

Turnaround Strategy - The Case of Malaysian Marble Sdn. Bhd.

HUSNA JOHARI & RUSMALA MOHD. DAUD

*Sekolah Pengurusan
Universiti Utara Malaysia,
Sintok 06010 JITRA,
Kedah, Darulaman.*

ABSTRAK

Malaysian Marble Sdn. Bhd. (MMSB) telah ditubuhkan pada 17 Jun, 1981 untuk mengkuari dan memproses marmar di Pulau Pelangi. Apabila MMSB memulakan pengeluaran secara komersial di pertengahan tahun 1983, pendapatan yang dijangkakan tidak berhasil. Malahan, pihak syarikat mengalami kerugian dari tahun tersebut sehinggalah ke tahun-tahun berikutnya. Pada tahun 1987, Syarikat Consultant Managers (CM) telah diminta untuk menyelamatkan syarikat yang tenat ini. Secara amnya, tujuan kajian kes ini ialah untuk meninjau kelemahan MMSB sebelum penglibatan CM ke dalam syarikat tersebut dan menilai kedudukan masa kini syarikat. Para penyelidik menggunakan kaedah temubual dalam mengendalikan penyelidikan. Dari maklumat yang diperolehi, terdapat banyak masalah-masalah yang menyentuh fungsi-fungsi dalam syarikat seperti pengurusan, pemasaran am, pengeluaran dan kewangan. Sehingga kini, CM telah mempraktikkan banyak tindakan-tindakan untuk memperbaiki kedudukan MMSB. Walau bagaimanapun, ia belum lagi dapat mencapai objektif untuk memulihkan MMSB sepenuhnya.

ABSTRACT

Malaysian Marble Sdn. Bhd. (MMSB) incorporated in 17 June, 1981 was established to quarry and process marble from the limestone quarries of Pulau Pelangi. When MMSB started their commercial production in the mid of 1983, the positive revenues anticipated was never achieved. Instead the company experienced losses for that year and also for the subsequent years. By 1986, the company was almost auctioned for a price of \$5 million. Hence, Consultant Managers (CM), was brought in to help the ailing company in 1987. Generally, the purpose of the study is to identify the weaknesses of MMSB before turnaround and to evaluate the present stage of the company after CM came into the picture. The researchers adopted personal interview method in handling the study. From the information gathered, there had been a lot of functional problems like management, marketing, production and finance. Until now, CM had undertaken several corrective measures. However, it has still not achieved its target to turnaround MMSB completely.

INTRODUCTION

Sometimes due to internal factors such as incompetent management or external factors such as recession, a company falls short of their target performances. This company is said to be "sick" and the process that they have to go through to correct the situation is known as turnaround process. The concept turnaround can be defined as a process that a "sick" company goes through in order to attain sustainable recovery. Sustainable recovery usually means achieving durable increase for normal growth and profitability (Heany, 1989). This case study looked at one company's efforts in turning

around its status from being on the brink of auctioned for a price of \$5 million to a company which is worth 60 million.

PURPOSE OF STUDY

This study seeks to do the following:-

- identify the problems faced by the company
- rationalise the turnaround strategies used
- evaluate the current status of the company

It is hoped that insights gained from this study can be used as a basis for future turnaround process.

METHODOLOGY

Data Collection

Data Collection was done by adopting the personal interview method. Hence, data collected was primary data. Besides this, secondary data such as financial statement, production, marketing and management data were also used.

Data Analysis

Data collected were analysed and categorized based on the four basic requirements of any company namely management, production, marketing and finance.

FINDINGS

Prior to 1987

When Consultant Managers (CM) took over Malaysia Marble Sdn. Bhd. (MMSB) in 1987, MMSB was full of problems accumulated over a number of years.

Some of the more specific problems were:-

a) Management

- i) There was a lack of competent leadership.

In particular, the inability on the part of the top management to provide the proper sense of direction or to verbalise expectations set employees up for failure in their performances. The management discouraged open communication, thus creating a 'distrust' and 'tensed' working environment.

- ii) There was a lot of political influence.

During its formative years, the company was acceding to a lot of political influence in the recruitment and selection of its workforce. Hence, many of the staff were not competent with the nature of jobs offered.

- iii) There was an acute shortage of competent technical manpower.

It was noticed that there was no formal orientation program for new recruits and employees trained entirely on the job. The

problem was not only due to lack of training programmes, but also a large intake of incompetent technical manpower.

