIL stated, “SIL is a mortuary case for burial. There is no point giving a morphine injection.” It was a big challenge to save the company when BIFR officials carried such opinion about it.

Change of product domain. As SIL decided to focus on three-wheelers, its production increased from nearly 150 a month in 1992–93 to 1000 a month in 1995 by tooling up two-wheeler facilities for the production of three-wheeler vehicles. Sahay stated, “We added a wheel to our product to achieve turnaround.” Consequently, SIL reported operating a profit in 1995–96 for the first time since 1981. It developed some confidence among different stakeholders for a possible turnaround of SIL. However, SIL still reported financial losses at the end of the financial year owing to high interest burden. Its net worth stood at negative Rs. 6.47 billion at the end of 1995–96 (Exhibit 1).

Manpower reduction. SIL took the help of a leading management-consulting firm. The consultant recommended more than 50 percent manpower reduction. Indian government had announced a Voluntary Retirement (VR) scheme in 1988 for employees of SOEs according to which employees of more than 40 years of age could retire with one time terminal benefits. SIL employees were not willing to opt for the scheme till 1992–93. Sahay stated in one of the board meetings in 1992–93, “Poor employment opportunities in the region, lower income background of employees, younger age profile were the reasons for not accepting VR scheme.”

Subsequently, two key events took place in 1993. Firstly, a senior government official who was also the member of the board declared the government’s intention to close down SIL. When contacted by trade union leaders he suggested them to accept VR to avoid losing jobs without any terminal benefits. Secondly, a statement was made again in Parliament about the government’s intention to close down the unit. Seeing no hopes of revival, employees started applying for VR in 1993.

These events created loss of credibility in Sahay who continued to maintain that SIL could be run profitably. He stated, “I weighed the situation and sensed an opportunity. I speeded the process of decision-making. Any application received in the morning for voluntary retirement was disposed off by the evening.” The manpower was sharply reduced to 2098 in 1993–94 from 2898 in the previous year.

Working of the board during revival phase. Management had been pushed to the wall as it had accepted voluntary retirement applications but had no funds to discharge the associated liability in 1993. A deal was struck with the bank. Banks, despite huge overdraw and irregular account, agreed to advance further funds to discharge VRS liabilities provided SIL ensured government guarantee. Active support of the government nominee to get that guarantee helped Sahay overcome it and discharge the liability.

The working of the board changed significantly in the period between 1993 and 1996. Board members kept a close watch on the performance of SIL. They were more vigilant and inquisitive, a feature that was generally missing earlier. The Board was also willing

Exhibit 3. Turnaround Scheme approved by BIFR.

1. Employee strength to be pegged at 1676. Wage increase will be limited to 5 percent after two years if production and sales show satisfactory performance. Compensation of Rs. 52.5 million from NRF for VRS.
2. A capital expenditure of Rs. 110 million in two years to increase the installed capacity of three-wheeler manufacturing to 24000 units per year.
3. Conversion of part of GOI loan (Rs. 272.2 million) into equity and write off the balance GOI loan together with interest accrued thereon.
4. Infusion of Rs. 224.5 million by GOI for capital expenditure programme and one time settlement of dues of institutions and compensation cost of manpower rationalization (VRS).
5. One time settlement of dues of financial and investment institutions viz. IDBI, IFCI, LIC, and UPSIDC envisaged repayment of entire principal and 50 percent of the simple interest dues as on September 30, 1995 in one lump sum payment by GOI.
6. Amortization of dues to bank over a period of time based on the cash flow.
7. Benefit of deferment of sales tax for a period of 5 years.
8. Total sacrifice by GOI, banks and other institutions was estimated to Rs. 6097.7 million with the details as under.
9. Reconstitution of the board with the induction of at least 4 independent professionals (including one whole time technical director), having specialization in the field of manufacture, finance, and marketing, a nominee each of GOI, institutions, banks and BIFR.

to help the ED in his revival efforts from 1993 onwards. The government nominee in the board of SIL commented: "I was highly impressed by Sahay's commitment and conviction to turnaround SIL. Hence, I decided to help him."

