BOOK REVIEW

"Controlling Corporate Sickness—Lessons from experiences for managers and bankers" by L. C. Gupta, Oxford University Press, Delhi, 1988, pp. 114 Price—Rs. 90/-.

"In the history of ideas, few things are more foolhardy than attribution of the parenthood of some proposition to a particular individual."

—W. J. Baumal

Any living being invariably moves towards death from the moment it is conceived. But the greatest wonder of the world, as *Yudhistir* said to the celestial mammon, is the desire of every creature to live eternally in spite of this eternal truth. What *Yudhistir* did not say explicitly but invariably meant is that, sickness, decay and death—may be the various stages of transformation of the same object—do not differentiate between living and non-living beings. No natural object can circumvent this iron law so cruelly imposed by the queen nature on all her subjects. But that wonderous desire to live eternally—The *Maya*—keep the civilisation moving and we ignore death as a micro-trivial to the vibrant life all around. The macro structure of the universe and that of our small globe reflects life, not death. People are dying here every moment but the world is full of people all the time because a life begets life before passing away. This life force—the desire—overcomes the fatality of the death. Human enterprise looks up from the sick bed and starts life afresh.

Any human organisation, single or plural; social or economic; firm or company is subject to the same law, same process and the same overwhelming beauty of The *Maya.* And since it desires to live and live 'eternally' it tries to remain vigilant over any signs of sickness and decay of the life process. So the schools of physicians have come up both in biological and business sectors to diagnose sickness and prescribe appropriate corrective measures to lengthen the life of the human organisation. In the present monograph under review L. C. Gupta assisted by Archana Sekhar had tried to play the role of a physician of the latter sector.

It is believed that correct diagnosis of ailment is half way towards cure. The old adage, 'prevention is better than cure' still remains in the domain of common belief. Gupta tried to deal with both like any good physician but failed to give us anything new.

In the central part of the monograph (Chapter 4) the author tried to establish forewarning properties of certain ratios which can best identify incipient or impending sickness of a corporate body from an array of 56 ratios. This attempt is going on since the date corporate sickness has been regarded as a discipline for research and investigations. Numerous studies have been made, almost all based on empirical research, to identify appropriate ratios which can forewarn impending catastrophe of a business. Unfortunately, results of these studies are so varied and so conflicting that any attempt to synthesise them is just impossible. This led Foster (1978), not without justification, to regard all such analyses as of 'brute empirical kind'. It has been found that different ratios can suggest different conclusions for the same company. This may be due to the absence of an economic theory of corporate failure. In fact, not much work has been done towards developing a theory of corporate sickness, as a result of which, empirical studies are still groping in the dark. An attempt, however, was made by Scapens, Ryan and Fletcher (1981) to develop a theory of corporate failure based on cusp catastrophe model but it has not been followed up with any vigour.

In his empirical study Gupta applied a test which he titled as 'Percentage classification error' to find out 'how well specific ratios can differentiate potentially sick enterprises from non-sick ones at least two or three years before sickness became obvious'. A reading of the elaboration of his technique (p. 35-37) may lead one to believe that this is the first time such a method is being used in identifying reasons for corporate sickness. In fact long back Beaver (1966) used a dichotomous classification test for the same

purpose. His approach involved ranking the companies by the values of particular accounting ratios, and then visually inspecting the data to determine an 'optimal cut-off point for classifying a company as failed or non-failed. The cut-off was selected to minimise the total misclassification percentage A reading of para 4, page 35, of Gupta will reveal that he is almost echoing Beaver. It is, however, not uncommon for two researchers to invent similar things in different time and space. What is unfortunate, however, is that such a well known work of Beaver has escaped the notice of the author. Gupta, of course, did not go to the length of rigorous statistical tests applied by Beaver. He stopped short at an arithmetical exercise by claiming his technique to be 'not purely statistical'. This must have contaminated his analyses and conclusions because of one simple reason that the value of the percentage classification error may vary with the sample size. It may even become insignificant in a large sample which could lead one to ignore it altogether.

Results of Gupta's analyses reveal that all 'Balance Sheet ratios are significantly less reliable than profitability ratios as forewarning indicators .... this is a significant discovery' (p. 42). The reason given by Gupta for this finding is that since a Balance Sheet records historical values, the validity of any ratio involving Balance Sheet items is seriously impaired by price level changes; this is not the case for ratios derived from profit statements (p. 42). Earlier studies have also indicated that ratios reflecting profitability characteristics are key variables in determining a company's Z score (Taffler, 1984). Although findings of a recent research (Peel and Peel, 1987) do not discount but once again uphold Balance Sheet ratios as such, it is possible to find some logic in Gupta's argument though it does not explain why current ratio or quick ratio (derived from Balance Sheet items) should be worst performers when both current assets and current liabilities are also valued primarily at current prices.

According to Gupta, profit-to-sales ratio has the best forewarning property within a homogenous industry. Next in order came the following two ratios (p. 47, 52).

EBDIT/(Total assets + Accumulated depreciation)

OCF/(Total assets + Accumulated depreciation)

Gupta observed that better results were obtained when assets were taken gross-of-depreciation than when assets were taken net-of-depreciation because differing depreciation practices among firms invalidate net-of-depreciation measure for purpose of comparison (p. 52). When we add back depreciation to *total* assets we arrive at the gross fund employed in the business. This is much less contaminated than any other variation of capital employed in the business. Hence, the two profitability ratios developed on this basis must have more explanatory power. Gupta has done a great job by empirically proving this hypothesis, notwithstanding the questionable method used by him.

In Chapter 3 the author developed five basic typologies of industrial sickness, namely, operating, strategic, staying-power defficiency, still born and catastrophic. These are well conceived but unfortunately not followed up (even the first, two as said by the author) systematically in his research study. Besides, the author has not revealed to us the source of his remark like—Well over half of the sick companies in India fall into the first two typologies or that managerial corruption accounts for perhaps, around 50 per cent of all classes of operating typology (p. 16, 17).

Rest of the book is mostly full of quotations and excerpts from well known and well read authors like Michael Edwards, Lee Iacocca, John Argenti, A. M. Bourn etc. There is nothing original there except, perhaps, some portions of the chapter on Operations Audit. But when the author said that 'We use this term (operations audit) rather than management audit or efficiency audit because of, our preference for selective examination of specific operations/functions' and then again in page 71, 'OA function strictly, speaking, is to audit management and report back to the appointing authority', we get somewhat confused.

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