TURNAROUND STRATEGIES FOR INDUSTRIALLY SICK MICRO AND SMALL SCALE UNITS : AN EMPIRICAL STUDY

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Abstract

The micro and small scale industries played an important role in India's economic growth since 1947. Recently this important sector of the economy is plagued with the problem of industrial sickness as around 100,000 units are sick with Rs. 36,200,000,000 of banking sector funds are locked in them. The present study analyses the problem of industrial sickness in micro and small scale sector of an underdeveloped region such as Marathwada of the Maharashtra State. The present research, after studying the fifteen sick units, three of which are successfully turned-around, proposes a turn around flow process model. Such model will act as a pathfinder to sick micro and small unit owners. This model will helpful in reducing the infant mortality and morbidity amongst the sick micro and small scale industries.

Keywords: *industrial sickness, micro and small scale industries, turn-around strategies*

1. INTRODUCTION

India on the eve of independence had two peculiar debilities. One, utter lack of infra-structure and capital for investment, and two, reeling millions with needs and poverty. Large scale industrialization can bring in fast results but large scale industries are difficult to set up under low-capital conditions. This necessitates formulating policies focusing on promotion of small scale enterprises on a large-scale. India has had the limitations of low capital and large population seeking meaningful earning avenues. So it was natural for the state policy laid more emphasis on promotion of the Small Scale Industries (SSIs).

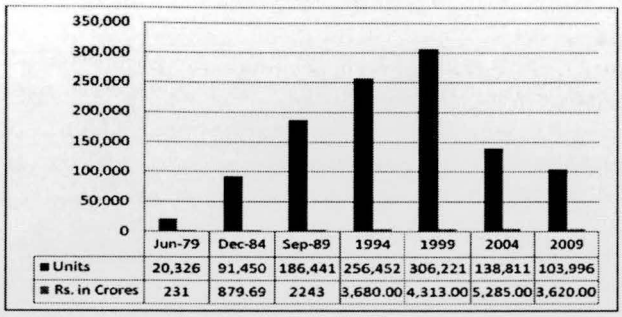
The micro and small scale sector is beset with the problem of industrial sickness. The total number of sick micro and small scale units are stood at 103,996 with Rs. 36,200,000,000 banks funds locked in them (RBI 2011).

So as to have closer look at the incidence and causes, this study was undertaken with the focus on cases of sick units from the region of Marathwada in Maharashtra; which is located at the centre of the state with a population of around 15,000,000 (Census, 2001).

The Marathwada region comprises of eight districts- Aurangabad, Jalna, Parbhani, Nanded, Hingoli, Latur, Osmanabad and Beed. The region is arid in nature and agriculture has a prime importance in the economy of Marathwada. The region is devoid of natural recourses and lacks the industrialization. The most of the industrial activities are concentrated in and around Aurangabad.

The region is deficient in human development and all districts has lower Human Development Index than that of the state average (Kurulkar, 2010). The Underdevelopment is compounded with some peculiarities of Marathwada region, such as lack of proper infrastructure, many ancillary units manned by first generation entrepreneurs with less managerial skills and the prevalence of industrial sickness.

Figure 1: Problem of Industrial Sickness in Micro and Small Scale Units.



	Jun-79	Dec-84	Sep-89	1994	1999	2004	2009
Units	20,326	91,450	186,441	256,452	306,221	138,811	103,996
Rs. in Crores	231	879.69	2243	3,680.00	4,313.00	5,285.00	3,620.00

Source: Economic Survey (Various issues) and RBI Data

This paper analyses the problem of industrial sickness along with its causes in the Marathwada Region by studying 15 sick units. The paper illustrates the three turn-around stories where a sick unit is effectively turn-around and suggests a turnaround flow process model. The model will act as a path finder for turn-around process for those units which are sick and in distress condition

2. REVIEW OF LITERATURE

Industrial sickness or business failure of an enterprise irrespective of its size affects not only those who are most immediately concerned such as employees, entrepreneur, promoter, owner and creditors but also the overall economy. In last 40 years, many studies were undertaken to understand the concept of industrial sickness and business failure world over.

Many academicians and researcher in India studied the concept of industrial sickness and business failure. These studies not only revealed the process of sickness, its symptoms and causes, but also suggested prediction models, theories for early detection of the sickness and failure and turn around strategies for such sick units.

