Structuring Restructuring[1]

Dr. Rajnish Karki

RAJNISH KARKI & ASSOCIATES
01 Gateway Plaza
Hiranandani Gardens, Powai
Mumbai 400 076, INDIA
+(91-22) 5692 2713/2712
rajnish@karkiassociates.com

While restructuring has become the central agenda in majority of the Indian enterprises, it is important to realise the enormity of the task. Indian enterprises by competitive yardstick are virtually in the primitive stages of industrialisation. And now they need to pitchfork into the global business environment of 1990s with its unfathomable uncertainties and fast changes, and for which there is no clear management model to act as a guide. The extent of restructuring challenge in India can be gauged by looking at the historical evolution of business enterprises in the world, and by comparing with restructuring challenge faced by the enterprises in the developed world.

Indian businesses which evolved as a result of license access driven expansion and secured market - profit environment, resemble in their management approach with late nineteenth century American businesses. At the turn of century, predominant business approach of American enterprises was to get into maximum number of emerging industries. Markets were secure due to an ever expanding frontier.

The second stage in managerial evolution was the emergence of "production concept" during the first two decades of twentieth century. This was mainly due to signs of overcrowding in certain industries like automobile, and initiatives of people like Henry Ford and Frederick Taylor. The successful enterprises in this period followed the business approach of efficiency - maximum production for minimum inputs. The organisations acquired competencies in achieving lowest cost operations, by specialisation and scale economies.

[1] Published as 'My Page' of Business Today dated 15th April 1994

The third stage was the emergence of "marketing concept", exemplified by the pioneering approach of General Motors evolved in the 1920s. As a result of commissioning of large Ford plants and a sudden drop in demand after depression of 1920, there was excessive automobile manufacturing capacities. GM's approach which helped it not only to wither depressions but to come out stronger, became the ideal. The business approach was to target products to market conditions or segments, and to carefully develop distribution and promotion channels for accessing customers. Enterprises developed competencies in assessing the customer preferences to carefully target the product they could produce, and in fighting competition through promotion in the market. The key point is that generally marketing and production functions operated in sequence, with marketing trying to sustain the sales of a predefined product at a required capacity utilisation.

The fourth stage in managerial evolution was the popularisation of "strategy concept" in the 1970s. This approach to managing business enterprises emerged due to increasing realisation in many situations that even the best of marketing efforts cannot sustain a wrong product, and there can be many approaches to success in the same product-market. But success in the market requires mutually supportive activities of all the functions, and sustained efforts over a prolonged period are required to achieve a particular type of edge over competition i.e. cost or differentiation. The strategy concept stressed conscious alignment of product development, finance, recruitment and training, with production and marketing activities. It ruled out not only universal business approach as in previous three stages, but also uniform approach within an industry. The strategy needed to be decided on the basis of industry competitiveness, entry conditions, mobility barriers within the industry, and internal orientations of the enterprise. Strategy concept also highlighted that it is very difficult for a business enterprise to have sustained superiority over competition in general or within an industry, therefore it needs to stick to and sustain certain distinctive competencies.

The fifth stage in approach to managing business enterprises can be termed as "global strategy concept", which started emerging in the late 1980s. This is primarily a result of significant expansion of enterprises in many countries, and rapid increase in world trade in unfinished and finished goods; which is leading to world becoming a single market like a country earlier. Globalisation of markets is superimposed with considerable increase in pace of change, originating from extremely fast technological developments especially in informational technology. Fast rate of change with globalisation, is challenging the very fundamentals of strategy and managing. Therefore long term success of an enterprise depends on maintaining dynamic superiority over international competitors, so as to defend in case of entry or to take advantage of globalising economy by developing significant overseas operations. The global strategy approach for managing is still at an experimental stage. Some discernible patterns are about managing cash flows globally to take advantage of exchange rate fluctuations, splintering of manufacturing operations over many countries, globally centrallising research activities but locating development in the specific countries, miniaturisation of strategic business units, etc.

Once great companies of stage four like IBM and General Motors, are struggling to achieve the transition to stage five. The complexity and "pain" of bringing out the transition are now well known. They faced enormous internal resistance while being forced to take hard options, when their historic strengths turned out to be major liabilities in emerging global marketplace. The extent of restructuring challenge for Indian companies can only be imagined. They are required to make the transition from stage one or two to stage four immediately, and to stage five in a short time.

This can be a historic opportunity for Indian businesses, when they attempt to achieve transitions which their counterparts in the developed world took decades. There are many successful instances of such transitions in the Pacific rim. Some Indian companies like ACC have achieved fair amount of success. ACC straddled with antiquated plants, production rather than productivity oriented operations, and highly overstaffed plants was faced with tough competition in the late 1980s. It managed to transit into almost global efficiency levels in about four years by selling five unviable plants, cutting down workforce by a third, sustained efforts to improve efficiency and change work culture in the plants, and bringing about radical changes in structure and systems. Marketing and distribution which was considered a mere adjunct of production earlier, is now turning out to be ACC's major competitive strength.

There are no well developed management models for Indian businesses, which need to jump several stages of managerial evolution. The restructuring approach is critically related to an enterprise's past and capability-vision of the top managers. However some key restructuring realities for Indian enterprises are:

- Need to develop unique enterprise and business specific restructuring approach.
- Identify few existing or developable competencies which can stand in good stead in globally competitive business environment of future.
- Develop a globally ambitious vision around the chosen competencies.
- Prepare an integrated plan for implementing vision-key competency based plan. Get out from anything which doesn't fit into plan and add any activity-alliance which supports the plan.
- Top management to act as role models for change and for taking tough options.
- For quick change in organisation culture and attitudes, weave them onto preceding structure-systemic changes.