

## Public Sector Turnaround Strategies: A Case from Indian Railway

Hasan Muhammad Baniamin<sup>1</sup>

### Abstract

*Indian Railways (IR) has been the prime mover of the nation and has the distinction of being the largest railway system in Asia and the second largest railway system in the World under single management. After being written off as a financially unviable concern by industry watchers and nonchalant soothsayers, Indian Railways has staged a dramatic turnaround. The success mantra of this turnaround was: running heavier, longer and faster trains. Some of the favorable environmental factors like- change of macro-economic conditions, rise in demand, change in legal position, impact of the pay commission etc; acted as the catalyst to the turnaround of IR, but the main thrust came from the strategic interventions from IR which contribute to create and to grip the opportunities raised from its business environment. Through the retrenchment strategy IR successfully reduces the operating cost and brings efficiency. It focused on operating and commercial sub-strategies within the overall repositioning strategy to significantly increase revenue. Replenishment strategy helps to ensure that the network works efficiently, with safety and reliability. Reorganization spawns aid to implement aforementioned three strategies. The major implications of the findings of this diagnostic study are not only to generate knowledge on public sector turnaround but also to produce roadmap to replicate it into other countries. During the replication, one should carefully customize these strategies on the basis of content and context of the turnaround.*

**Keywords:** Public Sector Turnaround, Indian Railway, Change Management

### 1. Introduction

Indian Railways (IR) has been the prime mover of the nation and has the distinction of being the largest railway system in Asia and the second largest railway system in the World under single management (Gupta and Bhat, 2007). According to the World Bank, the IR is one of the top five

---

<sup>1</sup> Lecturer, Department of CSE, The People's University of Bangladesh and Research Associate, Public Policy and Governance Program, North South University, Dhaka, Bangladesh. (hm.baniamin@gmail.com)

national railway systems in the world; others being the United States, former Soviet Union, Canada and China (Thompson & Fraser, 1993). IR had its share of financial difficulties in the 1990s, which hampered its growth and there were concerns on its ability to provide competitive transport services in the future. IR was considered to be heading towards bankruptcy, as per the report of Expert Group on Indian Railways (also called the Rakesh Mohan Committee report), submitted in July 2001 which studied the IR for nearly two years [NCAER, 2001]. They had stated,

“Today IR is on the verge of a financial crisis... To put it bluntly, the ‘business as usual low growth’ will rapidly drive IR to fatal bankruptcy, and in sixteen years Government of India will be saddled with an additional financial liability of over Rs 61,000 crores... On a pure operating level, IR is in a terminal debt trap.”

However, after being written off as a financially unviable concern by industry watchers and nonchalant soothsayers, Indian Railways has staged a dramatic turnaround in recent years. The Railway's renaissance has been engineered by simple entrepreneurial practices, which have evoked the admiration of internationally renowned institutions and companies alike. As a recognition of this ‘turnaround,’ some of the world’s biggest asset managers, investment bankers and consultants including Goldman Sachs, Deutsche Bank, HSBC, Mckinsey etc had shown interest in working with IR (Raghuram, 2007). So, IR can be a wonderful case to study public sector turnaround. This article is an attempt to explore the strategies which contribute in the augmentation of IR and help to successfully implement a turnaround to prevent this organization from dissolution.

## **2. Analytical Framework**

The quest for higher performance by public organizations is a central and recurring theme in government policies and academic research (Boyne, Farrell, Law, Powell, & Walker, 2003; Pollitt & Bouckaert, 2000). Many public organizations have been naming and shaming all around the world for poor performance, customer dissatisfactions and inefficiencies. But ‘the wide interest in New Public Management created a different reality that has less tolerance toward failures’ (Beeri, 2006). So there is a growing interest worldwide in strategies for turnaround of public services.

The concept turnaround can be defined as “a proces that takes a company from a situation of poor performance to a situation of good sustained performance” (Brandes and Brege, 1993). There is aslo an increasing tendency to view turnaround research from a ‘change management’ perspective (Pettegrew and Whipp,1991). Literature in

turnaround strategies include “three distinct phases in the firm’s overall turnaround time line: the decline phase, the redirection phase and the reestablishment phase” (Pearce and Doh, 2002). They further point out that “research has produced evidence that the responses to financial decline of successful turnaround firms characteristically include two sets of strategic activities that approximate the decline and recovery stages of a business cycle: retrenchment and recovery” (Pearce and Doh, 2002).

The studies on turnaround strategies reveal that organizational turnaround can be achieved through a two-stage process: retrenchment and recovery (Bibeault, 1982; Goodman, 1982; Hoffmann, 1989; Sloma, 1985; Robbins and Pearce, 1992; Pearce and Robbins, 1993). The former is termed ‘operating’ or ‘efficiency’ turnaround and the latter, ‘strategic’ or ‘entrepreneurial’ turnaround (Schendel et al., 1976; Hofer, 1980). Further, ‘strategic’ moves entail increase in market share that result in a more dramatic turnaround as compared to ‘operating’ moves. Hambrick and Schechter (1983) indicated that efficiency turnaround strategies (i.e., asset and cost reduction) and entrepreneurial turnaround strategies (i.e., selective product market refocusing) are significantly associated with turnaround.

In general, there are 4R model which consists of four broader strategies for public sector turnaround. The combinations of these strategies help a public organization to recover; the strategies include; Retrenchment, Repositioning, Replenishment and Reorganization.