- iv) Biased in the recruitment and selection practices.

It was rumored among the employees that favoritism was highly noticeable in the recruitment and selection process. For example, those who shared the same political views as the recruiters would be given priority.

- v) The performance appraisal was not clear.

Performance appraisal was very blurred and subjective in nature. Consequently, measurement was not objective and there were issues of bias and favoritism associated with the appraisal system.

- vi) Weak in compensation management.

There had been several delays on the payment of the salaries to the workers. There had been no pay increment since late 1984 and overtime had also been curtailed.

- vii) Weak industrial relations practices.

Weak industrial relation caused low work ethic and confidence in management. Conflicts persisted and the company continued to lack coordinations and cooperation among the managerial staff as well as the workers.

b) Production

The production side of the company was divided into Plant A concentrating on quarrying the marble and Plant B, concentrating on the processing the marble which has been quarried. The main quarries for the company were located on the mother island, Pulau Putih and Pulau Pasir; the smaller islands of Pulau Pelangi. Some of the problems related to the production of the company were:

- i) Unsuitable machines acquired.

Machines acquired by the company were recommended by the Italian experts but

were found to be not required by the quarry operations. Some were found to be obsolete and were frequently down due to poor maintenance and handling.

ii) Production operations disrupted.

Due to the problems caused by the unsuitable machines disrupted the production operations. Production volume was far below from that of the targeted volume. This affected not only on the volume of marble quarried but also the consistency of blocks of marble to be processed as the source of marble to be processed depends on the supply of the production volume from the quarries.

iii) Lack of technical expertise

As highlighted earlier, the company lacks of technical expertise especially to ascertain the types of marble contained in the quarries. Therefore, there was a high rejection rate as some blocks had to be rejected because of poor surveying and prospecting.

iv) Transportation problems.

Marble blocks extracted from the islands were transported by using a barge to the jetty of the main island to the jetty of the main island and then transported by using a lorry to the plant. However, there was only one barge operator and good services were not provided to the company as they had other prior commitments. Moreover, as MMSM was rather slow in payments, occasionally they were reluctant to provide such services.

All these factors resulted in inconsistent production that affected the whole of the production operations of the company.

c) Marketing

The company failed to capture the major part of the market although the marble industry had good potentials. This was due to several internal problems of the company.

i) Lack of technical knowledge to promote

the product.

The management of the company lacked such knowledge which hindered the activities of the company to market the product. The company was unable to supply marble specified by the customers. As a result, potential sales were lost by the company.

ii) Lack of promotion activities.

The marketing activities of the company was mostly handled by one person and the activities were limited because the Board of Directors did not believe that such activities would bring any benefit for the company.

iii) No guidelines on pricing.

The pricing practice was that of using rough estimates on the basis that all types of marble were the same. As a result, the products were priced higher than the local competitors.

FINANCE

Equity

The initial financing of the company since the formation was in the form of equity capital amounting to \$10 million. The breakdown of the capital then were as follows:

<u>Shareholders</u>	<u>% Holding</u>	<u>\$</u>
State Economic Development Corporation	60.0	6,000,000
Plantations Bhd	20.0	2,000,000
XYZ Ltd	20.0	2,000,000

In 1984, the major shareholder contributed another \$6 million which then resulted in a new ownership structure.

Loans

The company acquired additional loans to finance their high costs operations which was initially estimated to be much lower. This was

due to incorrect costing done by the management. The cost overrun increased up to 43% from the initial estimated costing which aggravated the company's financial situation when it was unable to generate sufficient cash from operations for working capital.

Losses

The internal problems illustrated above caused the company to experience losses for the first year of production and for the rest of the subsequent years.

ANALYSIS

Some items were gathered from the financial data of the company as in TABLE 1.

These items were said to be significant as they showed vast differences compared to other items in the financial statements of the company.

The figures stated between 1984 and 1986 indicate the situation before Consultants Managers Sdn Bhd took over the management posts of the company, where as in 1987 the figures picture the situation when Consultant Managers came into the company until to date when the case is written.

The financial statements for 1991 were shown until October, as the financial year for the company is as December 81.

It can be seen clearly that the turnover of sales for the company was very much higher before the consultants come in. These sales were gathered mostly from a major contract which was acquired from the construction of the Salehuddin Selangor State Musque. When CM came in they put off sales and marketing activities as they wanted to concentrate on resolving the internal problems of the company. This explain the low turnover as indicated.