The literature review is divided into two sections. The section one highlights the studies on the prediction models, while the section two highlights the studies on the turnaround strategies.

2.1 STUDIES ON THE INDUSTRIAL SICKNESS AND SICKNESS PREDICTION MODELS

The studies on the industrial sickness have highlighted some important facts which affect the health of micro and small units. Many of the studies enlisted the internal and external factors which were perceived as main causes of the industrial sickness.

The internal factors emerge from the basic functional area such as management and human resource, production and technology, marketing and finance. These causal factors are either in the form of defects or mistakes and it can be controllable in nature (Argenti 1976).

The external factors arising due to, the nature of industry, socio-economic environment and international trade. The external factors constitute two types of constraints, firstly the demand constraint in the form of economic recession and secondly the operational constraint like control on distribution, pricing etc. These factors adversely affect the financial health of a unit and results into industrial sickness (NCAER 1979).

The quantitative studies emphasized on the symptoms of failure and built models using financial ratios as variables. The Indian quantitative studies preferred the financial information to build the industrial sickness and business failure prediction models using the financial ratios. Most of the Indian studies followed the approach of statistical technique of multiple discriminant analysis (MDA) used by Altman (1968) exclusively.

Some of the remarkable Indian studies on the with prediction models are NCAER (1979), Paranjape Avinash (1980), Kaveri (1980) , Bhattacharya (1982) , Gupta L.C. (1983), Srivastva and Yadav (1986), Misra Banarasi (1990), Sahu and Misra (1993),Parmar Renu (1995), Kortikar (1997), Abraham R.K. and Omkarnath G. (2006), Jayadev M.(2006).

The main limitation using models based on the financial statement is that inflation can erode their value and such statements can be doctored using creative accounting. This fact was highlighted earlier by many studies like Argenti (1976), Kharbanda and Stallworthy (1985), Bibeault (1999) etc. The other limitations of using these models are that they focus mainly on the symptoms rather than underline causes of failure. Their predictive ability tends to fall off drastically more than two years before a failure. Such models are prone to make mis-classification i.e. a company predicted to fail may not fail and a company not predicted to fail may go bankrupt.

After reviewing vivid literature on the subject , the authors categories the causes of industrial sickness into four theories such as

Theory -1: Industrial sickness gained momentum in the mid-eighties due to the incentives provided to remain small forever and protection policies of government which lead to entrepreneurial incapability resulted in steady increase in industrial sickness. Small scale sector is favored in the developing economy like ours, due to is its employment potential at low capital cost, this fact makes then vulnerable in the down turn of economic cycle due to their weak and low equity base (Nagarajan, 1979; Rajeswari, 2008). The theory highlights the weak equity base and small size make such units uncompetitive and increase their dependence of the borrowed funds.

Theory-2: The industrial sickness sets in due to the deterioration, indiscipline and weakness in functional areas of management (Premjit Singh, 1979; Dave, 1987; Basak, 2008). The main reason behind such kind

of attitudes is the lack of proper motivation and narrow vision of entrepreneurs of just running business for short term profits. The theory highlights that the traders of yesterday becoming entrepreneurs to take advantage of favorable government policies without requisite skills.

Theory-3: The process hastens due to the entrepreneurial inabilities in the first generation business owners (Vedachalam, 1991) and frequent changes in government policies (Mitra, 2005). This fact highlights the pseudo and narrow entrepreneurship based on the imitation and poor technology absorption (Chakraborty, 1979; Prasad, 1985; Save, 1988) and not on innovative business thinking and risk taking approach.

Theory-4: It highlights the internal and external factors affecting the health of a unit resulting industrial sickness. The internal factors (endogenous) are unit specific and controllable, while the external factors (exogenous) are environmental specific and non controllable. Some studies such as Raman (1979), Rai and Brahmanandam (1984), Baijal (1986), Joshi (1987) have shown almost common reasons for sickness, such lack of credit, infrastructure constraints like power, water shortage and poor road & rail connectivity. Some studies for example Chandrawarkar and Kulkarni (2006), Venkatesh (2007), evaluated the performance of Micro and Small Scale units in terms of global competition, managerial in-competencies, and lack in branding, innovation and product development issues.

