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Micro Level Studies, Monitoring and Control with Integrated Approach for Turnaround in Small Units

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Abstract: The study stresses on some micro level issues related to sickness of the units in small sector and proposes their remedial steps. For the purpose, the small scale units have been classified as 'Aborted units', 'Born sick units', 'Become sick units', 'Limping units', 'Satisfactory units' and 'Unit growing fast'. Two areas viz: Project appraisal along with entrepreneurs' appraisal and regular monitoring and control system with adequate information system based on industrial engineers and managerial knowledge skill have been considered as essential steps to minimize sickness of units and improve performance of others. Summary of a study, related to a cycle rickshaw tyre unit is presented to illustrate the focus of the study, i.e., micro level studies are needed with integrated approach to make any turn around in units of small scale sector.

Key words: Turnaround, strategy, monitoring, control system, small scale sector

INTRODUCTION

Turnaround strategy is a corporate action that is taken (performed) to deal with issues of a loss making (sick) company like increasing losses, lower return on capital employed and continuous decrease in the value of its shares. Corporate Renewal Solutions (CRS) Turnaround management illustrates that the overall goal of turnaround strategy is to return an under performing or distressed company to normal in terms of acceptable levels of profitability, solvency, liquidity and cash flow. (http://www.turnaround-sa.com/). Turnaround strategy is described in terms of how the turnaround strategy components of managing, stabilizing, funding and fixing an underperforming or distressed company are applied over the natural stages of a turnaround. To achieve its objectives, turnaround strategy must reverse causes of distress, resolve the financial crisis, achieve a rapid improvement in financial performance, regain stakeholder support and overcome internal constraints and unfavorable industry characteristics. A corporate turnaround may be defined simply as the recovery of a firm's economic performance following an existence-threatening decline (Pandit, 2000; Walshe *et al*., 2004). Prasad (2006) states that a successful turnaround is achieved when a company has experienced dramatic profit improvement by implementing turnaround strategies for 2 or 3 year and successfully rebuilds its position in the market place and motivates its people to complete the turnaround cycle. Achieving turnaround calls for a totally different set of skills to probe into the causes of decline and to formulate appropriate strategies to transform the company for a fresh lease of life. Khandwalla (1992) defines a corporate decline as a loss situation and turnaround as equivalent to reach at least a breakeven from a loss situation. Hofer (1980) describes turnaround strategies in very general terms as management actions employed for saving organizations from decline. Turnaround management is more relevant for mature organizations (Miller and Friesen, 1984; Pascale, 1999) as they are likely to experience decline more than the younger ones (as proposed by life cycle theory). The concept or meaning of turnaround strategy covers following points:

- Turnaround strategy means to convert, change or transform a loss-making company into a profit-making company
- It means to make the company profitable again
- The main purpose of implementing a turnaround strategy is to turn the company from a negative point to a positive one
- If a turnaround strategy is not applied to a sick company, it will close down
- It is a remedy for curing industrial sickness
- Turnaround is a restructuring strategy. Here, a loss-bearing company is transformed into a profit-earning company by making systematic efforts
- It tries to remove all weaknesses to help a sick company once again become strong, stable and a profit-making institution
- It tries to reverse the position from loss to profit from declining sales to increasing sales from weakness to strength and from instability to stability

- It aids to reduce the brought forward losses of the loss-making company
- It helps the sick company to stand once again in the market
- It is a complete U-turn of a planned strategic economic transition: http://www.scribd.com/doc/111359132/Turn around-Strategy

Finally from an academic point of view, its definition can be stated as "Turnaround strategy is an analytical approach to solve the root cause failure of a loss-making company to decide the most crucial reasons behind its failure. Here, a long-term strategic plan and restructuring plans are designed and implemented to solve the issues of a sick company".

Period since, independence can be considered as a first phase for growth of small scale industries. Small scale industries have to take a long leap both in terms of its performance and in number of units in order to make significant impact on developing decentralized economy and improve the lot of poor and help solve country's unemployment problem.

One quite often reads in news papers, government reports and observes during a survey of any industrial area that along with the growth in the number of registered or unregistered units, possibly the sickness of these units are equally growing and they are alarming.

There sickness rates vary from place to place and from types of products. On examination of the underlying causes behind the sickness and growth, the small scale units can be classified into following categories:

- Aborted units
- Born sick units
- Become sick units
- Made sick units
- Limping units
- Units performing satisfactory
- Unit growing fast

Any development strategy for growth in small scale industry should include both how to develop more entrepreneurs in the diverse rural and suburban areas with different kinds of production of goods and services and how to minimize the sickness rates for the units already established or are in the process of getting established. While the first part is being dealt by many government agencies with reasonable good success rate, though this also needs to be accelerated; the second part in spite of its cognizance has made progress only with decimal rate. This study presents some of the issues related to each category of the units along with some remedial steps and substantiates the main issue with summary of a study undertaken by the researcher in past to prevent sickness of the unit and/or improve their performance.