The losses acquired were clear as the company faced acute financial problems. This is explained by the negative capital figures sharing greater current liabilities than current assets. the situation resulted in a strong dependence on term loans acquired by the company. As for the share capital, the holding company injected \$6,000,000 more in 1986 and another \$4,000,000 in 1989. To succumb the bad financia strength, the company injected another \$2,000,000 in 1980 and as October 1991, the holding company gave another \$7,000,000 to help the company

cover the losses.

Some of the major changers that can be seen clearly in 1991 were:

- a) For the first time the company acquired profits of \$4,000,000
- b) Current assets were more than the current liabilities revealing a positive working capital value
- c) Term loans acquired were cleared off
- d) Share capital increased till \$35,000,000

The financial ratio analysis ws also adopted to determine the degree of financial health of the company, to what extent was the company in a deficit loss situation over the period of years represented by the company's financial statements. These analyses is shown in TABLE 2. The presentation of the analyses is similar to that of TABLE 2 where figures were obtained during the yerrs before Consultant Managers come into the company and the years after.

From the analyses, it can be concluded that current assets are still not fluid even after CM came into the company. This can be seen from the low current ratios from 1987 onwards. As for liquidity ratios, this company has a strong dependency on inventory to liquidate debts.

The coverage ratios indicate that the company has difficulty in meeting interests obligations. The figures for 1984, 1985 and 1990 were not calculated as the financial statements did not reveal the annual interest expenses of the company for these years.

The negative profitability ratios were a result of the losses acquired by the company and was lowest before CM came in.

The company incurred high debts when compared to the net worth of the company. The figures were higher before CM came in. This was due very high loans acquired to finance the setting up of the company and its operations during these early years. As a result, the investments of fixed assets were higher at that time revealing higher fixed assets to net worth ratios.

The activity ratios showed that the company was unable to finance current operations. This was explained clearly with the negative

TABLE 1. Significant Financial Items

	BEFORE				DURING			
	1984 (In Millions)	1985 (In Millions)	1986 (In Millions)	1987 (In Millions)	1988 (In Million)	1989 (In Million)	1990 (In Million)	Oct. 1991
Turnover	2.5	7.3	6.8	4.0	0.3	2.4	3.5	3.9
Profits/ Losses For Period	(5.6)	(6.3)	(5.5)	(11.4)	(13.8)	(4.7)	(6.2)	4.0
Working Capital	(10.6)	(13.5)	(21.5)	(34.7)	(10.9)	(12.8)	(22.2)	4.3
Term Loans	4.8	8.2	12.8	16.8	2.4	7.2	12.2	0.0
Share Capital	10.0	10.0	16.0	16.0	16.0	20.0	22.0	35.0

TABLE 2. Financial Ratios Analysis

RATIOS	BEFORE CM			CM	DURING CM		
	1984	1985	1986	1987	1988	1989	1990
LIQUIDITY							
Current	0.34	0.34	0.32	0.06	0.21	0.30	0.24
Quick	0.09	0.13	0.14	0.01	0.05	0.13	0.10
COVERAGE	-	-	0.779	0.45	1.60	0.42	-
PROFITABILITY	(0.19)	(0.22)	(0.18)	(0.57)	(1.04)	(0.32)	(0.43)
LEVERAGE							
Debt to worth	1.44	1.80	2.24	2.31	2.67	1.93	2.21
Fixed assets to worth	1.43	1.34	1.23	1.10	0.64	0.40	0.32
ACTIVITY							
Sales to working capital	0.24	0.54	0.31	0.11	0.03	0.18	0.15
Sales to total	0.09	0.26	0.23	0.20	0.03	0.16	0.23

working capital values throughout the years and lastly this company was unable to generate high sales in relation to the high investments of total assets.

AFTER 1987 (ACTIONS UNDERTAKEN)

During the period when Consultant Managers (CM) came in, with much confidence they took a diagnostic approach so as to save or rather turn around or to close down the company with the hope that by reviewing the bad situation, could not only bring advantage to the company in particular, but also the state and the country generally.