### **2.1 Retrenchment**

The central element of retrenchment strategy is ‘an emphasis on cutting costs and raising efficiency’ (Boyne & Meier, 2005). Retrenchment includes sub-strategies like ‘quitting difficult markets, deleting unprofitable product lines, selling assets, out-sourcing and downsizing’ (Boyne & Meier, 2005). Several empirical studies support this strategy. Robbins and Pearce (1992) state that ‘divesting assets and cutting costs are the foundations of business recovery’. Hoffman (1989) states that the key to turnaround is cutting costs. According to Hambrick (1985), retrenchment as a turnaround strategy has ‘efficiency’ orientation.

### **2.2 Repositioning**

While the focus of retrenchment as a strategy is on cost reduction and identifying and correcting inefficiencies within the organization, the focus of repositioning strategy is on revenue raising. The central element of the repositioning strategy is that ‘it generates revenue’ (Boyne & Meier, 2005). Its focus is on growth and innovation. It is, therefore, an entrepreneurial strategy (Schendel & Patton, 1976). Boyne (2006) states that it involves several sub-strategies such as ‘moving into new markets,

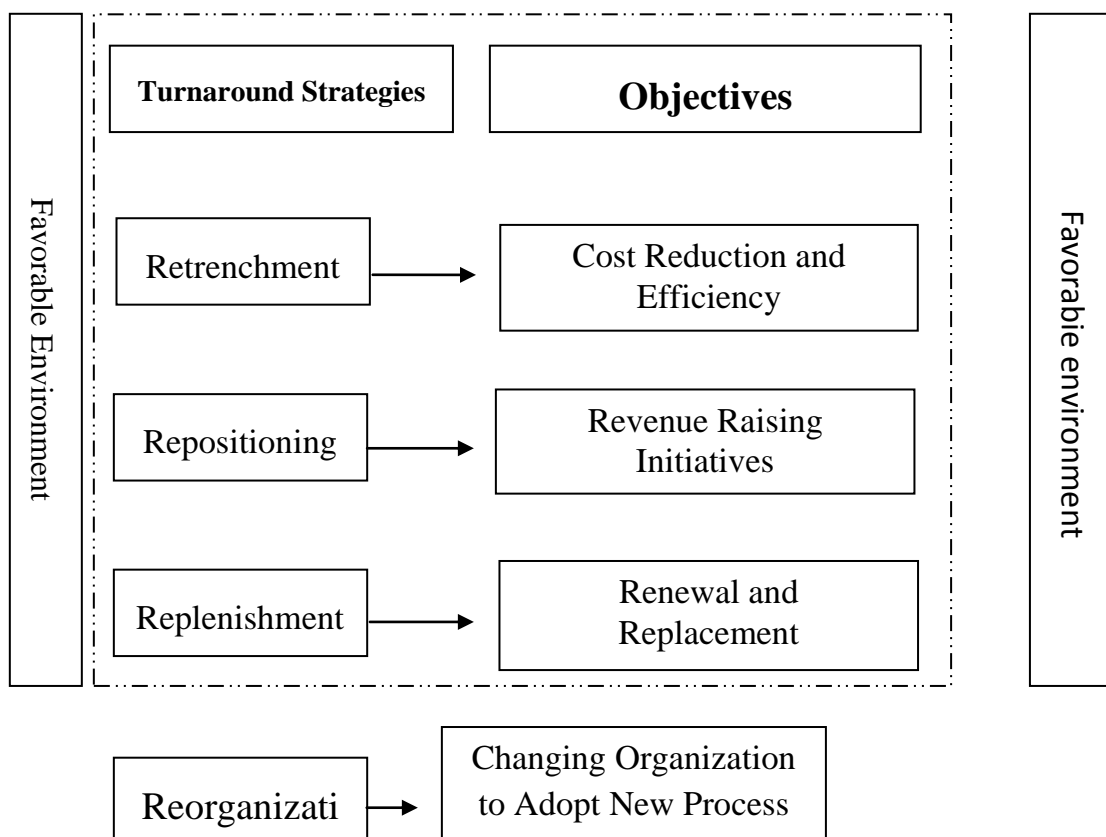
seeking new sources of revenue, developing new products and altering the mission and image of a company’. It also emphasizes altering the way customers, suppliers and creditors view the organization (Arogyaswamy et al., 1995).

### 2.3 Replenishment

This strategy includes the timely renewal and replacement of the assets to ensure smooth operation of the respective organizations.

### 2.4 Reorganization

The purpose of this strategy is to support strategies of the aforementioned three strategies or simply to improve the implementation of the current strategies. Boyne (2006) states that this includes sub-strategies such as ‘changes in planning systems, the extent of decentralization, styles of human resources management or organization culture’. This may also include replacement of leadership and other senior managerial staff. Turnaround literature has mainly focused on how the top leader and other senior managerial staff exert positive influence on organizational recovery. Similarly wider overhaul of human resources strategy by employing staff with key skills is found to lead to, among others, financial performance enhancement (Gupta and Sathye, 2008).



**Figure: Turnaround Strategies**

All organizations operate in an economic, socio-political and regulatory environment that impacts their financial performance. These factors can be labeled as environmental factors. Favorable environmental factors may impact organizational recovery positively. For example, export incentives may positively impact on financial performance of an organization dependent up on foreign markets and vice versa. This study will only be limited to the areas of the strategic interventions taken by IR excluding its environmental factors.