The theoretical framework which is explained by four theories has greatly helped in a great way to understand the issue in terms of the causes and symptoms of sickness.

2.2.STUDIES ON THE TURN-AROUND STRATEGIES

In a developing economy like India, revival of sick units assumes great importance as cessation of industrial activity, not only leads to wastage of scarce capital resources but also loss of employment for the labour force. Thus, the winding up operations can be resorted to only as a last resort and nursing the sick units back to health has to be tried.

It is utmost important before attempting to rehabilitate a sick unit, a comprehensive viability study in terms of technical, commercial, management and financial appraisal is to be undertaken to ensure that the revival programme will really bear fruit. Thus, the turnaround in simple term is process of reviving sick units.

The turnaround has attracted the attention of the academicians, professionals, researchers and scholars around the world due to its importance. The different meaning and definitions emerged, from different sectors to suit the purpose.

Bibeault (1999) defined turnaround as substantial and sustained positive changes in the performance of a business after several years of declining profitability. Khandwalla (2001) defined the turnaround, as a recovery from a decline in performance, decline being relative to a benchmark like GNP growth or industry growth or previous performance of the organization.

Sisodiya and Ratna (2002) observed a corporate turnaround, as the recovery of a company's performance after a survival threatening deterioration. The decline may either occur several years or over a short period of time.

The study of Kaveri (1983) suggested that nursing programme is needed to raise the sick unit's capacity to generate adequate internal surplus. A certain portion of internal surplus could then be used for reducing outstanding liabilities.

In order to generate an adequate surplus, the strategies used could be change of management, settlement with creditors , arrangement for additional working capital and modernization of plant & equipment (Phegade, 2008).

In order to make revival effective, the analysis of the sick unit is important in terms of past operations to determine the unit's strengths and weaknesses. It is important that all weaknesses should be properly identified (Singh and Bhatia, 2008).

The literature review explains the causes and symptoms of business failure along with the need for early prediction with the help of models. The literature survey also highlights the turnaround concept and processes. The literature review poses a challenge to the authors in identifying the causes of industrial sickness prevalent in the Marathwada region and designing the suitable strategies for them. As each case of sickness is different from another, the job become more challenging in order to suggest a generalized turn-around strategy.

3. RESEARCH METHODOLOGY

The research design for the study is diagnostic and explanatory in nature. The study is based on 15 sick units from the three clusters of the Marathwada region namely Aurangabad-Jalna, Nanded and Latur-Osmanabad using non-probabilistic sampling. The units are selected from Engineering, Packaging and Food and Plastic Products Industries. The data collection was done using a structured questionnaire which consists of the unit specific data, the qualitative aspect of the business measured by a standardized measurement scale known as Business Health Index (Kulkarni, Panandikar and Mishra, 2010) and the financial information of the unit. The data was analyzed doing a case study of each sick unit. The study has looked into three cases of turn-around and made an attempt to develop a successful turn-around strategy model.

The study has used the non-probabistic method of due to following reasons :

1) The absence of a single point- contact list of sick micro and small scale manufacturing units.
2) Inability shown by the officials at banks and financial institutions to disclosed such data to researcher.
3) The extreme reluctance on the part of owners/management of sick micro and small scale units to reveal their status/health of business to outsiders.
4) Time consuming and costly nature of the random sampling.

Looking at the challenges posed in the sampling process, it was decided to use the convenient/ purposive sampling in order to reach at a targeted sample of sick, micro and small manufacturing units quickly.

The study has defined the sick unit as one which follows any one of the five following criteria-

- Unit whose capacity utilization is less than 20 percent (SIDO 1977)[1].
- A unit which incurs cash losses ,one that fails to generate internal surpluses on continuous basis and needs external infusion of funds (Varshney Committee)[2].
- Listed as a sick unit with banks and financial institution (RBI based on Kohli Committee recommendation 2003)[3].
- Listed as sick industrial unit with district industrial centre with rehabilitation scheme approved.
- Unit that failed to earn economic return and on the verge of closure or closed due to managerial weakness, labour problems.

3.1. BUSINESS HEALTH INDEX

The researchers have used a standardized measurement scale known as 'Business Health Index'[4] (c.f. Kulkarni, Panandikar, & Mishra, 2010) to measure the parameters of the health of micro and small scale industries in the Marathwada region. This is particularly critical given the high failure rates of smaller firms. The scale has 111 items each with five point ordinal responses with established validity and reliability (Cronbach's alpha is 0.969).

