Immediate Survival or Long-term Growth? The Case of an Indian Organization

Case Analysis

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The case describes how a state government-owned enterprise in India deteriorated from glory to survival at stake. The company, a monopoly market leader once, faced stiff competition in the post-globalization era. Mismanagement, unhealthy work culture, disruptive union activities, outdated product and technology, and a strong inertia towards change resulted in exorbitant loss leading to questions on its sustainability. A crisis team was set up by the government to revive the company. The team faced a dilemma about whether to focus on short-term survival strategies or on long-term growth due to scarcity of funds in designing the turnaround blueprint.

STATE-OWNED COMPANIES IN INDIA—ISSUES DURING THE LAST CENTURY

Indian SOEs operated with the purpose of fulfilling social and political objectives. Very often, executives were appointed by the state and were responsible for pro-government decisions, with a disregard for the economic performance of the enterprise. Easy access to government funds and loans made the managers feel less responsible towards financial performance of the firm. SOEs were noticed to be saddled with redundant manpower and excessive cost. Long-standing organizations were also beset with management inefficiency and resistance to change. Finally, SOEs also faced problems arising out of politically motivated trade union activities.

1980–1990: THE INITIAL JOURNEY

AEML was established in 1890 with French collaboration. The organization initially started with importing railway equipment from abroad and supplying it to Indian
Railways and gradually expanded to manufacturing of automotive equipment as a whole, with railway equipment as the core business. Table 1 below summarises the key strengths and weaknesses of the organization.

### Table 1: Strengths and Weaknesses of AEML

| Strengths                                      | Weaknesses                      |
|------------------------------------------------|---------------------------------|
| Monopoly—no competition (market leader with 90% market share) | Only one key customer—Indian Railways |
| Growing demand—business expansion              | High cost structure              |
| Association with global partners                | Less concern for profit          |
| ISO 9000:2003 certification—Quality assurance   |                                 |

**Source:** Based on AEML case study.

### 1990–2012: THE CRISIS PERIOD

AEML was compelled to introduce a third product vertical (civil construction projects), in addition to the existing two verticals (mechanical and electrical), due to the stiff competition in the railway equipment manufacturing market. This period also witnessed huge product expansion (10 different railway products and 25 civil engineering projects).

However, the situation during this period aggravated due to various factors like the modernization of the Indian Railways, which led to demands for high-tech mechanical and electrical equipment that AEML couldn’t always meet. The changing market demand along with globalization further aggravated AEML’s situation. The complacent nature of management in terms of insufficient response to the changing market conditions and their inability to understand customers’ behaviour contributed to the crisis. The culture of the organization along with rigid and disruptive approach of trade unions played its bit in further deteriorating the situation.

### 2013: THE FINANCIAL CRISIS

Due to the external and internal conditions in the past two decades, AEML witnessed exponential decrease in the market share, leading to an adverse effect on working capital accumulation. The company had incurred immense losses since 2008. In addition, the company’s gigantic expenditures in maintaining physical and human resources, lead to a huge financial liability to the company. The civil projects undertaken by AEML were under arbitration. By the end of 2013, AEML’s business was stagnating.

### THE TURNAROUND

**Crisis Team**

A crisis team as shown in Table 2 consisting of seven members—the turnaround consultant, the managing director (MD), chief operating officer (COO), chief finance officer (CFO) and three top-level managers of AEML—was formed to revive the condition. The team was operational by October 2013.

**Problem Statement**

Should the organization focus on immediate survival or enhance capacity building aimed at long-term growth?

**Immediate Survival versus Long-term Growth**

The state government was low on funds; thus it could not continue to provide financial support to AEML,
except for providing funds to meet the employee salaries for the next six months. Neither the state nor the union government, led by the ruling party of the state, was in favour of divestment due to hidden political agendas. In addition, there was minimal provision of external financial assistance. However, due to mutual understanding between the state government and the central government, the Indian Railways promised to continue their support by purchasing a few products of AEML for a certain period of time.

AEML appears to be in stage two of the turnaround process (Chowdhury, 2002), that is, response initiation. During this stage, the focus should be on corrective actions which consist of both strategic and operating responses.

Issues of immediate concern include (a) outdated product structure and traditional manufacturing technologies, (b) centralized decision-making, and (c) poor relations between the management and trade union, and rivalry between the unions.

The above analysis indicates that the company is faced with immediate problems. However, many of these have arisen because of systemic issues which have been ignored over a long period of time. It is quite apparent that the company needs to adopt a hybrid strategy wherein the crisis management team should try to balance out the actions between short-term survival (Theory E) and long-term capacity building (Theory O).

**REFERENCE**

Chowdhury, S. D. (2002). Turnarounds: A stage theory perspective. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l’Administration*, 19(3), 249–266.