### **3. Methodology**

This study relied solely on secondary data obtained from various research works, books, journals, periodicals, newspapers and annual reports of the government, development partners and non-governmental organizations.

### **4. Limitation of the Study**

The information in the study is based on the various secondary data available at various sources, and not on investigations into the processes themselves.

### **5. A Snapshot of Indian Railway Turnaround**

The IR turnaround can be gauged from the key financial performance indicators. The total earnings in 2005-06 increased by Rs 7121 crores, a 15.0% growth with respect to 2004-05. The total earnings in 2004-05 increased by Rs 4465 crores, a 10.4% growth with respect to 2003-04. Similar figures for the earlier years since 2001-02 ranged between 4.5% and 8.5% with respect to the previous year. The total working expenses plus the lease charges towards principal payments in 2005-06 increased by Rs 4431 crores, a 10.4% rise with respect to 2004-05. The total working expenses in 2004-05 increased by Rs 3277 crores, a 8.3% rise with respect to 2003-04. Similar figures for the earlier years since 2001-02 ranged between 3.8% and 4.8% with respect to the previous year.

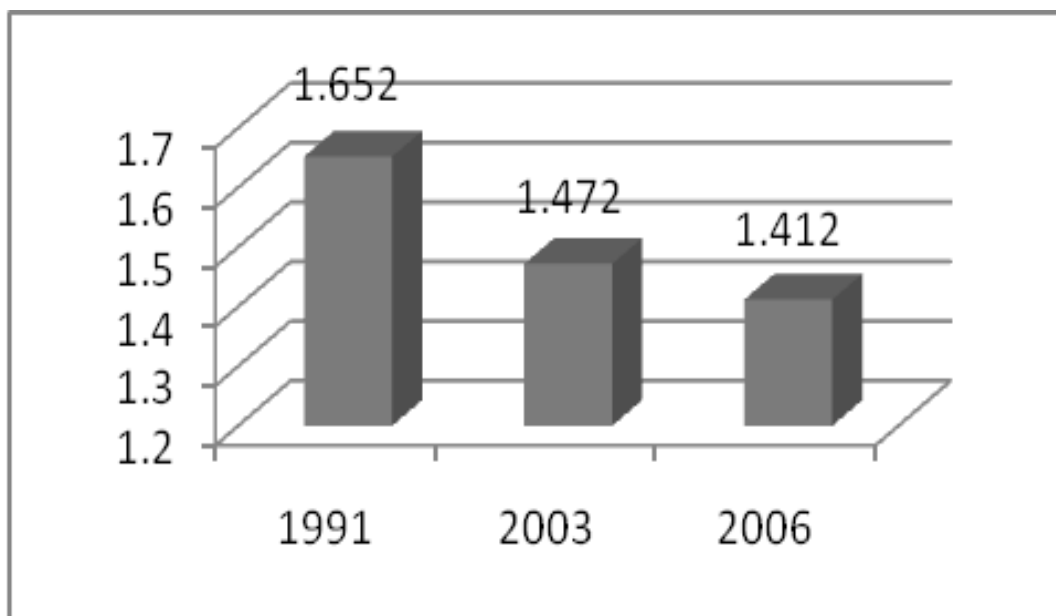
As a consequence of the total earnings and total working expenses, the net revenue reached a record of Rs 8005 crores in 2005-06, following the Rs 5274 crores in 2004-05. This was a record increase of Rs 2731 crores, reflecting a 52% increase in net revenues. Earlier, until 2004-05, there had been a steady climb from the low of Rs 1071 crores in 2000-01. The internal generation of cash surplus including provision for depreciation and Special Railway Safety Fund (SRSF) reached an historic level of Rs.13,068 crores for 2005-06, following the Rs 7603 crores in 2004-05 (Raghuram, 2007). Some of these financial indicators envisage about the turnaround of IR.

## 6. Analysis of IR Turnaround Strategies

### 6.1 Retrenchment (cost cutting and efficiency enhancement initiatives)

#### 6.1.1 Downsizing/ Rationalizing Human Resources

The number of employees, which peaked at 1.652 million in 1991, was brought down progressively to 1.472 million by 2003, and to 1.412 million by 2006. One of the elements of retrenchment strategy is to trim off excess staff. The approach that the IR adopted was not to fill in vacancies created due to retirement or other reasons. This approach commenced during the term of Mr Nitish Kumar as the Railway Minister and has been continued by Mr Yadav.



Graph 1: Downsizing Human Resources in IR (in million)

Over the years the IR reduced the staff on payroll from about 1.58 million in 1999 to about 1.41 million by 2006, down 0.17 million or 10 percent. This resulted in the decline of overall expenditure by at least Rs 2,000 crores in 2006, compared to what it would have been had the staffing levels been comparable to those in 1999 (Gupta and Sathye, 2008).

#### 6.1.2 Outsourcing

The IR reviewed its catering and parcel service business and decided to lease it out. The Railway Minister stated ‘...by leasing out catering and parcel services we have reduced our catering and parcel losses of more than a thousand crores’ (Yadav, 2007). Besides the catering and parcel service activity, the IR also outsourced advertising activity. ‘In the other business areas of parcel, catering and advertising, the strategy of outsourcing through public private partnership and wholesaling rather than retailing was adopted’ (Raghuram, 2007).

