

TURNING AROUND SICK / UNDER PERFORMING UNITS



Brigadier S K Mutreja (Retd.)
Director
Andromeda Consultancy Pvt. Ltd.
Former CMD Nepa Ltd.

Abstract: *The sayings in the Army - “The Man behind the Gun is as important as the Gun”, and “The more you sweat in peace the less you bleed in war” are as relevant to the manufacturing units as the Army. We need to focus on the Human Resources, building strong teams and improving inter-personnel relationships leading to creation of a healthy working environment and improved performance of the unit as well as image building of the company. A motivated worker can perform the job of 3 average workers. The need for preparing suitable SOPs to avoid ambiguity needs no emphasis. Finances play a major role in any organisation. We need to understand that every small saving helps in improving financial health of the company.*

The author has been CMD of Nepa Ltd. for 8 years and would like to share his experience in turning around this sick unit.

Key Words: *Motivation, team-building, transparency, candor, innovation*

Introduction:

Definition of a Sick Company

A company is said to be a sick company when on-demand by the secured creditors representing 50% or more of its outstanding amount of debt and the company has failed to satisfy the secured creditor within 30 days of the demand notice and accumulated losses equal to or more than its net worth.

Under the SICA, the Board of a sick industrial company is legally obliged to report it to the NCLT, and the NCLT has the power to make all inquiries that are needed to determine if the company is in fact actually sick.

Causes of sickness/underperformance: The causes leading to the present situation need to be examined in detail before setting out for preparation of Revival Plan. These will vary from company to company. Some of the possible causes are discussed in succeeding paragraphs.

- Change in Government Policies
 - i) Abolition of APM and liberalisation of import of newsprint.
 - ii) Removal of duty on import of newsprint, affecting the domestic newsprint.
- The SICA identified a number of internal and external factors responsible for this epidemic. Internal factors included mismanagement, overestimation of demand, wrong location, poor project implementation, unwarranted expansion, personal extravagance, failure to modernize and poor labor-management relationships. External factors included an energy crisis, raw materials shortage, infrastructure bottlenecks, inadequate credit facilities, technological changes, and global market forces.

A case study of Nepa Ltd covering the following: -

- The role of HR and contribution by HR team.
- Small savings which otherwise go unnoticed can generate huge sums.
- Good Governance is essential for growth.
- A few suggestions for the top & senior management.

Nepa Ltd had come to a grinding halt in Aug 1996. The main causes for this were: -

- Abolition of APM and liberalization of import of newsprint.
- Subsidy was totally stopped.
- MPSEB disconnected the power supply as Nepa had not paid their dues for years.
- The company was declared sick in May 1997 and registered in the BIFR in May 1998

Impact of registration with BIFR/NCLT

- No support from financial institutions.
- Embargo on recruitment.
- No modification permitted.
- No disposal of any moveable or fixed assets.
- Loss of talent.
- Entire organizational structure gets paralyzed.

Nepa's Revival Journey Situation in Oct 2005

- Capacity utilization below 25%.
- PM-II Shut.
- Negative working capital.

- All Accounts NPA.
- Dependent on GOI for salary (received every six months).
- Low morale.
- Suppliers' confidence very low, since the company owed huge amounts to them.
- Costumers' confidence was low since the Company could not supply the contracted quantity.
- Acute shortage of raw material.
- High inventory and large social overheads.

Revival Strategy


Seeing the low morale and lack of confidence of all employees top priority was given to boost their morale. In the very first address to all employees, it was conveyed that the Company had all the infrastructure and the required funds to generate our salary. What was required was a dedicated effort by all ranks. The slide below is self-explanatory.

REVIVAL STRATEGY

— ORGANISATION & EMPLOYEE CENTRIC

ORGANISATION & EMPLOYEE RELATED

— FLAG AND MANTRA DEFINED —



"मन का संकल्प और शरीर का पराक्रम यदि किसी काम में पूरी तरह लगा दिया जाये, तो सफलता मिलकर रहेगी।"

N	:	NEVER SAY DIE
E	:	EMPOWERMENT OF ALL
P	:	PURSUIT OF EXCELLENCE
A	:	ALWAYS AIM TO BE NO.1

IT infusion with improved level of computerization. NIIT was engaged in training of employees and families.

Company vision and mission and objective were defined. Sectoral and cross functional teams were formed and given time bound targets. They were encouraged to hold regular meetings to promote team building and generate more ideas. E auction, procurement and tendering were introduced through MSTC. R&D activity increased to improve the brightness and other parameters of the product.

Raw material suppliers meeting held frequently to encourage more suppliers to supply raw material. Raw material was even moved by full rake with 46 wagons. This boosted the morale of all ranks, resulting in the Union requesting that not to give a contract for unloading.

HR Activities

- The union was encouraged to participate in the management activities. Direct communication was established by addressing the employees of all level including officers by the CMD.