BIFR approved the revival scheme. During the period of hearings on the turnaround scheme between 1993 and 1996 at BIFR, production and sales improved considerably owing to existing demand for three-wheeler. Earning of operating profit in 1995–96 proved extremely helpful to change the conviction of BIFR members about the feasibility of reviving SIL. After many deliberations, BIFR sanctioned a turnaround scheme in September 1996. The turnaround package granted many financial benefits to the company (Exhibit 3). It reduced the interest liability and made the company's net worth positive. SIL has since been reporting profits (Exhibit 1). The company reported a profit of Rs. 10.90 million in 1996–97. It had reported a loss of Rs. 91.82 million in the previous year. It was made possible by converting debt into equity, thus reducing the interest burden on the company.

Structure of the board. The number of members on the board varied from 4 to 8 after the withdrawal by API in 1973. As per the Articles of Association, SIL was allowed to have a minimum of three members and a maximum of fourteen members on the board. The government appointed the CEOs of the company with the help of Public Enterprise Selection Board. One of the secretaries in the Ministry of Industry in the government of India, and one from the state government represented government on the board of SIL. Frequent transfers of secretaries to other ministries changed the board composition. The average tenure of government nominees was 569 days (standard deviation = 220 days).

Most of the board meetings were organized in the office of the government nominee in New Delhi. Company management prepared the agenda for the meeting and circulated it among the board members prior to the meeting. The agenda was rarely modified with the intervention of government nominees. There were instances when the agenda was put on the table only at the time of the meeting.

Discussion

SIL was a firm that was able to survive with the help of the Indian government for more than twenty-five years with financial losses mounting every year, poor labor relations, and caretaker top management that was uncommitted to creating a competitive business. Production remained nominal for a ten year period between 1986 and 1996. But for the first time since its inception in 1972, the company reported financial profit in 1996–97. The action choices that led to a decline that continued for a quarter of century with increasing losses, and turnaround of SIL in the late 1990s are summarized in Table 1. Various exogenous and endogenous variables in different phases have also been indicated in the table.

Environment and action choices

Three distinct environmental periods can be observed in the history of SIL: the period between 1972 and 1984, the period between 1984 and 1990, and finally between 1990 and 2002 when the turnaround was undertaken. During the first period demand for scooters far exceeded supply. Customers were willing to pay in advance for a scooter that could meet their quality expectations. The average waiting period for scooter was ten years for those ordering one throughout the 1960s and 1970s and into the 1980s. Until 1982, it was common to say "If you book a scooter now, your offspring is likely to receive it." There was not much pressure on companies to improve products in this period. BAL, the market leader in that period, had made little changes in its products in this period. Overall, munificence of the environment was high. Further, the company did not experience any major changes in its environment during this period.

The actions in the first period were expansionary like the launch of different variants of scooter, backward integration and purchase of the three-wheeler plant. Government nominees in the Board helped the company get the approval from the government to implement projects. These expansions were funded through borrowings from the government and/or from nationalized banks for which government provided guarantee/surety. External stakeholders had generally hoped that the company would perform well owing to supportive environment in this period. Hence, they were supportive to the company. This finding supports McNamara and Bromiley's (1997) argument that lenders tend to underrate the riskiness of loans to firms in exciting industries.

The period between 1984 and 1990 is characterized by fast environmental changes. The government granted new licenses and allowed technical collaboration with foreign firms. SIL also had an alternative of having technical collaboration with Honda Motors Limited. The collaboration could not be finalized owing to a large number of decision makers who

Table 1. Action choices and other variables in different phases of SIL

Exogenous variables	Endogenous variables	Key actions	Outcome
	Phase 1A: 1972–1976		
Environment: Demand far exceeded the supply, regulated by the government, poor road and communication facilities in the city, government's high concern for employment	*Leadership:* Ambitious, risk taker, optimistic, man of principles, hard working *Decision-making*: Quick and centralized *Internal stakeholders*: High enthusiasm, led by vision of starting a company of national importance, supportive to initiatives of management	• Planned fast growth and backward integration • Preferred early launch of the product over addressing the quality problems	• Customers rejected the product • Poor brand image • Increased borrowings • Financial losses
	Phase 1B: 1977–1979		
Environment: Same as in Phase 1A *External stakeholders*: Increased political intervention in administration, supportive government officials, dejected customers	*Leadership:* same as in Phase 1A *Decision-making*: Same as in Phase 1A *Internal stakeholders*: Lower morale and enthusiasm, sense of job security, aggressive unions who sought political patronage	• Launched of different variant of two wheelers • Concessions to workers during 1977 strike	• Deteriorating industrial relations • Mounting losses
	Phase 2: 1981–84		
Environment: Same as in Phase 1A *External stakeholders*: Increased political interference, dejected customers, reduced support of suppliers and banks	*Leadership:* Two quick changes (Krishnan and Joshi), Krishnan was perceived as biased, Joshi was known to be influential in the government *Decision-making*: Through corporate planning group *Internal stakeholders*: Low morale and enthusiasm, sense of job security, aggressive unions, indiscipline among workers	• Dismissal of 38 employees	• Continued decline of SIL