### **6.1.3 Attracting Private Investment**

Similarly, the IR attracted private investments under the wagon investment schemes and siding liberalization scheme. This freed up resources for utilization in more remunerative activities.

### **6.1.4 Staff Productivity and Motivation**

As fatigue enhances probability of accidents, several measures were initiated by the IR to improve working conditions of drivers and guards. Crew friendly driver's cabins and brake vans were designed. Another initiative was the establishment of International Railway Strategic Management Institute in 2005 under the aegis of International Union of Railways. It is a premier institute to serve the training needs of managerial staff. To increase participation of railway employees in management, regular dialogue with the officers and the staff federations through a specially constituted forum called 'Participation of Railway Employees in Management (PREM)' was established. The IR was also in the forefront of taking affirmative action. It ensured that adequate representation is given to disadvantaged sections of the society and to physically challenged people as required under the relevant legislations. Suitable sports facilities were also made available to the employees and the IR sports team won several laurels at national and international level. 'More effective use of manpower led to improvement in staff productivity. Multi-skilling of staff was emphasized. These strategies resulted in doubling of the staff productivity compared to the productivity in the 1990s'. Revenue per staff witnessed a rise by 68 percent (2001–2006) as against 49 percent (1996–2001) (Gupta and Sathye, 2008).

## **6.2 Repositioning (revenue raising initiatives)**

### **6.2.1 Capacity Enhancement and Innovation**

Railway customers are primarily of two types — those availing freight services and those availing passenger services. The two major sources of revenue for the railways are then goods (freight) revenue and passenger revenue which respectively form about two-third and one-third of total railway revenue in IR. The IR has shown an impressive growth in both freight and passenger revenue as can be seen from the rising growth rate after 2004 (Gupta and Sathye, 2008).

#### **6.2.1.1 Strategies for Freight Traffic Growth**

Freight traffic grew from a level of 557.4 MT in 2003-04 to a level of 833.3 MT in 2008-09, an increase of 276 MT. The main growth was in coal, iron ore and cement traffic. There was a dip in the growth curve in 2008-09 caused by the economic slowdown when the target of 850 MT could not be met and consequently growth was only 4.97% against the 5-

year CAGR (Compounded Annual Growth Rate) of 8.38% (GoI, 2009). The strategies for freight traffic growth are discussed under two broad categories: operational strategies and commercial strategies.

#### **6.2.1.1.1 Operational Strategies**

##### ***Increasing Carrying Capacity***

The IR introduced double stack container trains on diesel routes in some areas. These containers increased the carrying capacity of each train to 2,500 tones against 1,500 tones, and also reduced line capacity constraint by nearly half and ‘led to saving of about seven percent on capital cost and 25 percent in operating expense’ (Das, 2006). Similarly, as stated by the Railway Minister in his budget speech 2007-08, the IR enhanced the capacity of existing lines and made available wagons designed to suit the specific need of new cement, steel, and power plants. The IR also developed freight terminals with more than 15 wagons per month handling capacity which enabled the IR to expand its freight traffic. Further, it introduced new design of wagons with higher pay load (carrying capacity) but lower tare weight (weight of the empty wagon) that improved safety features. The effect of these measures can be seen in higher freight revenue.

##### ***Increasing Wagon Loading Capacity***

In the past, loading/unloading was done only during day time (10 hours a day on an average) and trains used to lie idle at customer sites overnight. The Indian Railways provided incentives to customers to undertake loading/unloading 24 hours a day. Consequently, the average time taken for loading came down from 30hrs to 16hrs and for unloading from 34hrs to 18hrs, reducing the turnaround time by over a day (Gupta and Bhat, 2007).

##### ***Reducing Wagon Turnaround Time***

IR did away with the system of train examination, which consumes about 16 hrs on an average. Earlier, train examination was done every time a train came back to its base station, irrespective of the distance traveled in the interim. In recent times, examination is being conducted only after 4,500 kms. or 15days (whichever is later). This strategy was very successful and has been later extended to 7,500 kms (Gupta and Bhat, 2007).

##### ***Increasing Lengths of Trains***

In Australia, Canada and in some other countries there are long length freight trains to carry goods. IR also planned to increase the lengths of its trains though not up to lengths of the aforementioned countries. Initially BOX-N rake lengths were increased from 58 to 59 wagons and BCN rake length from 40 to 41/42 (GoI, 2009).



### ***Phasing Out of Vacuum Brake Wagons.***

During the period 2004-09, around 30,000 vacuum brake wagons were condemned, leaving about 33,400 wagons to be condemned in a phased manner (GoI, 2009).

### ***Initiatives for Low-cost High Return Works***

IR took initiatives for implementation of a number of identified low-cost high return works such as IBSs, by-passes, electrification of sidings and upgradation of goods sheds. These initiatives help to create supporting environment to boost freight business for IR.

### ***Use of IT in Freight Operations***

Various efforts were taken to use IT in freight operations, some of such efforts include:

- Terminal management system (TMS) introduced at 560 locations accounting for more than 75% of originating loading and online generation of RR
- Expansion of e-payment facility to cover more than 227 customers accounting for over 30% of freight earnings
- Opening of the container sector to private players bringing investment in container rakes and in container depots (GoI, 2009).