The Business Health Index has 31 factors out of which five are associated with core competence, seven factors are related with financial planning and four are related to the marketing functions. The remaining 15 factors are associated with the strategic and environmental problems. The principal component method was used to extract factors.

4. DATA ANALYSIS AND INTERPRETATION

The responses of 15 sick unit owners were tabulated and analyzed using the Business Health Index. It was observed that the 8 out of 15 sick units reported the sickness when their first five years of establishment. This fact of high failure rate amongst small businesses were highlighted by many researchers in many countries. In US Altman's (1983) observed that one third of businesses that failed were less than three years old and 53 percent less than five and 23 percent over 10 years.

The most of sick units were runned by first generation entrepreneurs .It was observed that though the first generation entrepreneurs were good at technical skills but they were poor in their mangerial ability. 7 out of 15 sick units do not have any manager and only six units have one manager,which means that owners / entrepreneurs of sick units spend more time on day today activity and spend no time on research and development (R & D), marketing activities etc. This affect their future prospects and cashflows which makes them vunerable during the adverse environment.

Table 1 indicates the major causes of sickness found in the 15 sample sick micro and small scale units of the Marathwada Region. The lack of managerial experience creates hindrance for smooth running of a micro and small scale unit. The managerial skills and related industrial experience helps in product selection, choosing appropriate equipments and technology, product costing and financial planning.

The absence of such experience creates problem and affects the day to day operations of the unit. The location disadvantage and infrastructure constraints affect the supply of essential raw material and power. Lack of proper location also creates logistics problems for shipment of finished goods. Most of these units are generally financed through borrowed funds and have inadequate working capital funds.

Table 1: Major Causes of Industrial Sickness Observed in Sick Micro and Small Scale Units of the Marathwada Region (Study Sample)

Major Causes	Cause Reported by Number of Units
Lack of Marketing Efforts	9
Absence of Managerial Skills	9
Faulty Machinery, Equipment and Production Process	8
Labor Related Issues	8
Sticky Debtors	8
Overdependence on One or Two Customers	6
Absence of Past Industrial(related) Experience	6
Customer Complaints Regarding Product Quality, In Time Delivery and Prompt Service	6
Lack of New Product Development and Innovation Initiatives	5

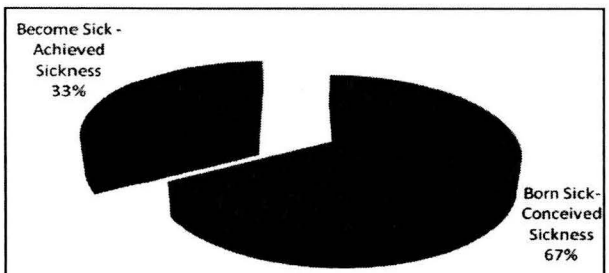
The absence of marketing efforts pose a major hindrance in targeting new customers and such units are dependent on one or two customers. The cancellation of orders or delayed payment by customer can affect the cash flow cycle of such units which make them incapable for the servicing of the borrowed amount.

The issues related with labour such as improper communication, not paying wages in time, safety and security of the work force affects the labour productivity and their morale. This in turn results into poor quality of finished goods, customer complaints and loss of revenue.

it is observed that the product development and innovation initiatives are the most neglected areas by sick micro and small scale units. No effort has been made by owner/entrepreneurs in improvement in product design and production process. This has impacted their long term business sustainability in terms of cost competitiveness and developing new customer segment.

The authors observed that out of 15 sick units ten are born sick due to location disadvantage, wrong product selection, faulty equipments and production process, lack of managerial skills and marketing efforts and heavy borrowing. The rest five units become sick due to lack of financial planning, heavy dependence on one or two customers and unit relying on one key person.