	Phase 3: 1984–1990		
Environment: Fast changes, new licenses, technological collaborations of competitors with foreign firms *External stakeholders*: High political interference, government officials wanted to dissolve the company, hostile suppliers and banks	*Leadership*: Yielding to aggressive union leaders, lack of vision, lack of faith in the survivability of the company, lack of stakes in SIL *Decision-making*: Slow and in consultation with government officials *Internal stakeholders*: Extremely low morale and enthusiasm, fear of privatization among employees, sense of job security, aggressive unions, high indiscipline among workers	• Tried to sell the company to private sector • Reduced level of operations by rationalizing product domain • Virtual absence of plant maintenance	• Became one of the top ten loss making companies in India
	Phase 4: 1990–2002		
Environment: Competitive for two wheelers, high demand and low supply of three wheelers *External stakeholders (in 1990)*: High political interference, hostile suppliers and banks	*Leadership*: Leader from within SIL, had faith in survivability of SIL, high commitment towards the company, bold, fair, firm, intolerance to indiscipline, vision to lead to revival of SIL, recognition to interests of different stakeholders, primacy to interests of the organization *Board functioning*: Started taking interest in the functioning and performance of SIL after getting convinced about revival of SIL, government nominees supported the leader *Decision-making*: Fast, fair, firm, involvement of senior managers, involvement of other internal stakeholders *Internal stakeholders*: Sensed a wave of change, enthusiasm to revive the company, fear of loss of job, high inter-union rivalry (in 1990), high indiscipline among workers (in 1990–1992)	• Seeking support of stakeholders • Strategic change: change of product domain to three wheelers • Operational changes: tooling up of machines for production of three wheelers, managing industrial relations, manpower reduction through VRS	• Operational recovery by 1995 • Financial recovery by 1996, on approval of BIFR scheme

represented and were influenced by diverse constituencies. This finding supports Brown's (1984) argument on slower actions owing to diverse constituencies in SOEs.

The period from 1984 to 1990 was one of inaction. There were attempts to sell the company. Owing to resistance of employees this did not materialize. Consolidation of product domain in 1986 was the only other important action in this period. The margins on scooters were negative because of lower volumes and outdated technology. Consequently, SIL focused on consolidating the product portfolio in the second period. Low volume of business influenced the strength of the network of service centers, which in due course became weak. Component manufacturers too were not keen to produce components. It adversely affected the availability of spares in the market.

The environment in the period between 1990 and 2002 became more competitive with India's financial and commercial reforms. It became increasingly difficult to achieve sales volume in such an environment. Poor quality image of the product, weak service network, older technology and lack of resources to invest aggravated the situation further. Consequently, SIL decided to withdraw from scooters business completely and decided to focus on three-wheelers.

The lack of action between 1984 and 1990 arose partly from government ownership. There were conflicting pressures from the government, employees, CEO and other stakeholders regarding the future of the company. The resistance of employees to the sale of the company stalled disinvestment and privatization. As the government and CEO were willing to sell the company, there were no investments to strengthen the organizational capabilities.

Borrowing from agency theory (Fama and Jensen, 1983), firms are systems of written and unwritten contracts among disparate individuals. The contract between the owner and its agent, the CEO, is the most studied dimension in the literature. Studies have examined the monitoring, incentive and other control mechanisms for agents to align their interests with those of owners (Tosi, Katz and Gomez-Mejia, 1997). Typically an owner of a business organization wants maximization of one's wealth. In PSUs there are difficulties in extending these arguments. Government administrative services symbolically represent the owner of SOEs. However, they do not get share in the wealth generated by a PSU. Consequently, wealth maximization as an agenda gets diluted in SOEs. SOEs are influenced by special interest groups, public opinion, public unions, and media attention (Brown, 1984). Such influences led to selection of location and refusal for technological collaboration.

Weitzel and Jonsson (1989) explain the start of decline with the "blinded" stage. However, the decline of SIL started with the selection of wrong location of the plant leading to problems in sourcing quality components. The inability of SIL to collaborate for technology accelerated the decline. These two critical decisions owed more to social and political considerations than business considerations. Further long period of survival in spite of huge losses was feasible owing to concerns for employment and political patronage.