### **6.2.1.1.2 Commercial Strategies**

While the operational strategy was based on increasing the availability of rolling stock to achieve higher loading, the commercial strategy was designed to improve the realization per net ton kilometer of freight traffic. A number of steps were taken to increase earnings which included simplification of the tariff structure, dynamic demand-based pricing and charging of tariffs which the commodity could bear.

### ***Dynamic Pricing Policy***

Till recently, IR had a fixed price policy, irrespective of demand scenario and competition. In order to be able to effectively face the challenges posed by stiff competition, a Dynamic Pricing Policy was introduced for freight, for peak and non-peak seasons, premium and non-premium services, and for busy and non-busy routes. As per this policy the rates for non-peak season, non-premium service and empty flow directions would be less than the general rates and the rates for peak season and premium services could be higher than normal.

### ***Tariff Rationalization***

To simplify and rationalize goods tariff, the classification of items was reduced from over 4000 to a mere 28 groups of commodities. In 2005-06, the total number of classes in the freight tariff schedule was reduced from

27 to 19. The highest class - 250 for charging freight was lowered to 220 in 2006-07. This was a very clever policy as more classes were put in the higher price category. Thus even though the maximum cost was lower in new tariff rates, the net revenue weighted over the traffic in all the classes was larger.

### ***Non-peak Season Incremental Freight Discount Scheme***

The demand for freight transportation typically dips from 1 July to 31 October on account of monsoon. It was estimated that over 400 trains remain idle in this period due to lack of demand. Hence, during this period, freight rebate of 15% was offered for incremental freight revenues of over Rs. 5 Crore in a month and 10% for incremental earning of less than Rs. 5 Crore (Gupta and Bhat, 2007).

### ***Long Term Freight Discount Scheme***

Merchants want to make transportation arrangement for goods on a long-term basis. Hence, long-term freight discounts were offered to attract new customers and new freight traffic. Under this scheme, zonal railway administrations were able to offer a discount of up to 20% during non-peak season and up to 10% in the peak season for a period of three years. For loading in empty flow direction, the discount was up to 20% and 30% during peak season and non-peak season respectively.

### ***Additional Charges***

In addition to the freight charges, a number of additional charges such as busy season charge, busy route/congestion charge, development charge and terminal charges were levied on the customers. These charges varied from time to time, and on date they are as under:

- Busy Season Charge: 5% surcharge on coal and coke group; all other commodities 7%.
- Congestion Charge: 20% on traffic to Bangladesh and Pakistan. (This charge, in case of iron ore varied from 21% to 100% between 2006 and 2008).
- Development Charge: 2% on all traffic from 1.07.2007.
- Terminal Charge: Iron ore traffic, Rs.40 per ton per terminal; all other traffic Rs 20 per ton per terminal for traffic handled at railway goods sheds (GoI, 2009).

### ***Public Private Partnership***

In 2005 Indian Railways introduced the Wagon Investment Scheme (WIS) to encourage Public Private Partnership in procurement of wagons to meet the future growth of traffic. The investor was free to procure even general purpose wagons like BCN, BOXN, BTPN, BRN, BOST, BOBRN and there was no restriction on commodities that could be transported. The scheme envisaged guaranteed supply of certain number

of rakes every month to the investors besides giving a concession in freight varying from 7 to 15 years depending on type of stock. In addition, provision for supply of bonus rakes without freight concession was also proposed under the scheme (GoI, 2009).

### **6.2.1.2 Analysis of Passenger Traffic Growth**

Passenger traffic grew from a level of 5202.91 millions in 2003-04 to 7,046.91 millions in 2008-09, an increase of 1844.00 millions. Suburban traffic grew by 851.95 millions and non-suburban traffic by 992.05 millions (GoI, 2009).

#### **6.2.1.2.1 Operational Strategies**

In addition to introduction of new train services, and extensions and increases in frequency of existing train services, the strategies adopted were:

- Increasing the length of trains up to 24 coaches: 135 pairs of trains were augmented to 23/24 coaches. The overall augmentation of 1,177 pairs of trains generated on an average 2.38 lakh additional berths/seats per day.
- Extending platform lengths, loop lines and maintenance pit lines for 24/26 coaches.
- Using PRS system data analysis to reduce coaches from less patronized trains and attaching extra coaches to trains with long waiting lists.
- Increasing the interval between two examinations of passenger rakes from 2,500 kms to 3,500 kms to release capacity at maintenance depots and make coaches available to traffic for a longer period.
- Running higher number of special trains to meet temporary increase in demand.
- Introducing new trains like Garib Rath in 2006-07 with higher capacity AC coaches and charging 25% lower fare. So far, 24 pairs of Garib Rath trains have been introduced.
- Introduction of middle berth in conventional AC 3-Tier and Sleeper coaches of mail/express trains. This has, however, been discontinued due to passenger complaints (GoI, 2009).

#### **6.2.1.2.2 Commercial Strategy**

##### ***Tariff Policy***

The thrust of the tariff policy during the period was to keep the fares stable, with certain reductions and minimal changes. Some changes made in the fare structure were:

- Downward revision and rationalization of Rajdhani and Shatabdi Express trains fares in 2003-04 by fixing basic fares at 15% higher than the corresponding class of Superfast Mail/Express trains.
- Reduction in Jan Shatabdi Express trains fares in 2003-04 by fixing basic fares at 5% instead of 10% higher than the corresponding class of Superfast Mail/Express trains.
- Reduction in Second Class fares by Re 1 both for suburban and non-suburban passenger in 2005-06. Further reduction by another Rupee in 2007 for non-suburban ordinary trains and non-Superfast Mail/Express trains for daily tickets.
- Reduction in 2008-09 by another Re. 1 per passenger for non-suburban ordinary trains and non-suburban Mail/Express trains including superfast trains for basic fare up to Rs. 50 and 5% reduction beyond Rs. 50.
- Re-classification of a number of trains as Superfast resulting in levy of superfast surcharge, although no reduction in running time was achieved for 19 trains. In 2005-06, 13 trains were declared Superfast, 170 trains in 2006-07, 4 trains in 2007-08 and 2 trains in 2008-09 (GoI, 2009).

