

## ORGANIZATIONAL DECLINE AS RELEVANT TO STATE OWNED ENTERPRISES IN KERALA: A LITERATURE CONVERGENCE INTO REALISM

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**Abstract:** In India, which is a capitalist sloping mixed economy, the performance of public enterprises is typically appraised on the same weighing scale as privately owned companies. In this milieu, the resource allocation and utilization in the sector is often under the scanner. The underperformance of the State Owned Enterprises is much of a reality than a perception. An exhaustive evaluation of the probable reasons for this performance decline hence becomes imperative and opportune. This paper purports to bring together the causes for organizational decline, by extensively scanning the literature available. Factors that are relevant to the Public Sector are chosen on the basis of expert advice and scenario matching. The factors have been classed as internal and external and range from Organizational Atrophy to Strategic competition. The paper brings in the element of realism by including the excerpts of the interview with experts, who have had years of experience in the public sector. By converging the available literature with the reality in the sector, the paper expects to become a ready reckoner of the reasons for organizational decline in State Owned Enterprise.

**Keywords:** Escalating Commitment, Kerala, Organizational Decline, State Owned Enterprises.

**Introduction:** The role of Public sector in the augmentation and progress of the country especially during the financial downturn has been witnessed by India, bespeaking the relevance of this sector. The state of Kerala has been one of the best performing in the nation as far as the human development indices are concerned. The state however, is not a forerunner in industrial development which is reflected in the diminutive IIP growth[1]. The State Level Public Enterprises were constituted to bring about industrial equality and economic development. The benefits expected to accrue from State Level Public Enterprises were; increased revenue to the government, optimum utilization of the natural resources of the state, savings in foreign exchange resources, reducing regional disparities and availing foreign aid schemes. Further it intended to provide social benefits such as more employment opportunities, reducing disparities in income, protect the interest of the consumers, and social satisfaction of the community. Conversely, it was considered as liabilities to the state exchequer due to its underperformance (Planning Commission, 2002). With Rs 9097.08 Crores of the State Finances invested in this sector, such performance deficit comes at a huge cost to the common tax payers. The employee population of 1.25 lakh people will also suffer if these companies continue to perform sub optimally. (Comptroller and Auditor General of India, 2013) Keeping this in milieu, the seminal reasons for this lackluster performance is examined. Organizational Decline as defined by (Cameron, Kim, & Whetten, 1987) is a condition in which a substantial, absolute decrease in an organization's resource base occurs over a specified period of time. The primary aim of this paper is to ascertain the

factors contributing to Organizational decline in State Level Public Enterprises in Kerala.

The literature on Organizational Decline is reviewed and a band of factors nominally named as Internal and External as applicable to State Level Public Enterprises, is contrived. Interviews with experts (Officials of Restructuring and Internal Audit Board-RIAB, Trivandrum[2]) gave further insights into the reality and hence, this ground level realism is converged with the existing literature. The paper ends with discussion and scope for further research.

**Research on Organizational Decline: The Publicness Approach:** Theoretical imprints of Organizational Decline as a real world phenomenon, started to be seen massively in the 1970's and 1980's. (Witteloostuijn, 1998) Various authors have come up with conceptual as well as operational characterizations of Organizational Decline. Some of the most cited are the following: "Decline can begin in the early stages of an organization's existence or occur at any other time during its development. Decline is the result of less than effective management of the organization, its resources, and the sensing mechanisms related to its long-term survival." (Schendel & Patton, 1975) (Greenhalgh, 1983) defined decline as deterioration in the organization's ability to adapt to its environment: "Decline occurs when the organization fails to maintain the adaptiveness of its response to a stable environment, or when it fails to either broaden or increase its domination of a niche which has diminishing carrying capacity." (Weitzel & Jonsson, 1989) developed a five stage model which exemplified the process of decline in a typical organization. The stages progressed from Blinded Stage to Dissolution and signals to identify these stages and strategies to

surpass it were discussed in the paper.

Reasons for Organizational Decline in Public Sector have got scant attention in the Organizational Decline literature. Often organizational decline in the Public sector is looked at from the remedial angle through a process of Cutback Management. Organizational Decline finds mention in the literature as a prelude to the turnaround process in the Public Sector. (Levine, 1978) in his landmark paper looked at the reasons and remedies of Organizational decline as applicable to the Public Sector. The Political and Economic/Technical factors were looked at from the Internal/External angle giving rise to a list of comprehensive and apposite factors for the Public sector. Problem depletion, Organizational Atrophy, Environmental Entropy and Political Vulnerability were cited as the major reasons for Organizational decline. The relevance of the above work by Levine was examined by (Bozeman, 2010) in the present world context. He viewed organizational decline not as an episodic event but as a part of the life cycle of the organization and also commented on the impact of decline on the human resources, structure and design of an organization and the relationship between strategy and decline. The turnaround processes of six organizations were studied using in-depth case studies by (Maheshwari, 2007) in the book titled Turnaround Excellence. Taking cue from the generic decline and turnaround literature, the reasons for decline is again categorized as Internal and External here, while reflecting the Indian context. (Anand & Mathew, 2007) gave a detailed account of the turnaround process of the Indian Railways essayed through the stage theory perspective. There too the reasons suggested for the decline were obsolete technology, excessive unproductive manpower, cost escalation, poor inventory management etc.