Management

One of the initial step was to remove and replace the old management with experienced executive deputed from Consultant Managers. The handling of the labour force was considered a critical factor in the immediate aftermath of the takeover. Besides this, a lot of talent was recruited locally and sent for training while some got the experience based on the job training. The present executives were sent on visits to different units and plants, the reason being that to acquaint them with better and more efficient ways of managing the situations.

Production

With improvements of the staff morale and emphasis on training programmes, the production line gradually improved. Some new machines were acquired to suit the requirements of the production operations and those which could be used were maintained. The logistics problems were resolved when the company then bought their own barge to transport the marble blocks from the quarries to the mother island.

Marketing

The marketing problems were smoothed by training key marketing personnel on getting to know the product and the importance of providing services from point of sales. A standard procedure for pricing the products was adopted and the company placed emphasis on promoting the company itself. Besides this, the company diversified their products transforming the processed marble into artistic handicraft creations.

Finance

The new management took up additional loans to cover the requirement of the company's operations. As for the previous loans indebted, a discussion was conducted between the company and the bankers as on how the repayment of the loans should be done. An agreement was found and the company paid the debt on a new repayment scheme. With these actions undertaken, the company manage to pay off the loans and to date the company is still considering to reactivate the loans inject into the operations of the company.

RESULTS

Since the period when CM came in, they resolved and is still improving the internal problems facing the company. Hence, production has been improved, where as in 1991 the annual quarry production was at 21,561 metric tonnes compared to 18,598 metric tonnes on 1990. The logistic problems were resolved when the company then bought their own barge to transport the marble blocks from the quarries to the mother island and training was emphasized for the key marketing personnel to service clients better. As a result, the company managed to acquire local major and minor contracts, Park Royal Penang in 1990, Crown Princess Hotel, Sheraton Langkawi and Delima Resort in 1991 to mention a few. In addition, the company gradually capture the export market. In fact in 1990, the company secured \$40 million worth of contracts to supply marble products to Japan, South Korea, the United States, Taiwan, Singapore and the local market for a duration of two years. This was considered a major break through for the company which was on the verge of being wound up. On top of securing construction contracts, the company, in that year began to penetrate the handicraft segment, designing and creating marble into souvenirs displaying fine craftsmanship. To date, there are two showrooms displaying such term; one at the company's head office and another at the Langkawi International Airport. The results from both showrooms has revealed a gross monthly sales of \$30,000.

As mentioned in the analysis, in 1991 for the first time the company managed to secure profits of \$4,000,000 and working capital figure for that year was a positive value.

CONCLUSION

The critical nature of most turnaround situations normally demands that managerial and organizational attention, effort and resources be directed towards one or two overall strategies until the organization is "out of the woods". The failure to identify such strategies explicitly is a serious error. It can lead to the dissipation of organizational energy and resources in nonproductive or sometimes even counterproductive efforts.

Before starting any turnaround, a firm should make an explicit calculation to determine whether it is worth attempting. An investigation should be made of the conditions in the industry involve and in particular of its stage of evolution and competitive structure.

In relation to the case of Malaysian Marble Sdn. Bhd., the idea of to turnaround the company is considered suitable and necessary. This is due to the fact that the marbles industry in Malaysia has a lot of potentials and is developing rapidly especially from the country's economic growth.

Now MMSB, with the turnaround efforts contributed by Consultant Managers is getting on a much better pace than it was before. The change in corporate culture induced by the management team had indeed brought positive results. However from another point of view, it took too long a period, that is four years, for the company to gain profits and yet still considered unstable.

Although for some, the company is still in the process of recovery, but for some, they might ponder if the company can be recovered based on financial results. However, many should agree that to turnaround an ailing company takes time. As for MMSB, organically the company has improved tremendously. Turnaround should not be seen only from the bottom line figures. It should be seen from the value of the company has been able to regain,

according to the company's Deputy General Manager. From almost an auction price of only \$5 million in 1986, now the company's value has regained to almost \$60 million; a value more than 12 times. When at one time no bank had faith in them; to date the company has regained the trust and confidence from other banks too.

FUTURE PLANS

It is publicly known that a company listed under the KLSE is planning to take over this company. This is to strengthen the company in terms of operations especially heavy equipments in the quarries which at the moment Malaysian Marble lacks due to financial strains. The top management feels that this deal is best for the future of the company and that the company's market share eventually will rise. Whatever it may be, it is hope that these plans will be for the best interest of the individuals which makes up the company, and the people of Pulau Pelangi.

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