### ***Tatkal Scheme***

Tatkal scheme introduced in 1997 was revised in 2004. The scheme was further revised in 2009 allowing a reduced advance reservation period of 2 days. The Tatkal charges were fixed as a percentage of the fare at the rate of 10% of basic fare for second class and 30% of basic fare for all other classes subject to minimum and maximum charges. In 2008-09, the Tatkal scheme earned Rs 605 crore. Number of seats under the Tatkal scheme increased from 5.6% of the total reserved seats in 2005-06 to 14.2% in 2008-09. This had the effect of reducing seat availability through the normal route inconveniencing the public, but at the same time enhancing passenger earnings without increasing fares (GoI, 2009).

### ***Dynamic pricing policy***

Dynamic pricing policy was introduced on 1.04.2007 for passenger fares through which varying discounts were given for busy and lean seasons to attract traffic especially in the upper classes. In popular trains, class-wise discounts indicated for the busy season were applicable throughout the year (GoI, 2009).

### ***Upgradation Scheme***

With a view to optimizing the utilization of available accommodation in trains, a scheme was launched in 2006 to upgrade full fare paying passengers to higher class against available vacant accommodation in all Mail/Express trains having sleeping accommodation.

### ***Frequent Travelers Scheme***

To encourage passengers of higher class to undertake journey by rail, a Frequent Travelers scheme was launched whereby a Frequent Traveler could redeem points earned to get a complementary train trip after a certain number of reward points had accumulated. Till 30<sup>th</sup> April 2009, 86,348 passengers had registered themselves under this scheme, out of which 47,649 were active users (GoI, 2009).

### ***Ticketing System***

Expansion of the computerized PRS and the Unreserved Ticketing System (UTS), along with i-ticketing and e-ticketing have been a great convenience to passengers.

### ***Information Center***

Launch of the 139 global enquiry systems all over India has been a major passenger friendly initiative. With the spread of the coaching information system, it has been possible to provide updated information regarding running of trains. Public grievances, however, continued to be aired regarding inaccurate information being given, especially with regard to the late running of trains.

### ***Touch & Feel Scheme***

Under Station modernization (Touch & Feel scheme) station have been beautified by improvements to circulating area, façade of station buildings and better lighting at platforms, concourses etc.

## **6.2.2 Management Education**

Good management education is the key to ensure efficiency and growth of the railways. To give a global perspective and adequate training, IR took initiatives so that senior members of the staff get the best of learning from top global B-schools such as New York University's Stern School of Business, Insead campuses in France and Singapore, and HEC Paris. They also planned to Wharton, the Harvard Business School and the Massachusetts Institute of Technology's Sloan School of Business, for advanced management programmes, which will be tailor-made for the railways.

## **6.2.3 Funding Research**

The railways funded IIMA (Indian Institute of Management) to do research and develop a case about its turnaround and also get suggestions for improvement. This was a quite innovative move to initiate sponsored research. Because there are hardly such instances in the public sector of initiative to develop cases by sharing their data with B-schools, let alone providing funding. Indian Railways has also set an example by setting a

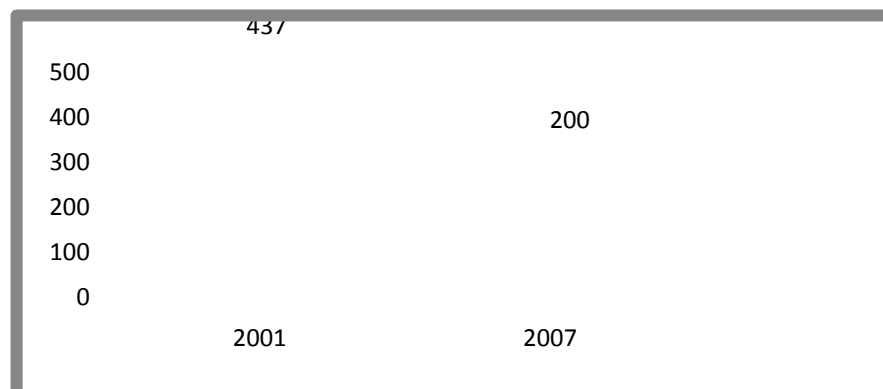
chair in IIM-A ((Indian Institute of Management- Ahmedabad), which will enable researchers to study its infrastructure developmental plans and future prospects. They have also given consultancy projects to other top IIMs.

#### 6.2.4 Advertising

Easy processing of innovative ideas for advertising enabled zonal railways to be more proactive on this front. As an example, the NR (Northern Railway) doubled its advertising income from the three major terminal stations: Delhi, New Delhi and Hazrat Nizamuddin in two years. The increase in earning from advertising had been even more significant in the CR (Central Railway) and WR (Western Railway), leveraging the Mumbai area. The overall IR earnings had gone up from Rs 50.2 crores in 2004-05 to Rs 78.1 crores in 2005-06 (Raghuram, 2007).

