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Strategic Change: How Dreams can go Sour!

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Case Summary: *Liberalisation, Privatisation and Globalisation of the Indian economy had enthused many small and large industries to seek new growth options through organic as well as inorganic routes. Mergers and acquisitions had come of age in India.*
Mr Agarwal, Chairman and Managing Director of Bharat Instrumentation Ltd (BIL), a medium sized process instrumentation company of many decades, was inspired to seize this momentum and chart new growth trajectories for his company by diversifying. He was proud to belong to the group of industrialists who were restructuring their companies. Mr Agarwal along with his family and relatives were the promoters and majority shareholders of the company.
Mr Agarwal's vision was to transform his several decades old instrumentation company into an engineering conglomerate by restructuring it, and grow its current turnover of Rs 50 crores to Rs 200 crores in five years. The strategy for achieving this objective comprised of two components: a) augmenting the core competence of the company in instrumentation products into distinctive capabilities in process control solutions, b) diversifying into potential growth areas like Fire & Security (organically) and Erection & Commissioning of High Tension Power Transmission Lines (acquisition). A Rights-cum-Public Issue was implemented to raise the funds needed to finance this corporate strategy.
The Case Study elaborates on the restructuring effort in BIL, its dynamics and pitfalls, and its ultimate failure. Strategy selection is important but even good strategies can fail due to poor implementation. The proof of the pudding is in the eating!
In the section Readings for Case Study, a conceptual framework for implementing strategic change is presented which facilitates an understanding of the problems in BIL and why the restructuring effort failed.
*[**Key words**: vision, strategy, restructuring, organic/inorganic, conglomerate, synergy, culture, structure, systems, processes, leadership, diversification, core competence, distinctive capability, critical success factor]*

I. Preamble

Privatization, Liberalization and Globalization have impacted Indian trade and industry profoundly. Indian firms long accustomed to a protected environment had to take a "wake-up call" to either perform or perish. Calls by Indian industry for a "level playing field" had received scant attention from an Indian Government keen to dismantle the trappings of the license-permit-tariff raj and expose the Indian economy to market forces. In these circumstances, industry had been scrambling to cope with the challenging times by its own "mantra" of Restructuring. Mergers and Acquisitions have also arrived on the Indian scene.

For many Indian firms, large and small, the emerging situation called for **Strategic Change** or overhauling/ redirecting the business to secure sustainable competitive advantage in the long term, and achieve the desired sales and profit growth. More often than not, Strategic Change or Restructuring became synonymous with cost reduction/down-sizing, divestments or acquisitions **but rarely focused on an integrated agenda to make it work**.

Implementing Strategic Change or Restructuring requires **transformational leadership**. The Chief Executive should be able to articulate a new vision for the firm and how to compete, mobilize key executives and even a critical mass of employees to commit to that vision even if it leads to a perceived loss of power and influence of certain departments and individuals in the firm.

The case study presented below highlights the disastrous consequences of efforts to implement strategic change without following a comprehensive agenda for such an exercise which was further compounded by weak leadership.

Part A

Bharat Instruments Limited (BIL) was incorporated as a private company and converted to a listed public limited company in 1971.The company was one of the pioneers in the manufacture of process control instruments, and had a technical collaboration with one of

the world leaders in this field. The manufacturing facilities of the company were located in the eastern and southern parts of the country, and it had marketing offices in all the metros. Over the years, the company had enlarged its role in the process control instrumentation field from being a products player to solution provider and vendor of turnkey instrumentation packages, including erection and commissioning.

Mr Agarwal was the Chairman-cum-Managing Director of the company. Mr Agarwal along with relatives and friends were the promoters of the company and its majority shareholders**.**

Mr Agarwal's vision was to transform BIL from a process instrumentation vendor to an engineering conglomerate, with the objective of growing the business from 50 crores to Rs 200 crores in the next five years. The strategy envisaged growth through the organic as well as inorganic routes--- expanding the parent business and diversifying within the engineering sector.

To begin with, BIL focused on augmenting its core competencies in instrumentation products into distinctive capabilities in process control solutions and turnkey packages.

Next BIL engaged the services of a leading consultancy firm to advise it on the possible areas for diversification. From a short list of business prospects, BIL chose Fire & Security Systems as a business to be developed organically from 'scratch'.

At this time, Power Sector reforms were high on the Government's agenda. A multiplicity of fasttrack power projects were on the anvil. The need to evacuate this power and its transmission through the State and National grids was expected to lead to a boom in the Transmission & Distribution business. Moreover, the transmission networks of most of the States were old and prone to heavy losses, and there was an urgent need to upgrade them to 400/800 KV lines. Consequently, it was imperative to plan additional transmission networks besides strengthening the existing ones. BIL saw this as a business opportunity and decided to make a foray into the Power Transmission Sector.