- Leadership Development: Frequent training sessions were held for executives to improve inter-personnel communication, team building and motivation.
- Priority given to health and safety.
- Introduction of suggestions boxes to improve employee's participation. \
- Recognition and reward mechanism was introduced.
- Grievance redressal mechanism was introduced.
- Health check-up, yoga & art of living were introduced in the company.
- Workman participation in shop floor meetings was encouraged to get more ideas.
- Birthday, Anniversary cards were sent to the officers and families. This motivated the officers to a great extent.
- Sweets were distributed to all employees on four major festivals that is Diwali, Eid, Gurupurab and Christmas.

Training and Development

- An HR and Training department was established in 2005.
- Best Practices were introduced for good growth of the company.
- Training need was assessed and incorporated in Company policy.
- Central Board for Workers Education, NIIT, Art of Living, yoga teachers and training consultants were engaged to impart training.
- Interaction sessions with all Executives was held by the CMD on regular basis. The executives were encouraged to discuss various issues affecting the performance of the Company and remedial action.



Nepa Officers attending training class

Good House Keeping: Good Housekeeping practices were introduced to ensure clean and healthy environment in the plant.

Social Development centric Activities

- Ex-employees meet, photo exhibition, celebrating religious festivals, Company incorporation day, tribals meet, music programs etc. were held on frequent basis.
- Cultural activities to increase enthusiasm resulting in involvement of entire township. Some of the pictures are given below.



- Schools, club, guest houses, temples were renovated on priority.
- Sports activities were organized throughout the year.
- Landscape development plan was prepared by Director and his team from CEPT University Ahmedabad.

Confidence building measures

- Decision to restart PM-II was taken inspite of resistance from various departments.
- Regular suppliers meet helped in convincing the suppliers to supply raw material on regular basis. One of the suppliers even decided to move raw material by rake from Chennai to Nepa Nagar.
- Gaining clients confidence by visiting the top management of various publishing houses and interaction by the marketing department with publishers' staff at appropriate level.
- Identifying USP and advertising: 42 and 44 GSM provide extra mileage. Nepa Newsprint was meeting all the specifications except brightness. A good brochure giving all the benefits of buying Nepa newsprint was prepared.
- Participation in Paper Expo- 2005. It was surprising to hear from one of the speakers that Nepa Ltd was closed. By participating in Paper Expo, the Company was able to convince all suppliers and publishers that Nepa Ltd was very much operational and producing 200 TPD of newsprint. The company also participated in various exhibitions in Indore and Bhopal.

Financial Management

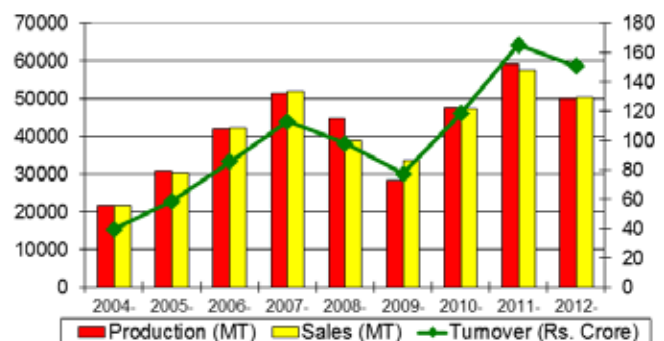
- Austerity Measures: Deliberate efforts were made in the field of energy conservation including office and street light. Consumption and wastage were reduced.
- Strict control on cash flow was established. Payment of ground rent and demurrage etc was reduced to zero. Co-ordination between marketing, production, commercial and finance department was institutionalized to arrive at the product mix to save time and wastage of raw material.

- Generation of funds by sale of scrap material
E- Auction system was introduced for selling all scrap or public buildings to get the best price. Scrap Park was established in the company and scrap collection team was made responsible for collection of all scrap material which included: -
- Tree guards of well grown trees.
- Metal, wood, building, packing materials, fuse bulbs, lights etc. were collected from wherever they were and put it into the scrap park.
- Sale of coal cinder. Coal cinder rate were fixed by company after a detailed survey and all buyers were free to collect the coal cinder from the company on payment of the required amount.
- The old method of giving a yearly contract was abolished. This resulted in huge earnings. The company earned nearly Rs 50 crores from scrap and coal cinder sale.
- Purple rejects: The Company was paying for disposal of purple reject through local contractors. E-auction of purple reject resulted in the company generating funds instead of paying for its disposal.
- Closed plants which were no longer required were sold through e-auction after seeking permission of Gol and BIFR.