#### 6.2.5 Safety

A major concern of the railway passengers was about their safety. The IR took several measures as follows to address this issue. Yadav (2006) states that the IR created a Special Railway Safety Fund of Rs. 170 billion to improve safety environment, through replacement of over aged railway assets, that is, tracks, bridges, rolling stock, signalling gears etc. The number of accidents have been more than halved from 473 (2001) to 200 (2007).



Graph 2: Comparative Scenario of the Number of Accidents between the Year 2001 and 2007 in IR

Use of high technology for passenger safety is also a hallmark of the IR success. In the area of train safety devices like Train Protection and Warning System and Anti-Collision Devices were introduced. Railway Protection Force was strengthened to escort passenger trains in security sensitive areas (Gupta and Sathye, 2008).

#### 6.3 Replenishment

Timely renewal and replacement of assets is necessary to ensure that the network works efficiently, with safety and reliability being maintained at

high levels. Among the fixed infrastructural assets, track, bridges and signaling equipment are the critical ones.

IR had cleared most of the backlog of asset replacement using the non-lapsable Special Railway Safety Fund (SRSF) of Rs.17,000 crore set up in 2001 with a view to pulling up the backlog of renewals of track, bridges, rolling stock and signaling gear within a fixed time frame of 6 years. Except for a few works related to replacement/renewal of over-aged bridges, signaling gears and replacement of narrow gauge locomotives, most of the works were completed within the currency of SRSF (GoI, 2009).

**Table 1: Renewal and Replacement of Assets in TR**

No.	Year	2004-05	2005-06	2006-07	2007-08	2008-09	Total
1.	Track Renewals (CTR units in kms)	5566	4725	4686	4002	3841	22820
2.	Bridge Rehabilitation (nos.)	1579	1431	1114	1208	1388	6720
3.	LED Signals (nos.)	45	353	440	389	910	2137

## **6.4 Reorganization**

### **6.4.1 Introduction of New Systems**

The IR introduced improved accounting and management information systems to provide financial, operating and management information needed to increase efficiency, meet emerging business needs and improve commercial orientation. It introduced Long-Range Decision-Support System and related systems for investment selection on the basis of expected returns (ADB, 2002:37). To cater to the rising passenger numbers which run into millions each day, the IR introduced state-of-art passenger reservation system. Similarly, the freight business was streamlined through the Freight Operating Information System and Enterprise Resource Planning (ERP) packages were implemented in workshops, production units and selected zonal railways.

### **6.4.2 Decentralizing**

The IR decentralized its organizational operations by creating more zonal centers. The number of zones was raised from nine in 2003 to 16 in 2005 which helped faster decision making and provided better customer service. The CAGI (2006) states the IR decentralized procurement through the introduction of Vendor Management System which considerably raised vendor satisfaction due to the transparency, fair play and equal opportunity it provided –something that was missing in the earlier system.

### **6.4.3 Branding Image of Indian Railways and Leadership**

Every enterprise needs a brand ambassador to market itself. In Laloo Prasad Yadav, the then Indian railway minister, IR had a brand in place. Though most of the ideas for transforming the railways did not originate from him, Prasad deserves his share of credit. The personality, aura and mode of speech of Mr Yadav gets him attention in whatever he does. Thus anything new step which he takes for Railways is highlighted so well by the media. For example, when students from Harvard Business School came to visit India to understand the turnaround of the railways, the event got so much hype just because Mr. Yadav himself was escorting the students. Thus, to complement the great turnaround, the IR got an excellent brand ambassador for itself. He also empowered the officials to try out new ideas and made sure that there are no impediments in their functioning. It is also a lesson for the politicians that if they can't remove corruptions completely, they can at least provide leadership simply by leveraging intellectual capital.

### **6.4.4 Changes in Organizational Culture**

Probably the most significant cultural change witnessed by the IR in recent years is the philosophical change — from politicized decision making to commercial, business oriented decision making. As already stated above, Mr Nitish Kumar while presenting his 2001-02-budget stated 'Railways need to develop market oriented and customer friendly outlook due to emerging competition within the transport sector' (Nitish Kumar, 2001). The transformation of the IR to a customer-focused organization is remarkable. For example, the IR has responded to the enhanced competition from the aviation sector, with improved information for passengers through the creation of enquiry call centers and regular updating of current vacancy positions. Several customer friendly actions taken by the IR have been discussed earlier.

## **7. Conclusion**

On 15 April 2006, the Washington Times carried a lead story on the turnaround of the Indian Railways (IR). It stated '... few now doubt that Mr Yadav (Minister for Railways) has presided over an impressive business turnaround ... more importantly, he's taken the world's largest employer — a government giant of 1.5 million employees — and boosted revenues by 15.5 percent without raising fares' (Nelson, 2006). The success mantra of this turnaround was: running heavier, longer and faster trains. Some of the favorable environmental factors like- change of macro-economic conditions, rise in demand, change in legal position,



impact of the pay commission etc; acted as the catalyst to the turnaround of IR, but the main thrust came from the strategic interventions from IR which contribute to create and to grip the opportunities raised from its business environment. Through the retrenchment strategy, IR successfully reduces the operating cost and brings efficiency. It focused on operating and commercial sub-strategies within the overall repositioning strategy to significantly increase revenue. Replenishment strategy helps to ensure that the network works efficiently, with safety and reliability. Reorganization spawns aid to implement aforementioned three strategies. The major implications of the findings of this diagnostic study are not only to generate knowledge on public sector turnaround but also to produce roadmap to replicate it into other countries. During the replication, one should carefully customize these strategies on the basis of content and context of the turnaround.