Leadership and action choices. Soundararajan led the company in the first phase. At that time he was in his mid-forties. Managers at such stage are through with "the mid-life transition" (Levinson et al., 1978). However, they are still in the race to move up in the organization where the pyramid gets narrower while the managers and their families grow older. Such CEOs in public sector organizations in a controlled economy aspire to move to larger organizations and control more resources. One of the CEOs of SIL stated, "It is the aspiration of CEOs of smaller public organizations to move to larger ones and gain countrywide recognition."

Environmental munificence of the first phase and career ambitions prompted Soundararajan to initiate ambitious actions that were not backed by adequate preparation. However, they were initiated with a belief that eventually SIL would become an important player in the industry. He continued with his plans to manufacture 100,000 scooters even after the failure of SIL's first product in the market. He activated development of new two-wheeler products internally. He did not change the thrust of the company to three-wheelers though SIL had purchased the plant and its two-wheelers were not performing well in the market. SIL continued with the policy of in-sourcing of components and new product development in the same product domain, reflecting high commitment of management to the two-wheeler market. Between 1981 and 1984 Joshi wanted to revive the company but preferred to go back to his parent organization after the incidence of killing of a manager in the plant. His faith in the survival of the company was shattered by this incident.

Kapoor's tenure between 1984 and 1990 was a period of deliberate inaction. Having decided to go back to the parent organization, career implications of the performance of SIL were low to him. He believed the group of stakeholders who thought that SIL could not be revived. There were no serious attempts to revive the company and control the increasing indiscipline among employees. He attempted to sell the company. However, the sale could not take place owing to strong opposition from the employee-union-politician network. Inaction in this period supports Kahneman and Tversky's (1979) prospect theory argument that managerial responses to environmental changes are based on subjective interests of managers and strongly subject to heuristics and biases (Kahneman, 2003).

Sahay's tenure of twelve years (1990–2002) reflects taking of actions relating to switchover to new product-domain, financial restructuring, cost cutting, and stakeholder management. He, like Soundararajan, was in his mid-40s, had high dreams for SIL and undertook risks. Sahay risked his career by opposing government officials and political leaders on many managerial issues. Sahay believed in the survivability of SIL.

Both Sahay and Soundararajan had similar leadership characteristics. They had similar assumptions regarding the survivability of the company. However, they achieved success in varying degrees. Soundararajan could commission the plant but could not run it profitably. He acted fast on most of the decisions. But, the seeds of sickness of SIL were sown in his period.

Being an insider, Sahay knew the organization well. He could act fast and decisively. Simultaneously being an insider, Sahay had to overcome the resistance of a group of managers led by a general manager who had aspired to become the CEO. This resistance could be overcome with the support of Board members who were convinced about Sahay's credibility and commitment. Hence, insiders are helpful to lead the recovery, if they are acceptable to internal stakeholders and enjoy credibility of different stakeholders. Outsiders are frequently found to lead the turnaround of the organization (Khandwalla, 2001). They are perceived to bring in the advantage of fresh insight and fairness. However, they need to spend time to understand the organization, its business and interest of different stakeholders. This opportunity may not be available in fast declining organizations that are already in crisis. In such situations, a credible insider can take command of the situation quickly to retard the declining process.

There was no shift in the domain until Sahay took over as the CEO. His actions proved appropriate for the revival of the company. Barker and Duhaime (1997) argue that the extent of domain change would increase with changes in top management, level of firm resources, severity of decline, level of industry growth and the perception of the extent that decline is created by external events. This study shows that all the above variables were changing in SIL in the post-Soundararajan era but there was no domain-shift till Sahay took over as the CEO.

Decision-making process and action choices. Difference in the decision making process in the first and the last phase explains the difference in achievements. Soundararajan's action choices were not carefully evaluated as he was euphoric about future and decision-making was centralized. Owing to centralization, there was no dissent to the decisions in the first phase. Non-achievement of results supports Dooley and Fryxell's (1999) finding that dissent of loyal people in the decision-making process leads to improved decision quality. Sahay adopted and promoted team-based decision making. He tried to integrate the possible interests of different stakeholders in the revival process of the company. A recently published article (Kanter, 2003) too suggests dialogue with different stakeholders to turnaround organizations.

