

## Allied Chemicals Case B: five years later

The years after the opening of the Indore plant were not Allied Chemical's finest. A change in strategic focus did not lead to the desired increase in financial performance. By 1984 – five years after the MIC plant had commenced manufacturing – AC was generating an after-tax profit of \$6.80 on every \$100 of shareholder investment. This was substantially below the industry average of \$11.50 and well below competitors such as Dow Chemical (\$10.70), DuPont (\$12.00) and Monsanto (\$11.80).

Leslie Ravitz, a chemical industry expert from Solomon Brothers, said:

*“The operating performance of Allied Chemical's management has been sub-par, they have below-average profitability for the industry, and they have had more than their share of disappointments”.*

The *Los Angeles Times* wrote that the company's chronic under-performance gave AC a “reputation for aimless management” and a “penchant for promising positive results and delivering mediocrity”.

In response to this criticism and the company's poor financial performance, AC management promised yet another round of restructuring and offloading its less profitable businesses. *The New York Times* reported on management's drive to conduct “an ongoing operations improvement program which involves, among other things, a regular review of ways to reduce costs.” The company also, once more, renewed its strategic focus, this time on technology services and special products, consumer products and industrial gases.

### The plant

The Indore plant also disappointed. Citing various reasons, including increased competition, a drought in India and changing attitudes to pesticides, it did not reach its predicted earnings figures. As a result AC decided to dismantle the plant and distribute its operations to other countries, but this plan was aborted after it met with considerable resistance from ACIL management. In an attempt to turn the tide, ACIL then introduced considerable cost-cutting at the factory, including significant staff reductions.

The plant also experienced both personnel cuts and resignations in subsequent years. From 1980 to 1984 the work crew for the MIC unit was reduced from 12 to six workers, the maintenance crew was reduced from six to two workers and the maintenance supervisor position was eliminated entirely from the night shift.

In addition, the plant continued to have trouble finding appropriate technically-skilled replacement personnel. AC project engineer Kamal K Pareek, responsible for setting up the Indore plant, commented:

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