The generic and public level literature on organizational decline is briefly reviewed and aforementioned. The specific reasons for organizational decline in the public sector are appraised here under.

**Causal Factors of Organizational Decline:** A scan of the literature on organizational decline throws a list of reasons that contribute to diminution. The relevance of some of these factors in the public sector is however dubious. The character of the resources and its control are the reasons that set public sector apart from the rest of the organizations. (Bozeman, 2010) The very nature of the sector pitches a set of factors that could be the probable reasons for the decline. Going by the time-honored classification they can be classed as Internal and External. Further, the internal factors can be divided into People

aspects and System aspects denoting the disposition of the causes of decline.

**Internal Reasons:** Human Resources is the most imperative factor of production for any organization, especially so for a State Owned Enterprise. Their capability to contribute to the success or failure of an organization has been accounted several times in the history of business. The people aspects that contribute to organizational decline in State Owned enterprises, as mirrored by the literature, are the following. Political Vulnerability can be cited as one of the foremost reasons for organizational decline. Due to this internal phenomena, which is characterized by frailty and instability, these organizations repeatedly fail to respond to the environmental shifts and budget constraints. Internal conflict, lack of base of expertise, lack of positive self image, lack of history of excellence etc are the contributing aspects to political vulnerability. (Levine, 1978), (Pandey, 2010) and (Rosenblatt, Rogers, Nord, & Rosenblat, 1993).

Another issue that has been constantly cited and is germane to the public sector is the Escalating Commitment that managers show towards a failing course of action. Managers time and again fail to rectify an error in decision making committed by them, and continue to invest resources in the abortive event. (Staw, 1976). (Chowdhury & Lang, 1996), (Witteloostuijn, 1998) and (Mone, McKinley, & Barker, 1998) all point to the fact that escalating commitment leads to a rigidity that forestalls organizations from innovating and exploring new market niches. Copious authors have looked at this Threat Rigidity in various contexts. Theorists suggest that decline inhibits cognitive processes, decision making, and limits the number of options considered by managers, thereby reducing organizational change and adaptation. (Rosenblatt & Sheaffer, 2001). The organizations rely on well learned practices and often fail to innovate even at the operational level. (Hoff-Hofstetter & Mannheim, 1999). This lack of innovation coupled with the existing complacency of the managers often make State owned enterprises the last to respond to changes in the competitive arena and more habitually non responsive. (Wiseman & Bromiley, 1996), (McKinley, 1993) and (Cameron et al., 1987).

Cultural Rigidity is an offshoot of the environment of the sector. Excessive cohesiveness and strong organization culture lead to group think and conformist behavior. (Maheshwari, 2007) says that this, in turn will paralyze the organization in terms of timely responses to the changes in the environment. Employees often resist changes and decisions that are outside the organizational norms. (Gopinath, 1995), (Rosenblatt & Sheaffer, 2001) and Rosenblatt et al.,

1993).

Dual Commitment is yet another problem that contributes to decline of State Owned Enterprises. The presence of Unions in the organizational landscape presents the problem of fragmented commitment. (Purcell, 1960). This dual allegiance may hamper the work commitment and productivity, thereby affecting the organization's performance negatively. (Gallagher, 1984) and (Reddy, Gajendran, & Gayathri, 2000). Complacency, which is an additional concern, is associated with cognitive/behavioral phenomena involving a lack of managerial attention toward critical operational and strategic areas (Hedge, 1982), (Reece, 1994) and/or a managerial inability to abandon strategies that no longer work. (Labich & de Llosa, 1994). Bureaucratic control is a bane that affects the performance of the State owned enterprises. Centralized control and decisions based on political will, dampen the quality of the decisions made (Maheshwari, 2007) and also the resource allocation is highly biased and lopsided. (Levine, 1978)