Stakeholders' response and action choices. Stakeholders were supportive in the beginning and Soundararajan could commission the plant on time. SIL had good technical capability in its early phase. The engineers commissioned the plant without any support from Innocenti. They developed many new products. Soundararajan also could seek funds from government for expansion of activities. Stakeholders started becoming hostile towards the end of Soundararajan's tenure. This finding supports Sutton and Callahan's (1987) findings regarding increased hostility of managers in declining organizations.

Hostility of employees increased substantially after the failed attempt to sell the company. Most of the stakeholders were extremely hostile to SIL for different reasons in the period between 1984 and 1990. The Indian government was also unhappy owing to the financial burden to support the company. Suppliers did not believe that they would get payments on time. Banks thought that investment in SIL was extremely risky. There were conflicts of interests of different stakeholders in this phase. The lack of action during this phase also owed to such hostile stakeholders and their conflicting interests. Stakeholders' response and leadership characteristics are additional variables to the list proposed by Barker and Duhaime (1997) that explain the difference in action choices of managers.

Sahay adopted a paternalistic style of management. He recognized the interests of different stakeholders to seek their support. He too could not seek the support of BIFR and government officials till he could gain internal support from employees and trade union leaders. It took him five years to earn operating profits. Most of his activities were aimed at managing the internal stakeholders effectively. Having shown improvements internally, he got the support of external stakeholders. The revival process was extremely fast after gaining support from the government. Explicit commitment of the government to revive declining SOEs reduces the hostility of different stakeholders. Government's financial guarantees reduce the hostility of government owned banks and financial institutions, suppliers and other stakeholders and help to turnaround declining organizations quickly.

These events support the existing literature (Arogyaswamy, Barker III and Yasar-Ardekani, 1995; Khandwalla, 1992; Robbins and Pearce II, 1992; Ruiz-Navarro, 1998) that management of relationship with external stakeholders is an important task of turnaround management. Brown (1984) finds that decision-makers in SOEs are influenced by diverse constituencies, and are subjected to less defined chains of command than are decision makers in private firms. Hence, firmness and fairness of decision are vital for SOEs undertaking turnarounds and managing the conflicting interests of stakeholders.

Conclusion

Several actions contributed to the turnaround of SIL in the face of multiple constraints brought on by its state-ownership status and the ambiguous and challenging nature of India's environment and subsequent transition economy. The multiplicity of constituencies and poor organizational performance reduces the legitimacy of leadership in declining SOEs. Restoration of legitimacy proved an important step to its turnaround. Mr. Sahay took bold initiatives by entering the factory premise and challenging the intent to close SIL in his public addresses to restore the legitimacy of he leading the organization.

Strategic change proved essential to the turnaround. Long periods of inaction on complaints of quality of product and financial losses are likely to create problems of sustaining operations in existing product domains. Sahay understood the reject of two-wheeler and the intensified competition and shifted the product domain toward three-wheelers. New products and positioning helped to create a more viable space for SIL in the marketplace enabling SIL to carve a distinct niche in the small vehicle sector.

Operational actions were also important, as they are in most turnarounds. The strong network among employees, unions, and political parties adds to the hostility of stakeholders in declining SOEs. The unrest gets aggravated owing to lower legitimacy of leadership in loss making enterprises. Incidences of indiscipline are frequent in such organizations. This study shows that management of the interventions of political leaders can reduce the oppositional stance of such networks.

Owing to the level of government ownership and participation in the firm, it is essential for SOEs to get the support of concerned ministry and key government officials (Ahlstrom, Bruton and Lui, 2000). This support often softens the hostility of other key stakeholders: banks, financial institutions, suppliers, unions and employees. It also helps organizations overcome the immediate requirements for resources so needed in most turnaround situations. Internally, some employees may also be connected with external agencies. A confrontational stance by such employees in the organization creates serious difficulties. Support of the concerned ministry reduces such problems. Hence, revival is likely to be fast in SOEs once government commitment is assured and constraints to needed action are reduced. Sahay could achieve such support with the help of government nominees on the Board, his commitment not to borrow from the government and employment concerns.

Long period of firm sickness leads to low morale, indiscipline and obsolescence of technology, internal management systems and practices. SOEs in regulated economies are found to be overstaffed (Rao, 1987). Manpower rationalization is an important, but difficult task in these organizations. This study shows that difficulty arises from the economic situation of the region, low employment opportunities, job security, and associated social status with the job.