Mr Agarwal decided to adopt the acquisition route to enter this sector by acquiring and merging with BIL a small company which had been involved in the business of Erection and Commissioning of High Tension Power Transmission lines for several decades but had been unable to grow due to financial constraints. Mr Agarwal presumed that since BIL was already engaged in Erection and Commissioning of instrumentation packages, this background would prove useful in the business of Erection & Commissioning of Power Lines! He thought there was synergy between the two activities.

Soon BIL began to take shape as an engineering conglomerate.

To finance his ambitious growth and diversification plans, Mr Agarwal successfully implemented a Rights-cum-Public issue of shares for Rs 1400 lakhs. The proceeds were used to finance increased working capital requirements, capital expenditure and acquisition of new businesses.

Mr. Agarwal was in an upbeat mood and the future looked bright.

Part B

Mr Agarwal's vision of turning BIL into an aggressive Engineering conglomerate from a Process Instrumentation company was indeed laudable. But he had not envisaged the comprehensive changes and decisive actions that were required to translate his vision into reality.

The challenges of Restructuring and implementing Strategic Change became evident very soon.

The ground realities and issues which had to be addressed were many. Some of them were:

- BIL was a 30 year old listed public limited Indian company: one of the pioneers in process control instrumentation but with mediocre performance over decades
- BIL had technical collaboration with a world leader in process instrumentation products and systems but had not been able to build on it.
- "Laid back" style of functioning.
- Strong feeling among executives and staff of being "instrumentation" people.
- Lack of performance orientation
- Aging workforce at managerial, supervisory and staff/worker levels
- Excess manpower at various levels
- Human resource development was non-existent
- Management culture was "personalized" rather than driven by systems & processes.
- Reliance on few executives to deliver: "hands-off" approach by Top Management.
- Consensual decision making
- Organizational structure was functional, by and large

Mr Agarwal's problems were compounded by his increasing involvement in non-business commitments of late which necessitated his frequent absence from the corporate office and day- to-day management of the business, which after diversification had become more complex and demanding.

In the present dispensation, a Chief Executive reported to Mr Agarwal. The Manager of the Kolkata factory and the Marketing Manager reported to the Chief Executive. The factory in the south was under a senior technical executive who also reported directly to Mr Agarwal. A Chief Financial Officer (CFO) reported to Mr Agarwal. There was a Personnel Manager at the corporate office who reported to the CFO. The Personnel Officers in the factories reported to the respective factory heads.

Mr Agarwal had inducted his son into the business with a view to grooming him and making him the Chief Executive eventually. The incumbent Chief Executive retired soon thereafter, and Mr Agarwal delegated additional responsibilities to his son.

After diversification, Mr Agarwal decided to make each business a Profit Centre under a senior executive. The Heads of Process Instrumentation Division and Fire & Security Division reported to Mr Agarwal , while Head of Power Transmission Division reported to his son. Mr Agarwal reckoned that the selection of the right Profit Centre /Divisional Head was a critical success factor in the business.

He appreciated that with the induction of new businesses into the company the personnel function had to be given a broader mandate and management of human resources deserved greater attention. **A senior executive was recruited for the corporate HRD function. But surprisingly he was placed under the Divisional Head of one of the new businesses!!**

With the Divisional Heads in place, Mr Agarwal's operational modus operandi was mainly through personal interactions with the concerned Profit Centre Heads, and reviews of achievement against monthly budget targets. A Half Yearly Review Meeting was also held to assess the performance till date and develop the revised expectations for the year. New products and new business ideas, strategies, etc were also discussed and decided upon during this meeting. All senior executives as well as middle level managers in different divisions/departments participated in the discussions spread over three days.

It was soon apparent that the induction of the new businesses into the company had caused disquiet among the existing "instrumentation" people. The first evidence of coming **"turf battles"** surfaced when no space could be found within the existing offices to accommodate the new Fire & Security Division as all concerned departments expressed their inability to release any surplus space. Finally, new space had to be created on the terrace of the building to accommodate the Fire & Security Division.

The salary structure of the new incumbents and its disparity with that of existing executives/officers became another source of discord as a different compensation structure was followed for each of the new businesses. **The executives in the new businesses came to be considered as the "blue eyed" boys of Mr Agarwal leading to feelings of "they" and "us" among the older staff and executives in the process instrumentation area.**

Since the major customers of the Power Transmission Division were located in the North, it was decided to locate the operational headquarters of this division at Delhi. This posed major problems of management control and communication as critical matters requiring urgent attention of top management were reported late, disguised or not informed at all until it had reached crisis proportions. Top management took some time to "learn the ropes" of this new business before it could act proactively.

By now, Mr Agarwal had committed most of his recently raised funds/resources into the existing/new businesses, and pressures were developing to show both top and bottom line performance. The Corporate HRD department was mandated to develop a Performance Appraisal System, identify performers and non-performers, initiate Training Programmes to improve productivity, and submit proposals for VRS for surplus employees to reduce costs. But these intentions remained only on paper or were frustrated by vested interests in the company.