ISSUES RELATED TO SICKNESS

Aborted units: Aborted Units are the primarily due to the following:

- An entrepreneur which wished to start a unit with very high capital investment for which he/she could not arrange finance
- A unit which needed imported machinery or raw material but failed to arrange it
- A unit which was conceived as a partnership venture but one or both of the partners changed their mind and abandoned the project
- A unit which could not get timely support from the various infrastructure support agencies like financial institution, electricity board and various government departments such as State Directorate of Industries, Sales Tax, Direct Tax code, etc. and thereby the young promoter left the idea of going for an enterprise out of disgust
- A unit which was envisaged by an unemployed youth but could not be persuade owing to his getting some salaried job
- A unit which got abandoned due to conflicting policies of different government departments like forest department and District Industries Center

This class of sickness is faced mainly by a promoter who in his over enthusiasm and zeal for starting an enterprise initiated the steps from starting a unit without being properly acquainted with or understanding the environment. The fail to understand the kinds and the quantum of resources need at different phases of installation of an enterprise. At times even, they remain unaware of various kinds of requirements of the support agency for speedy decision on a project under consideration.

Born sick units: Born sick units can further be grouped as:

- Units where loan was obtained for the project but was diverted for some other personnel work like constructing own house or performing some other business
- Units where the promoters were sincere and dedicated but their feasibility report was not properly prepared but was tolerable by different

offices/institutions. Factors such as financial projections, market requirements, capacity utilization, quality standard of the product, scrap level, materials requirement, inventory hold up, working capitals, needs and lead time for various activities (say for placement of order to arrival of goods, delivery of goods to customers to receipt of payment and cycle time of production, etc.) were shown drastically different from that of the actual which entrepreneur had to face with and under the situation promoter found the units a burden to continue with

- Units where various kinds of social and political pressure could not be visualized which posed hindrance to establish the unit

This class of sickness could be minimized by a rigorous project appraisal. Some issues which generally get a bird's eye view or are conspicuously missing in a project report are:

- The machine-balancing for various stages of manufacture, allowances for machine break down, level of rejection and the consideration for quality mix arising out of the capability of the machinery in a combination with quality of materials being processed
- The material-balancing for different stages of processing which ultimately results in wrong projection of material needs and associated cost, etc.
- Stages of inspection and the parameters/factors requiring special attention for success of the unit
- The types of inspection equipment and gadgets to ensure quality control; adequacy of material handling equipments along with its capacity including pattern of materials movement from one stage to other stage
- Projection of demand for steam, electricity, lubricants and diesel, etc.
- The machine maintenance procedure and allowances for it
- The market conditions provided for such as commissions, competitors strategy and distributors/dealers environment
- Transport, shipment hurdles, etc.
- Taxes/octroi adequacy
- Consideration for various kinds of social, political and local bodies demand from the organizations
- Inadequacy in preparing loan repayment schedule
- Increasing wage rate, price rise of various input resources, etc.

These micro level items and their projected requirements are difficult to assess at the feasibility appraisal stage but nevertheless, it's essential in order to minimize the sickness rate.

Since, small units' entrepreneurs have almost no or very little cushion to absorb variation in financial requirements, a macro level project appraisal should be implemented.

The purpose of project appraisal, one should consider, is to simulate environment and working parameters for the enterprise and, therefore, this task requires rigors to enable a resemblance with reality to face with during the phases of enterprise development operation. This crucial task needs an in-depth knowledge about the market, technology, product characteristics, financial outflow and inflow pattern, entrepreneurs personality and attitude appraisal, etc. which are obviously a difficult and time consuming task and in spite of the best effort, only a probabilistic estimate is possible which may possibly help to minimize sickness of this category.

Become sick units and limping units: Units that recently become sick and units which are on the path of becoming sick (limping) can be considered as one group from the points of view of evolving turnaround strategy for them or understanding the under lying causes for their sickness. These two differ only in a small time gap. The limping units, unless corrective measures taken immediately, may become sick in the near future.

These categories of units are the outcome of failure in identifying the symptoms of sickness and taking corrective actions in time. The continuous monitoring and control system for this is lacking. Identification of causes for the health of the units and appropriate corrective measures are relatively difficult task by the small entrepreneurs as they require specialists with managerial acumen and technical skill which they can afford to keep on regular basis. Productivity studies primarily with industrial engineering and management science approach coupled with a good information system can provide some benefits, if the market for the product is available.