Implications

The study opens up some new avenues for further research on turnaround in transition economies, particularly of state-owned and privatizing firms. The proposed linkages between managerial action choices and macro organizational variables provide levers to managers to instigate effective actions in organizations to prevent and ameliorate organizational decline. This also requires that top management gain the support of key stakeholders outside of the firm as well as those within to build legitimacy for their actions (Ahlstrom and Bruton, 2001; Bruton, Ahlstrom and Wan, 2003).

Most of the turnaround studies have tried to develop a typology of turnaround strategy (Ford and Baucus, 1987; Khandwalla, 2001; Robbins and Pearce II, 1992; Schendel, Patton and Riggs, 1976). The fundamental tenet of inquiry to develop a typology has been to identify distinctive mixes of actions of turning around the organization, usually based on internal actions centered on operational and strategic change. This study adds that the credibility of leadership, the management of stakeholders and legitimacy building are the other key issues in the turnaround process, particularly in the more constrained environment of transition economies where the freedom of managerial actions such as downsizing and focusing firm operations is often questioned by government and other key stakeholders both inside and outside of the firm (Ahlstrom and Bruton, 2001; Bruton, Ahlstrom and Wan, 2003).

This study shows how SOEs are particularly vulnerable to external constituencies. Such influences may increase substantially in declining SOEs where employment levels are threatened. The turnaround of SOEs and other large firms in transition economies requires creation of internal systems and structures to cope with external pressures and influences. One key to the turnaround that is particularly essential (and challenging) is the proper management of key external stakeholders and the building of legitimacy for the decisive action needed to undertake the turnaround of failing firms.

Limitations

There are several limitations to this study. First, the study is a single firm case study conducted in a non-experimental setting. Hence, conventional controls present were not available. Second, this is a longitudinal study of one organization. It limits the generalizability of results to firms in a similar environment. Third, the study of a SOE may limit some of the recommendations to firms with similar constraints and ownership structures. However, there are positive aspects of the case and research design that partially compensate for certain limitations. This study used a real organizational setting to study organizational actions that led to its decline and turnaround. Firm documents were examined and compared with interviews as a check on the validity of findings. Multiple interviews with managers and stakeholders outside of the firm also served as a check on possible retrospective rationality.

Though the results are qualified by coming from a single case, they nevertheless can establish a baseline to approach firm turnaround in a transition economy, particularly for privatizing firms and other state-owned enterprises.

Acknowledgment

This research is partially supported by a grant from the Hong Kong Special Administrative Region, Lee Hysan Foundation Research Grant and Endowment Fund Research Grant for 2002/2003. We thank Andy Van de Ven and the participants of the *Asia Pacific Journal of Management* Conference on Corporate Turnaround for their comments on prior drafts of this paper.

References

D. Ahlstrom and G.D. Bruton, "Learning from successful local private firms in China: Establishing legitimacy," *Academy of Management Executive*, vol. 15, no. 4, pp. 72–83, 2001.

D. Ahlstrom, G.D. Bruton, and S. Lui, "Navigating China's changing economy: Strategies for private firms," *Business Horizons*, vol. 43, no. 1, pp. 5–15, 2000.

H.E. Aldrich, and J. Pfeffer, "Environments of organizations," *Annual Review of Sociology*, vol. 2, pp. 79–105, 1976.

G.T. Allison, *Essence of Decision; Explaining the Cuban Missile Crises*, Litle, Brown: Boston, 1971.

J. Argenti, *Corporate Collapse: The Causes and Symptoms*, McGraw-Hill: Maidenhead, UK, 1976.

C. Argyris, "Personality and organization theory revisited," *Administrative Science Quarterly*, vol. 18, pp. 141–167, 1973.

K. Arogyaswamy, V.L. Barker III, and M. Yasar-Ardekani, "Firm turnarounds: An integrative two-stage model," *Journal of Management Studies*, vol. 32, no. 4, pp. 493–525, 1995.

V.L. Barker III and I.M. Duhaime, "Strategic change in the turnaround process: Theory and empirical evidence," *Strategic Management Journal*, vol. 18, pp. 13–38, 1997.

B. Bozeman and E.A. Slusher, "Scarcity and environmental stress in public organizations: A conjectural essay," *Administration and Society*, vol. 11, pp. 335–356, 1979.

L.D. Brown, "Effective change strategies for public enterprises: Lessons from turnaround cases," *Vikalpa*, vol. 9, no. 2, pp. 97–112, 1984.