There are certain system induced factors that contribute to the organization's decline additionally. Organizational Atrophy is a widespread problem that organizations face, but it's more so in the case of State Owned enterprises. (Levine, 1978) This is so because unlike typical organizations, state owned enterprises do not have a standard market regulated revenue/profit system and also the accountability to the shareholders is minimal. Organizational atrophy is the result of inconsistent and perverse incentives, differentiation without integration, role confusion, obsolescence caused by routine adherence to past methods and technologies, weak oversight, stifled dissent, upward communication, rationalization of performance failure by blaming the victim, lack of self-evaluating and self-correcting capacity, continuous politicking for promotions and not for program resources. (Levine, 1978) "Highly formalized and documented systems reduce managers' willingness to take risks. Such systems further restrict the flow of relevant information while irrelevant information flows unabated; this, along with bounded rationality, causes limited systematic analysis of the situation". Together with size and age these factors add to organizational atrophy. (Maheshwari, 2007) Antiquated and obsolete production technologies render the products low in quality and in most cases are overpriced. (Maheshwari, 2007) The equipments are usually inadequate and hence full utilization of the capacity and personnel is problematic. This reduces the marketability of the products and customers often look for a better/cheaper substitute. Congenial Niche is another problem that Maheshwari introduces. "Organizations that try to adopt a safe

product market domain and carve a congenial niche are often not able to respond to sudden changes in the environment, leading to decline. Owing to such a specialized niche in a safer domain, they tend to adopt a highly specialized technology, work processes and internal systems. Such organizations carry high exit barriers. They become susceptible to decline when the environmental munificence reduces." (Maheshwari, 2007)

Organizational slack is the cushion of actual or potential resources, which allows an organization to adapt successfully to internal pressures for adjustment or to external pressures for change in policy as well as to initiate changes in strategy with respect to external environment. (Bourgeois, 1981) Lack of organizational slack is often quoted as one of the prime reasons for organizational decline. The financial slack resources such as contingency and reserve funds are habitually not present in case of a good number of the state owned enterprises. (Maheshwari & Ahlstrom, 2004) In such cases the organizational flexibility is deeply affected and the mistakes become more visible and pricier. (Cameron et al., 1987) Loss of competitive advantage is another system induced factor for decline. Competitive Advantage is lost when the company fails to cater to the current needs of the market. Its products are outdated and the customer base is largely eroded. Lack of market research and nil innovation render these companies weak in comparison to the potent competitors. (Maheshwari, 2007) Poor financial management practices have been hitherto a problem that is plaguing the Public Sector. (Pillai, 1990) in his paper suggests that incompetent financial management is the cornerstone for the general inefficiency that is seen in the public enterprises. The effect of the subpar financial management percolates to the management, marketing, technology and linkages aspects, all of which heighten the decline.

**External Reasons:** Demand Turbulence and maladjustment to it, is, like in the case of any typical organization, is one of the key external factors for decline of State Owned enterprises. The enterprises often fall short in coping with the cyclical, declining or random demand and end up being non-performers in the market. (Witteloostuijn, 1998) Strategic competition is an added pressure on State Owned enterprises. Privately owned, more proficient companies in terms of resources and market share, often threaten the existence of these State Owned Enterprises. SOEs need to compete with imports in addition to private companies on account of Non-price factors, such as timely completion of projects, lack of reliability, ability to produce as per specifications etc. (Chaudhuri, 1994). Munificence is the environment's carrying capacity to support the

operations of an organization. (Maheshwari, 2007) It is affected by the intensity of the competition as well as the political and social conditions. (Piening, 2013) The performance of an organization and its capacity to make pertinent decisions are dependent upon the munificence. (Abebe, 2009) The incidence of private competition and the overt pressures on the State Finances designate lower munificence for SOEs to perform. The lackluster performances of such enterprises also make the Creditors hostile, thereby making availability of funds challenging.

**Conerging into Reality:** An extensive scan for the reasons of organizational decline laid bare several internal and external factors. However, in depth interviews with experts[3] dealing with the Public Sector in Kerala, exposed certain other factors that contribute to organizational decline. Edited transcripts of the interview are as under.

Under utilization of capacity is one of the major problems that affect the performance of the State owned enterprises. The facilities remain under utilized due to many reasons. Mostly the lack of sufficient raw materials, dip in demand, lack of manpower and other requirements such as power supply could be the reason for this under utilization. Especially in the textile sector, there are Industry associations like SITRA[4] which mandates the standards to be followed, specifically, productivity related. The performance of the enterprises are usually subpar, even after due considerations are given to the special nature of the individual companies. The mismatch between remuneration and the number of years of service of employees often lead to lack of organizational commitment. Employees are often seen to be working in more remunerative fields like masonry, carpentering, and the like and when such work is unavailable, they come back to the organization to work. Ultimately this leads to absenteeism which in turn leads to reduced productivity and a downward looking performance graph. This type of migration and remigration is seen more so in the case of plant level employees.