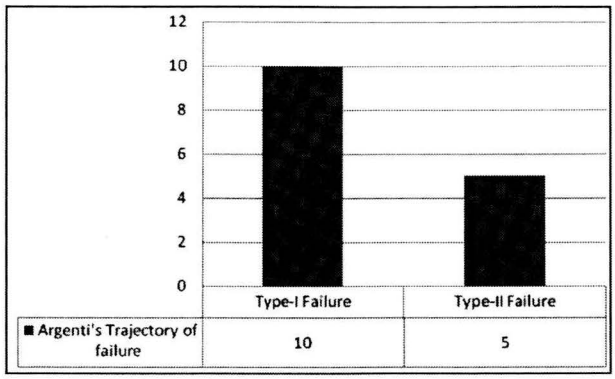
Figure 2: Nature of Sickness Prevalent in the Study Sample Units.



Second important observation was made during the study was that out of 15 sick units, 10 sick units followed Argenti's (1976) Type –I trajectory of failure ,as their performance never raised above poor mark before setting of the sickness /failure. The reasons for this type of failure are the defects in the management structure and weakness in the managerial skills. The rest five sick units followed Type-II trajectory of failure occurs, as in the initial stages unit tastes the success. Then the overambitious owner tries to do over trading for quick growth.

It is observed that in this stage the owner/entrepreneur, use strategy of penetration by way reducing the price of the final product and boosting up the sales. This results into low profit margins and over dependence on the borrowing. The type-II failure also has the characteristics of the Type-I failure; and if one such managerial weakness and defect in the management structure props up, the strategy of penetration can go wrong and unit might become sick.

Figure 3: Type of Failure (Argenti, 1976) Observed in the Study Sample Units.



The study observed that reporting of financial statement of micro and small scale manufacturing units varies due to their nature of ownership, which causes difficulties in their interpretation. These statements generally do not adhere to the generally accepted accounting practices. The data available for analysis is old with at least one year in lag in the case of sick units. Analysis of such data is difficult as its contents such as presence of cash transactions are not get reflected fully in the financial statements.

5. TURN AROUND STRATEGIES AND TURN -AROUND FLOW PROCESS MODEL.

The ability to identify potential industrial sickness before the failure of a business unit has great personal and social value. The owner/entrepreneur and managers might rectify the problems and avert upcoming sickness and distress. The turnaround also has high personal and social value, as it saves jobs, unlocks the funds blocked in sick units and creates wealth for its stakeholders and society at large. Every effort has to be made to turn around a sick unit. This section analyses the three turn-around stories of sick units using a case study method and draws the commonality amongst them. It is also important to study the traits of a turn-around leader who emerges on the stage and lead from the front in order to restore the condition of a distress unit.

The following three cases explain the conditions and the environment faced by three sick units and how they are turn-around.

5.1. CASE-1

5.1.1. Overview

The unit was started in the late sixties by the entrepreneur who was engineer and worked with PSU. The unit is in manufacturing of fabricated items used in hospitals, automobiles and chemical plants. As the owner was technocrat, the management aspect of business was neglected and the unit became heavily

dependent upon the entrepreneur. It fall sick in the end due to inadequate profit margins , lack of product costing , cost control efforts ,inability to raise the selling price , unplanned diversification and no up gradation/modernization in the technology

Due to the illness of the entrepreneur in 2000, the unit was taken over by his daughter. She along with her husband who is a technocrat and worked in the unit for some time, first identified main issues faced by the unit.

5.1.2. Efforts to Turnaround

The lady has addressed the issues faced by the unit with its major stake holders such as, vendors, workers and financial institutions, government authorities and customers.

She conveyed the present financial conditions to the vendors and asked them to support the turnaround. The tolerance was essential to calm down aggravated vendors whose dues are not paid for long. This strategy of openness with transparent communication has paid well for the unit. The vendor convinced in the ability of new management to turnaround the unit, and they ensured the steady supply of raw material and spares with giving adequate credit.

The second important stake holders were workers. They were told that company will pay fewer bonuses i.e. 55 percent of the normal and salary will be paid as per the liquidity improvement. The workers were assured that their jobs will be kept secure and retrenchment won't happen as a cost cutting measure. The workers along with the routine job were asked to perform additional job which they like and essential training was planned and given accordingly. This resulted into a high job satisfaction and enhanced the job enrichment. This boosted the morale of workforce and productivity improved.

The third important stake holder was the financial institutions and government authorities such as sales and income tax department. They were convinced by the woman entrepreneur that they will be paid full in time with moratorium of couple of months for the payments.