Presently the external monitoring agency is largely, 'the financial institution' (Bank) to gauge the performance for a unit remotely based on the analysis of pattern of financial transaction for which they have the records for the unit and some of the information's which are periodically sought by them, like:

- Statement of monthly operational data/stock statement
- Quarterly information system as recommended by Tondon and Chore Committee
- Half yearly/review based on financial statements

These information, though vital and essential are not enough to monitor the health of the organization in correct perspectives but to indicate that the unit is not performing well. They are not in a position to provide adequate corrective steps. This study also includes a study carried out by researchers in past with substantial success in improving the performance of a unit and thereby preventing it from sickness.

The association of entrepreneurs likes the national association of young entrepreneurs or institutions developing entrepreneurs can take up this task. The approach for these kinds of studies and effort for improving the performance of a unit and preventing the same from sickness is depicted in case study cited in this study.

Made sick units: These units have special features of:

- Intentional diversion of funds from the unit to some other personal work or business
- Neglecting upkeep of machines and giving marginal interest on the survival and growth of the unit due to some vested interest
- To pressurize the government to provide some rebate on taxes and/or obtaining price rise for the product
- Demand for modernization is so large that entrepreneur is not in a position to cope with it
- Willing manage is taken over by the government in a situation where the other investment opportunities are more lucrative to the promoter than the present unit

Converting this kind of units is a herculean task, however, a continuous monitoring and control system by the external agencies and the imposition of a heavy penalty punishment could provide some relief and which requires careful examination while formulating a strategy.

Units performing satisfactory and unit growing fast: Both the classes of units need a close scrutiny to ascertain the underlying reasons and to ensure that he conceived state, i.e., cognition of the health of the organization is a fact and not a reflection of temporary external responses which are of short duration and not due to the real improvement in health of the unit. The strategy for these units has to inculcate a system which can not only provide capability of performing well in terms of managerial acumen, technical talent and skill but also to provide a culture in the enterprise which shifts its posture to face challenges of dynamic techno-socio-economic environment.

Steps for improvement: A discussion in the preceding paragraphs indicates that there are three important areas requiring the attention:

- a: Project appraisal including entrepreneurs' appraisal
- b: Continuous monitoring and control system with adequate information system based on industrial engineering and managerial knowledge and skill
- c: Regular monitoring by financial institutions

Development of an external agency for managerial support services to entrepreneurs can be a starting point for (a) and (b) above.

The following section presents a study to show how the industrial engineering approach coupled with regular monitoring and control system helped turning-around a unit which was about to become sick.

STUDY ON A CYCLE RICKSHAW TYRE UNIT

Background: The unit was established in 1987. Its production was cycle rickshaw tyre of weight 1100-1150 g. The quality of tyre was comparable with another 10 tyre manufacturers. Its production was 1650 tyres per day working in three shifts. The unit had 70 workmen (30 skilled and 40 unskilled). The processed rubber and steam for the unit were obtained from the sister cable manufacturing unit.

The quality distribution of the product was 81% and 7% for A, B and C, quality tyres respectively which used to fetch revenue in the ration of 1:0, 5:0.3 for A:B:C quality of tyres.

Work measurement and improvement study undertaken: A study was undertaken for improving the performance of the unit. Manufacturing stage wise time study and methods study were carried out. Normally, method study is done prior to time study but in this case detailed continuous time studies, production studies and activity sampling studies formed the basis for improving the methods and the arrive at both the best parameters for the operations and fixing time standard for measuring the work. Standards for various materials used in the process and the standards for quality specification and the corresponding testing procedures were established.

On completion of the study for all the manual and machine operations for the whole unit, balancing for the machine capacities at different stages was done. The manpower allocation was worked out for different level of production volume so as to minimize idle time both for machine and men.

Thereafter, a system for computing performance for each category of machine or a group of machines or an individual manual operation or for manual operations performed in a group was initiated after designing a suitable reporting system. The reporting for lose hours, material consumption, quality level etc. was emphasized. The performance indices like labor utilization, machine utilization. Material utilization and quality index etc. were computed for the whole unit as a whole and for the individual work centre whether it was a machine operation or a manual operation.

These indices, to start with were computed every day. In the beginning, it showed sufficient variation from operations and operations in the range of 25-52% with average of 40% in labor indices. All the workmen were informed about the performance level in terms of hours of work, production level of previous day and the possible level of production. Each week an improvement by 5-10% in performance was aimed at.