## References

- Arogyaswamy, K., Barker, V.L. III, Yasai-Ardekani, M. 1995. 'Firm turnarounds: an integrative two-stage model', *Journal of Management Studies*, 32(4):493–525.
- Beeri, I. 2006. *Recovering Failing local authorities — Is There a Need for Turnaround Management Strategies?* <http://www.psai.ie/conferences/papers/2006/beer.pdf>
- Bibeault, D.G. 1982. *Corporate Turnaround: How Managers Turn Losers Into Winners*. McGraw-Hill: New York.
- Boyne, G. 2006. Strategies for public service turnaround: Lessons from the private sector? *Administration and Society*, 38:365–88
- Boyne, G. and K. Meier. 2005. Good Luck, Good Management and Organisational Turnaround in the Public Sector, *CLRGR Papers in Public Policy and Service Improvement*, No. 14.
- Boyne, G. A., Farrell, C., Law, J., Powell, M., & Walker, R. (2003). *Evaluating public management reforms: Principles and practice*. Open University Press: Buckingham.
- Brandes, O. and Brege, S. 1993. "Strategic turnaround and top management involvement: the case of ASEA and ABB", in Lorange, P., Chakravarthy, B., Roos, J. and Van de Ven, A (Eds), *Implementing Strategic Process: Change, Learning and Co-operation*, Blackwell Business: Oxford.
- Goodman, S.J. 1982. *How to Manage a Turnaround*. Free Press: New York.
- GoI (Government of India). 2009. *White Paper on Indian Railways*.
- Gupta, D. and Sathye, M. 2008. *Financial Turnaround of the Indian Railways: A Case Study*. ASARC Working Paper 2008/06.
- Gupta, A and Bhat, V. 2007. *Indian Railways Growth, Sustenance and the Leap Forward A Case Study*, IIT: Delhi.
- Hambrick, D. 1985. 'Turnaround Strategies' in W. Guth (ed.) *Handbook of Business Strategy* Boston, Warren, Gorham & Lamont: New York.
- Hambrick, D.C., Schechter, S.M., 1983. Turnaround strategies for mature industrial-product business units. *Academy of Management Journal*, 26: 231–248.
- Hofer, C.W., 1980. Turnaround strategies. *Journal of Business Strategy*, 1: 19–31.
- Hoffmann, R.C. 1989. *Strategies for corporate turnarounds: what do we know about them?* *Journal of General Management* 14 (3), 46–66.
- NCAER (2001). 'The Indian Railways Report – 2001.' Expert Group on Indian Railways, National Council of Applied Economic Research, New Delhi.
- Nitish Kumar. 2001. *Railway Budget 2001-2002, Budget Speech* Available at <http://www.steelexchangeindia.com/insidesteel/events/railwaybudget2002-03.htm>
- Nelson, E. 2006. *Indian Railways runs right under Yadav's leadership*, <http://www.washingtontimes.com/world/20060414-110533-6362r.htm>

- Pearce, J.A., Doh, J.P., 2002. *Improving the management of turnaround with corporate financial measures*. Academy of Management Proceedings, B1–B6.
- Pearce, J.A., Doh, J.P., 2002. *Improving the management of turnaround with corporate financial measures*. Academy of Management Proceedings, B1–B6.
- Pearce, J.A., Robbins, D.K., 1993. Toward improved theory and research on business turnaround. *Journal of Management*, 19 (3): 613–636.
- Pettigrew, A. M. and Whipp, R. 1991. *Managing Change for Competitive Success*. Basil Blackwell: Oxford.
- Pollitt, C., & Bouckaert, G. (2000). *Public management reform*. Oxford University Press: Oxford.
- Robbins, D.K., Pearce, J.A., 1992. Turnaround: retrenchment and recovery. *Strategic Management Journal*, 9: 287–309.
- Schendel, D.E., Patton, R., Riggs, J., 1976. Corporate turnaround strategies: a study of profit decline and recovery. *Journal of General Management* .3: 3–11.
- Sloma, R. 1985. *The Turnaround Manager's Handbook*. Free Press: New York.
- Thompson, L. & J. Fraser. 1993. *Infrastructure Notes: World Bank's Railway Database*, Available at <http://siteresources.worldbank.org/INTTRANSPORT/Resources/336291-1119275973157/td-rw6.pdf>.
- Raghuram, G. 2007. '*Turnaround*' of Indian Railways: A Critical Appraisal of Strategies and Processes. Ahmadabad: IIMA.
- Yadav, L.P. 2004. Speech of Shri Lalu Prasad Yadav: Railway Budget 2007-08 (Part I), July 6, Available at [http://www.indianrail.gov.in/budget\\_english.pdf](http://www.indianrail.gov.in/budget_english.pdf)
- Yadav, L.P. 2007. Speech of Shri Lalu Prasad Yadav: Railway Budget 2007-08 (Part I), February 26,. Available at <http://exim.indiamart.com/budget-2007-08/rail-budget2007-08/speech-railway-budget>