The women entrepreneur along with the above steps took few important financial decisions which were essential in a turnaround. They are listed below-

1) A division which was engaged in making ancillary products for automobile industry was sold. Some part of the real estate belong to the owners was also sold and realization of this was used to repay outstanding liabilities of the financial institutions, vendors for raw material and government authorities for unpaid taxes etc.
2) The ownership consolidation was done. The shares of certain members were repurchased and now daughter entrepreneur holds 75 percent of the holding.
3) Dividend was skipped for two years.
4) Cash credit limit was reduced and converted into loan as it is easy to monitor a long term loan than the cash credit limit.

The unit is now completely turn-around and looking forward for off-shore markets.

5.2. CASE -2

5.2.1. Overview

This unit was started by four persons, to produce plastic products. Out of four directors two were involved in day today matters of the business while other two just invested their money for better financial returns. The unit was essentially started to take a benefit of incentives offered for putting a plant at rural area and to profit from the land appreciation in future. This clearly indicates the improper motivation to run a unit.

The unit falls sick due to the subsidy and incentive driven motive to start the business, locational disadvantage, total absence of the human resource management, and default on wages, salary and payment to vendors, pilferage and thefts in the plant and continuous break down of machinery and cancellation of one export consignment. Realizing this, one of the lady directors came front and took the responsibility to deal with the situation.

5.2.2. Efforts to Turnaround

The lady entrepreneur concentrates her efforts on the weakness faced by the units. She first addresses the low workforce morale issue; she discovered that workforce is the most neglected aspect of the unit. As there was no drinking water and basic sanitation facility for workers. The locational dis-advantage exposed workers for their personal safety during night shifts as the watch and ward facility was not provided. The women entrepreneur first made arrangements for drinking water and an area was designated for pantry so that workers can eat their food. The security was arranged which prevented the thefts of equipments and workers feel secured.

The second important issue was low capacity utilization. The main reason for it was the frequent break down of machines for lack of preventive maintenance. Few machines are kept as service machines as their parts are used as a spare in the case of failure of other machines. Thus out of 20 machines only 7 were in operational. She has done extensive repairs of other ten machines and three machines now are kept as service machines. This has improved the plant utilization. This was funded through the realization of debtors which was overdue. The other part was spent to pay for the outstanding dues of the workforce.

The third important aspect was continuous supply of raw material. As the raw material suppliers were not paid for long. She called the meeting with the suppliers and assured them if they make a fresh supply, they will

be paid for it in stipulated time. The outstanding amount can be repaid only by selling finished goods which requires the raw material. She convinced the vendors to wait for two months, afterwards they will be paid. As the supply of raw material smoothens, the realization of sales used to pay the vendors. This boosted vendor's confidence in the new leader and they gave assurance of interrupted supply of raw material.

The lady entrepreneur has done the competitors analysis in regards to the product specification, price, place and promotion. She got the feedback about her product from the customer. After doing a detailed analysis, she was convinced that her product is superior in terms of the specification and cost wise, but it lacks the proper marketing effort.

A distributor was appointed to take the product to its customers. This was not done earlier as the main focus was export market, ignoring the presence of strong domestic market. Her effort is now paying off slowly as the liquidity positioned of the unit is improving.

The unit achieved the break even in June 2012. It now eyes on the lucrative market of African countries for their products. The women entrepreneur is making equal effort in reaching to the domestic market with right distribution channel.

5.3. CASE -3

5.3.1. Overview

The unit producing plastic packaging material is started by an entrepreneur who is a qualified management graduate and done his masters in polymer science. The unit has a locational dis-advantage in terms of raw material supply and far away market for its finished goods. The owner/entrepreneur borrowed heavily to set-up the plant, as it is capital intensive. Unfortunate event such as fire broking out in the plant happened in 1999-2000, which has badly burnt plant and equipment of the unit. Due to such accident, the plant remains idle for some time, due to which it defaulted on the loan amount and thus falls sick.

The main causes for sickness for this unit were locational disadvantage resulting high input cost, over dependence on borrowed funds and accident in the plant.

The unit could not settle its due with banks and declared sick.

5.3.2. Efforts to Turnaround

The entrepreneur was in his thirties when he started the plant. He lost precious years of his life fighting with sickness of the unit and convincing banks and financial institutions for one time settlement. During this time, the entrepreneur never lost hope and made an effort to turnaround the unit once the one time settlement was done with banks.