The problems faced by them in terms of quality of raw material and intermittent stoppages of machine were attended without much delay.

Daily computation showed improvement in all the four indices referred above and the performance improved gradually and got established at 80-85% in 4 months time. The reporting system was changed to weekly system after 2 months.

The improvement in production was recorded from 1650-2650 tyres a day. Quality distribution showed an improvement quality-A quality tyre from 81-95%, quality B-12-3% and quality C from 7-2%.

The methods improvement provided an increase in capability and reduction in material scrap by around 35 and 30% respectively.

Packing material consumption: The next phase of study was on consumption of packing material (Hessian cloth). The system of packing was changed for reducing the fabric cost, labor cost in packing and ease in handling. The unit saved about 80% on this account.

Market survey for product quality: The subsequent phase of study was related to product development. A change in composition of rubber used in manufacturing the tyre was proposed for improvement in quality and reduction in material cost. When this proposal was given to the entrepreneur of the unit, he expresses his fears that because of the reduction in weight of tyre he may lose the market. Moreover, he expresses that increase in output is also of not much benefit as they are unable to sell the output.

On cross examining whether stocks of tyres are piling up a study of market survey was carried with two prime objectives.

- To know the competitors products quality and the customers, distributors, dealers reaction on the client product (i.e. tyres)
- To know whether weight of tyre affect the sale of a tyre?

The study undertaken by the researchers revealed the following:

- The client company falls in second category of producers along with another ten in that region, eight other producers were considered superior in quality where as another fifteen were considered as lower standard than the clients' product
- The weight of the tyres for leading most companies was only 725-750 g as against 1100-1150 g produced by this unit, thereby customers preference for the weight of a tyre was unfounded
- The durability of the clients' tyre was reported to be about 50-60 of the best brands of tyre
- The customer preferred uniformity in texture, smoothness in its movement, uniformity in tread lying
- The survey also revealed some of the distribution problems of the company, like while this company was selling its product in repeated supply to some dealers on credit where as some other dealers were demanding tyre on cash payment but were unable to get the supply, due to some vested interest of the person in charge of the sales

Product development through market survey: Based on the information's and data gathered from market survey, the quality of the tyre was improved and also the cost was reduced significantly on two accounts:

- Tyre composition referred earlier was implemented which not only reduced the consumption of material but also improved the texture of the tyre and uniformity in surface finish
- The possible reasons for reduced life of the tyre were analyzed and observed that the two bead wires fitted along the periphery were of considerably higher diameter but the weld provided to join the two ends was of poor quality. Moreover, the two bead wires at the place of welding were overlapped with a clip which was not tapered at both ends

Therefore, the diameter of bead wire was reduced and weld quality improved and the clip fitted at the weld spot was provided with a taper to enable smooth rolling when fitted in a cycle rickshaw. A substantial saving was achieved.

Development of formulae for daily/weekly profit computation: The next phase of study pertained to formulate a cost computation of profit by the entrepreneurs.

CONCLUSION

The small scale units conspicuously lack the expertise in various functional areas as they can not afford to have many specialists nor can they have sufficient regular work volume for specialists of each area, although they require expert advice tailored to suit them. Therefore, services of professional bodies or expert consultancy firms etc. should regularly be sought. One strategy can be to develop small scale units managerial support agency. The success can be envisaged only through a process of demonstration as described in the case of a cycle tyre unit.

The stages of sickness and the extent of sickness, though vary from units to units depending upon a large number of factors, nevertheless the central issue remains the same. Neglect of micro level analysis at flexibility stage and report finalization stage including regular objective-based monitoring of performance at operational stage for all the functional areas of activities in the unit, pose problems.

The statutory need of producing financial reports even in the public limited/private limited company is not enough. They should be supported with technical in depth performance audit report which should be made a mandatory on the part of every registered unit.

The procedural lapses and the fear of getting trapped in the rules and regulation in vogue for sanction of loans, quota for scare material; obtaining various rebates from different offices of the government etc. may impede the progress, therefore, a strategy should be evolved to encourage in depth micro level study related to overall performance with a view to achieving not only short run results but also long term survival and growth.

A training program for the entrepreneurs on productivity studies may be taken-up along with the development of earlier suggested monitoring and control systems. Development of managerial and technical support agency may be of immense value for the purpose.

LIMITATIONS

This case does not indicate the total sales revenue, the investment and the total saving achieved in money term owing to confidentiality. Moreover the objective in citing this case is the message on the type of approach required for preventing units' sicknesses and for improving performance with total approach.

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