G.D. Bruton, D. Ahlstrom, and J.C.C. Wan, "Turnaround success of large and midsize Chinese owned firms: Evidence from Hong Kong and Thialand," *Journal of World Business*, vol. 36, no. 2, pp. 146–165, 2001.

G.D. Bruton, D. Ahlstrom, and J.C.C. Wan, "Turnaround in East Asian firms: Evidence from ethnic overseas Chinese communities," *Strategic Management Journal*, vol. 24, pp. 519–540, 2003.

G.R. Carrol, "Organizational ecology," *Annual Review of Sociology*, vol. 10, pp. 71–93, 1984.

K.S. Cameron, R.I. Sutton, and D.A. Whetten, "Issues in organizational decline," in Cameron et al. (eds.), *Readings in Organizational Decline*, pp. 3–20, 1988.

P. Chanda, *Corporate Turnaround: Strategies for Renewal*, McGraw-Hill Education: Singapore: (Asia), 2002.

C. Christensen, *The Innovator's Dilemma*, Harvard Business School Press: Cambridge, MA, 1997.

M. Clifford, *Meltdown: Asia's Boom, Bust, and Beyond*, Prentice Hall: Paramus, NJ, 2000.

J. Collins, *Good to Great: Why Some Companies Make the Leap—And Others Don't*, HarperBusiness: New York, 2001.

R.A. D'Aveni, "The aftermath of organizational decline: A longitudinal study of strategic and managerial characteristics of declining firms," *Academy of Management Journal*, vol. 32, no. 3, pp. 577–605, 1989.

R.S. Dooley and G.E. Fryxell, "Ataining decision quality and commitment from dissent: The moderating effects of loyalty and competence in strategic decision-making teams," *Academy of Management Journal*, vol. 42, no. 4, pp. 389–402, 1999.

K.M. Eisenhardt, "Agency theory: An assessment and review," *Academy of Management Review*, vol. 14, no. 4, pp. 57–74, 1989.

E. Fama and M. Jensen, "Agency problems and residual claims," *Journal of Law and Economics*, vol. 26, pp. 301–325, 1983.

J.D. Ford and D.A. Baucus, "Organizational adaptation to performance downturns: An interpretation-based perspective," *Academy of Management Review*, vol. 12, no. 2, pp. 366–380, 1987.

P. Ghemawat, *Commitment: The Dynamics of Strategy*, Free Press: New York, 1991.

P. Goodwin and G. Wright, *Decision Analysis for Management Judgement*, John Wiley: West Sussex, 1998.

G.E. Greenley and M. Oktembil, "A comparison of slack resources in high and low performing British companies," *Journal of Management Studies*, vol. 35, no. 3, pp. 377–398, 1998.

D.C. Hambrick and R.A. D'Aveni, "Large corporate failures as downward spirals," *Administrative Science Quarterly*, vol. 33, pp. 1–23, 1988.

D.C. Hambrick, M.A. Geletkanycz, and J.W. Fredrickson, "Top executive commitment to status quo: Some tests of its determinants," *Strategic Management Journal*, vol. 14, pp. 401–418, 1993.

J.S. Hammond, R.L. Keeney, and H. Raiffa, "The hidden traps in decision making," *Harvard Business Review*, vol. 76, pp. 47–58, 1998.

M.T. Hannan and J.H. Freeman, "The population ecology of organizations," *American Journal of Sociology*, vol. 82, pp. 929–964, 1977.

S.G. Harris and R.I. Sutton, "Functions of parting ceremonies in dying organizations," *Academy of Management Journal*, vol. 29, no. 1, pp. 5–30, 1986.

D. Kahneman, "The thought leader," *Strategy + Business*, 2003.

D. Kahneman and D. Lovallo, "Timid choices and bold forecasts: A cognitive perspective on risk taking," *Management Science* vol. 39, no. 1, pp. 17–31, 1993.

D. Kahneman and A. Tversky, "Prospect theory: An analysis of decision under risk," *Econometrica*, vol. 47, pp. 263–290, 1979.

R.M. Kanter, "Leadership and the psychology of turnarounds," *Harvard Business Review*, pp. 3–11, June, 2003.

D. Kelly and T.L. Amburgey, "Organizational inertia and momentum: A dynamic model of strategic change," *Academy of Management Journal*, vol. 34, no. 3, pp. 591–612, 1991.