In no time, the VRS proposal was scuttled. The proposed Performance Appraisal System did not get implemented. **Employees identified as non-performers whose normal increment was withheld in one year were recommended for a double increment in the following year!!** Training programmes were deemed time consuming and costly.

Mr Agarwal's "consensus" oriented management style made it difficult for him to take hard and unpalatable decisions.

In course of time, the Process Instrumentation business began to lose momentum, the Fire & Security business did not take off as strongly as expected, and the Power Transmission business was floundering with rampant mismanagement. Very soon BIL was saddled with heavy losses and large bank liabilities.

With expected results not forthcoming, and financial figures plummeting, certain key executives recruited a few years back in the new businesses quit the company.

Mr Agarwal began to seriously doubt the wisdom of his diversification moves and again sought the help of Consultants to advise him on re-structuring BIL. He kept all options open like de-merging the businesses and even divestment of part/whole of selected businesses to mobilize resources, and re-focus Management efforts. The wheel had come full circle.

Mr Agarwal wondered what had gone wrong, so horribly wrong!!

II. Discussion Issues

1. What are the pros and cons of the diversification strategy visualized by Mr Agarwal?
2. What factors Mr Agarwal should have considered while implementing Strategic Change? Why did the change effort fail?
3. Should Mr Agarwal have engaged Consultants to help implement change in BIL?

Readings for Case Study (to be taken up after case discussion)

Mr Agarwal had assumed rather simplistically that diversification would automatically deliver results, that the desired growth in sales and profits could be achieved by adding winning products and businesses. Managing diverse businesses would not pose much of a problem if he could get the "right" key executives for each business segment and monitored their performance.

But Mr Agarwal failed to appreciate that Strategic Change or Restructuring is a complex, multi-dimensional exercise. The needed change could be derailed, inter alia, by a host of factors: insular culture, politics, bureaucracy, lack of teamwork, feelings of anxiety, inappropriate structure, systems and processes, and above all by weak, indecisive leadership.

In a widely appreciated paper " Leading Change: Why Transformation Efforts Fail" published in the January 2007 issue of the Harvard Business Review (and elaborated in the subsequent book called " Leading Change"), John P. Kotter of the Harvard Business School has outlined a Eight Stage Process for bringing about successful Strategic Change as follows :

- Establishing a Sense of Urgency
- Creating the Guiding Coalition
- Developing a Vision and Strategy
- Communicating the Change Vision
- Empowering broad based action
- Generating Short Term Wins
- Consolidating gains and changing systems, processes & policies to fit the vision
- Anchoring/Institutionalizing new approaches in the culture of the company

Kotter recommends that all these steps should be proceeded **in sequence**, and **no step should be skipped** under any circumstances to hasten the process. **Kotter emphasized that Leadership, as distinct from Management, is critical to guide the change process**. "Leadership defines what the future should look like, aligns people with that vision, and inspires them to make it happen despite the obstacles" contrary to Management which "includes planning, budgeting, organizing, controlling and problem solving". **It is crucial for the Leadership to generate positive feelings within the organization in support of the change process.**

Franken, Edwards, Lambert in Issue 3, Volume 51 of 2009 of the California Management Review in their paper "Executing Strategic Change: Understanding the Critical Management Elements that lead to Success" have also empasized that **success is more likely in those cases where the Chief Executive has been able to create a climate for change, built a consensus about how to execute the vision and encouraged company- wide participation in the change effort. There is no getting away from the deep involvement and commitment that he has to bring to the change effort till the very end**. It has been said that **"the leadership of change cannot be delegated".**

Mr Agarwal made the grave mistake of thinking that he could manage strategic change in his old operational style , when the compelling present requirement was that of strong leadership, and timely decisive actions to make people fall in line with his vision, even if some of these were unpalatable.

Mr Agarwal could not have been oblivious of the insular culture of his company, its weaknesses, as well as the personalities and capabilities of the key executives. He had not prepared the company adequately for the Strategic Change he was seeking, the urgency for it and its implications.

By nature Mr Agarwal was a genial, friendly person, but perhaps not quite suited to provide the strong, decisive leadership that was required to implement such a major transformation. The managerial practices in the company were more "person" oriented than formal, performance and system driven. To say the least, these practices belonged to the past, and had little relevance for the management of the diversified, aggressive engineering company that Mr Agarwal was hoping to create. A cultural change and revamp of the existing systems and processes was needed, but its urgency was grossly overlooked.

It was important to taste success with small wins and review the progress of the changes before launching the company into newer ventures. But Mr Agarwal was impatient and thought he was capable of handling multiple business start-ups simultaneously, without allowing adequate "learning time" for one business to take-off before venturing into another business for which the critical success factors were quite different.

A serious lapse was Mr Agarwal's preoccupation with other outstation commitments in the midst of the change effort. The leadership and single minded focus needed of him to make the changes stick got diluted, and the initiatives taken to develop the organization lost momentum, before finally fizzling out.

Disaster was waiting to happen!!