Delay in granting of permissions for the projects planned, is another stumbling block that these organizations face. The lag between the project conceiving and the actual implementation is enormous and the relevance of the project itself can be questioned in the delayed state of affairs. The file goes from these companies to the session offices, from where it goes to the secretary level at the Industries and other ministries, from where permissions need to be granted. This in itself is a long winding process which curtails the timely implementation of many of the proposed projects. As a continuance to the above stated point, another

colossal block is the delay in funding. Since the capital is provided by the Government for most of these enterprises, receiving it on time is a huge task. After the approval of the projects, it takes another few months, sometime years for the funds to be handed over. The purpose for which these funds were required may be nonexistent at the time when it is received.

Lack of working capital is another reason for the poor performance of these organizations. The circular pattern of working capital - Sales to Purchase - is not always the case with such enterprises. Often the sales are not optimum which leads to lack of funds for purchase, when the purchase of raw material is compromised, it reflects on the output which in turn affects the sales of the company. It a vicious circle and due to this many a time these organizations approach the Government for working capital funding too. The absence of self sustainability at least in terms of Working Capital is also a major factor for the performance decline.

When most of these State Owned Enterprises started functioning, it was iconic in its stature and also very prominent geographically. Everyone wanted to be a part of this industrialization phase, the world was going through. The incidence of globalization, however, turned the tables and the gush of industrialization with small and large companies mushrooming around every other road in the state and nation, these companies lost its charm. The desirability to be a part of this historical symbol became zilch. The nature of employment of the employees of these organizations is permanent. Usually the only employee in the organization who has a short term contract would be the Managing Director. This guarantee of the employment security, gives the employees, unfathomed power. They are often non cooperative and believe that their misgiving/wrong doings, lack of sincerity etc cannot be questioned. Even if it's questioned the chances of them being dismissed from the organization is minimal and hence contributing to the "don't care attitude".

The purchase systems in most of these companies are dictated by the presence of Cartels. These cartels have been formed over the years and often a cheaper option is given away on account of a favorite supplier, thereby diminishing the chances of savings. E-Tendering was an initiative that was brought about to make a change to this system. The implementation of the system has instilled transparency into the process, but to what extent the eradication of cartels have been possible, needs to be found out. Experts feel that things haven't changed much at least in the case of some of the organizations.

Obsolete technology and ageing production

techniques has been repeatedly quoted as one of the reasons for the decline of the State level public enterprises. As an answer to this, several modernization initiatives have been taken up in the enterprises. However complete modernization is not possible owing to the lack of availability of funds and delayed funding etc. When partial modernization is done nevertheless, the end products' expected quality/quantity enhancement is also only partially achieved. With this insignificant improvement, the products may not fetch the increased price it had anticipated to. So the effect of modernization is not always manifested in unit price increases and in turn, on the turnover of the firm.

**Discussion and Conclusion:** Organization decline has received incessant attention because of its magnitude of its impact, not only to the immediate stakeholders, but on the society as a whole. (Witteloostuijn, 1998) The importance of studying and analyzing the causes of decline in Public sector is even more significant as the capital with which these companies function, and sometimes the working capital too, is the common tax payer's hard earned money. With change happening not at analogous speed in the tripartite set up of the Enterprise,

Government and Assembly, there are very definite limits to the degree to which basic changes in the management of public enterprises will be feasible. (Tupule, 1976) Hence it becomes exceedingly vital to take precautionary, as well as remedial measures to counter the decline in Public Sector. The responsibility for this is reposed on the Government (Macro level), the individual enterprise (Mezzo level) and the department level (Micro level).

This paper is intended to be a ready reckoner for reasons that lead to organizational decline in State Owned Enterprises. The causes are elicited from the literature, which at times is prescribed for the public sector and some others, deduced to be relevant to the sector. While additions like dual commitment and complacency are made to the previously established reasons, ground level realities viz, poor financial management practices and other systemic factors emerge from the interviews with the experts. Scope for further research exists in empirical validation of these reasons as applicable to the State Owned Enterprises and in-depth quantitative and qualitative assessments regarding the effect of individual factors on the performance of these enterprises.

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24. The IIP Growth rate of the manufacturing sector for the month of February 2014, is - (3.7%).

25. RIAB, constituted in 1994, executes State Owned Enterprise Reform Initiatives. RIAB also carries out macro level fund management and monitoring and performance management of SOEs.

26. Officials of the Restructuring and Internal Audit Board and Department of Industries.

27. SITRA, an acronym for The South India Textile Research Association, and established in the year 1956, is governed by a Council of Administration consisting of member representatives of the Industry, Government and Scientists.

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