P.N. Khandwalla, *Effective Turnaround of Sick Enterprises (Indian Experience): Text and Cases*, Commonwealth Secretariat: London, 1989.

P.N. Khandwalla, "Humane turnarounds," *Vikalpa*, vol. 16, no. 2, pp. 3–16, 1991.

P.N. Khandwalla, *Innovative Corporate Turnaround*, Sage Publications: New Delhi, 1992.

P.N. Khandwalla, *Turnaround Excellence*, Sage Publications: New Delhi, 2001.

T.W. Lee, *Using Qualitative Methods in Organizational Research*, Sage Publications: London, 1999.

D.J. Levinson, et al. *The Seasons of a Man's Life*, Alfred A Knopf: New York, 1978.

G. McNamara and P. Bromiley, "Decision making in an organizational setting: Cognitive and organizational influences on risk assessment in commercial lending," *Academy of Management Journal*, vol. 40, no. 5, pp. 1063–1088, 1997.

M.W. Meyer and L.G. Zucker, *Permanently Failing Organizations*, Sage: Newbury Park, 1989.

J. Mezias and W. Starbuck, "What do managers know, anyway?" *Harvard Business Review*, vol. 81, no. 5, pp. 16–18, 2003.

M.A. Mone, W. Mckinley, and V.L. Barker III, "Organizational decline and innovation: A contingency framework," *Academy of Management Review*, vol. 23, no. 1, pp. 115–132, 1998.

M.W. Peng, *Global Strategy*, Prentice Hall: New York, 2004.

A. Pettigrew, *The Politics of Organizational Decision Making*, Tavistock: London, 1973.

J. Pfeffer and G.R. Salancik, "Organizational decision making as a political process: The case of a university budget," *Administrative Science Quarterly*, vol. 19, pp. 135–151, 1974.

J. Pfeffer and G.R. Salancik, "The external control of organizations: A resource dependence perspective," Harper and Row: New York, 1978.

B.B. Rao, "Avoid time and cost over-runs to check sickness," in Y.S. Mahajan and M.R. Virmani (eds.), *Sickness in Industries: Causes and Cures*, Center for Public Sector Studies, New Delhi, 1987, pp. 19–32.

D.K. Robbins and J.A. Pearce, "Turnaround: Retrenchment and recovery," *Strategic Management Journal*, vol. 13, pp. 287–309, 1992.

J. Ruiz-Navarro, "Turnaround and renewal in a Spanish shipyard," *Long Range Planning*, vol. 33, no. 1, pp. 51–59, 1998.

D. Schendel, G.R. Patton, and J. Riggs, "Corporate turnaround strategies: A case of profit decline and recovery," *Journal of General Management*, vol. 3, no. 3, pp. 3–12, 1976.

J.V. Singh, "Performance, slack, and risk taking in organizational decision making," *Academy of management Journal*, vol. 29, pp. 562–585, 1986.

B.M. Staw, "Counterforces to change," in *Change in Organizations: New Perspectives on Theory, Research and Practice*, Paul S. Goodman and Associates, Jossey-Bass: San Francisco: 1982.

A.L. Strauss and J. Corbin, *Basics of Qualitative Research: Grounded Theory Procedures and Techniques*. Sage Publications: Newbury Park, CA.

R.I. Sutton and A.L. Callahan, "The stigma of bankruptcy: Spoiled organizational image and its management," *Academy of Management Journal*, vol. 30, no. 3, pp. 405–436, 1987.

H.L. Tosi, J.P. Katz, and L.R. Gomez-Mejia, "Disaggregating the agency contract: The effects of monitoring, incentive alignment, and term in office on agent decision making," *Academy of Management Journal*, vol. 40, no. 3, pp. 584–602, 1997.

W. Weitzel and E. Jonsson, "Decline in organizations: A literature integration and extension," *Administrative Science Quarterly*, vol. 34, pp. 91–109, 1989.

O.E. Williamson, *The Economic Institutions of Capitalism*. Free Press: New York, 1985.

A.V. Wittelsoostuijn, "Bridging behavioral and economic theories of decline: Organizational inertia, strategic competition, and chronic failure," *Management Science*, vol. 44, no. 4, pp. 501–519, 1998.

R.F. Zammuto and K.S. Cameron, "Environmental decline and organizational response," in B.M Staw and L.L. Cummings (eds.), *Research in Organizational Behaviour*, vol. 7, pp. 223–262, 1985.