R&D Effort

- R&D lab of the company was re-activated and the company was able to increase the brightness by 4-5 degrees, resulting in higher realization of its products.
- Reduction in water, energy and chemical consumption leading to lower cost of production.
- Reduction in usage of white materials.
- The slide below shows the performance of the unit:
- The company achieved all MoU targets started generating own salary. On 6 Sep 2012 the Gol approved RMDP for Rs.1025 Crores including book adjustment of previous losses. Thus a company which was earmarked for disinvestment was put on a revival path.

Performance from FY 2004-05 to FY 2012-13



Governance



Performance of the company depends on the systems and leadership at all levels.

Mission

- Effective mission statement should be a balance between possible and impossible.
- Setting the vision and mission is the responsibility by the top management and cannot be delegated to anyone except people ultimately accountable for it.

Perception Management

- Perception is the fundamental upon which people take decisions.
- Every effort has to be made to persuade people to make positive decision about your company and the product.
- Perception must be managed from top to down.
- Some of the actions to be taken to improve the perception of the clients are as under:
- Ensure that the security guards, who are the first to interact with a visitor are well dressed, courteous and conduct themselves in a proper manner. The receptionist must be well informed. The reception area must be well maintained by ensuring high standard of house-keeping.
- The entire complex must have a pleasing look.
- Make good attractive brochures showing the positive points about your products.
- Request the customer to give their feedback and act on the feedback received.

Organization Behavior

- Treat costumers the way you would want to be treated.
- Never let internal conflicts get in the way of what is right for the costumers. The costumer must be given a good fair deal.
- Great costumer relationships take time, therefore don't try to maximize short term profits at the expense of building enduring relationship. Always look for ways to make it easier to do business with your company.
- Eliminate breurocracy.

Suggestions for top and senior managements

Candor

- Lack of candor blocks smart ideas, fast action and good people not contributing all the knowledge they have got. .
- Candor leads to winning in three ways:
- Any organization that brings more people and their minds into conversations has an immediate advantage.

- Candor generates speed; when ideas are on everyone's face, they can be debated rapidly expanded and acted upon earliest..
- Candor cuts the cost to a large extent although you will never to able to put the price number to it.

Differentiation

- Differentiation is a way to manage people and the business.
- A company has only so much money and managerial time, winning leaders invest where the pay back is highest, they cut the losses everywhere else.
- Many think that differentiation is unfair because it is always corrupted by company politics. 20-70-10 is just a way of separating people. There are 20% people in the company who are self-starters and do not require any pushing. 70% of people adopt a middle path and do just the basic minimum. The 10% are underperformers and tend to criticize every action of the management.
- Protecting underperformers always back fires. The worst is that it hurts these people themselves in the long run.
- Every effort must be made to motivate the 70% which is the vast majority of the company. They need to be trained, motivated and moved towards the 20% category. You need to fight gravity and instead of taking the middle 70% for granted treat them like heart & soul of the company.
- Differentiation is fine for the top 20% and the bottom 10% because they know where they are going. But it may be demotivating for the middle 70% who end up living in an awful kind of limbo.

Voice and Dignity

- Every person in the world wants voice and dignity which they rightly deserve. People want an opportunity to speak and express their ideas, opinions and feelings. People want to be respected for their work and efforts and individuality.
- Some people have better ideas than others. Some are smarter and more creative. Everyone should be heard and respected.

Leadership

- Leaders must relentlessly upgrade their team using every encounter as an opportunity to evaluate, coach and build self confidence in their team.
- Leader must ensure that people not only see the vision but they live and breathe it.

- Leaders must get into everyone skin, generating positive energy and optimism. Leader establishes trust with candor, transparency and credit.
- Leaders must have the courage to make unpopular decisions if they are in the interest of the company.
- Leaders need to inspire risk taking and lead by setting an example.
- Leader need to celebrate every success no matter how small it may be.

People Management

- No person can undertake these activities alone. A company runs on team effort. All teams must be strengthened by the junior leaders by training them and motivating them.
- Elevation of the HR to a position of power and primacy in the organization is essential.
- **Create effective mechanism for recognition and training to motivate and retain people.**
- **Always face straight into charged relationship with unions, stars, sliders and disrupters**
- **Design the organization chart as flat as possible with clear reporting relationship and responsibility.**
- **HR policies must be aligned with the business strategy of the enterprise.**

Conclusion

To sum-up following aspects need to be focused upon:

- **Performance depends 80% on systems and 20% on the people. Therefore, the need to focus on the systems.**
- **Man behind the machine is as important as machine. One motivated employee is worth 3 average employees.**
- **Leaders must focus on training and create results.**
- **There must be transparency at all levels.**
- **The top and senior management must encourage all workers to make positive suggestions.**
- **Leader must encourage healthy competition at all levels.**
- **The level of house-keeping needs to be of the highest level in every part of the company**

Business is about people.

In fact, life is only people-family, friends, colleagues, bosses, teachers, coaches, neighbors.

For early revival run the Company with a Business Mind and a Social Heart.