The entrepreneur has used few strategies for the turnaround as-

1) The entrepreneur communicated and convinced the banks and financial institutions about his inability to pay the dues and not the unwillingness. This has helped in getting one time settlement done. The new financial arrangements are also made to for the working capital finance
2) The entrepreneur is an expert in the field; hence he made suitable changes in the production process after doing a laboratory research. He then changed the raw material base, which can now be source locally at lesser price.
3) Diversification of product portfolio and use of laboratory to earn income by way of consulting.
4) The workers were communicated these developments and taken into full confidence. They were assured of increment in salary and bonuses if the financial position of the unit improves. During the time of crisis no worker was retrenched and they were paid from the consulting income earned by the entrepreneur.

The unit is recovered from distress condition and setting its eyes of the higher turnover. The entrepreneur never ran away from the situation and faced the harsh conditions. After a decade long struggle the unit is now coming back to normal and the turnaround is accomplished.

Each turnaround case is different from another, as the causes of sickness differ from one case to another. The turnaround leader emerges in crisis situation and in all three cases the owner/entrepreneur took charge of the situation. The two women entrepreneurs were earlier were not actively involved in day to day activity, but in distress condition they took charge for complete revival. As the causes of industrial sickness in all three cases were different, in spite of this, they have some common turnaround elements.

Common elements for turnaround observed in three cases are

1) The entrepreneurs are in their mid-forties and they are energetic
2) All three turnarounds are based upon ACT- Concept, i.e. Agility, Communication and Tolerance. All three owner entrepreneurs were tolerant in dealing with the business stakeholders such as workers, vendors, customers and government institutions. All deals and the settlement were done at full transparency which has evolved the trust factor. The distress condition of the unit and the subsequent appraisal were well communicated to all stakeholders. The owners showed the agility in analyzing, the unit's position and changing business environment. They made necessary strategic changes in their unit in order to survive in long run.

3) All three turnaround are based upon the SCOTA Continuum[5] (Mishra 2001) [Sharing, Caring, Openness, Transparency and Accountability] ,which has helped into speedy turnaround.

4) The turnaround in all three cases was humane without any retrenchment. The workforce was retained effectively and reoriented. The morale of workforce was increased in all cases due to the efforts of the entrepreneurs.

5) All the three owner/entrepreneurs treated people (workforce, customers, lenders and vendors) as an individual and not as a collective.

Table 2 indicates the successful turn-around with the help of five strategies. These strategies helped in turning around three sick micro and small scale units.

Table 2: Strategies Used by the Sick Micro and Small Units for Effective Turnaround

Strategy / Case	Revenue Generation	Cost Cutting	Change in the Leadership	Human Resource	Generation of Additional Funds
1	Changes in the Product Mix	Waste Control and Use of 5S	Yes	Retained and Retrained	By Sale of Assets
2	Changes in the Product Design	Control and Better House Keeping	Yes	Retained	Self Funding
3	Changes in the Product Design and Consulting	Changes in the Raw Material Input	No	Retained	Consulting Income

6. THE TURN-AROUND PROCESS MODEL FOR SICK MICRO AND SMALL SCALE UNITS

Figure 4 illustrates the turnaround process a two stage model for sick micro and small scale units. The Stage-I of the model consists of the situation analysis and assessment by root cause and SWOT Analysis. The Stage-II is implementation of three strategies embedded with SCOTA and ACT.

The revenue generation strategies such as change in the product mix and development of new product and customers will be coupled with the operational strategies such as process development with cost and waste control will yield positive cash flow.

The sustainability of the cash flow will depend upon the nurturance of the human resource through retention, retraining, job enrichment and multitasking. This will result into a humane turnaround (Khandwalla, 1991) which will be reflected in the improve productivity, satisfaction of the customers, employees and other stakeholders such as partners, shareholders, venders, lenders and government authorities and institutions.

The model explains the role played by SCOTA Continuum (Mishra, 2001), which will strengthen the bond between the business (owner/entrepreneur) and its stakeholders. In order to turnaround sick units, the owner/entrepreneur shall be tolerant, transparent and communicative with the stakeholders.

7. CONCLUSION AND LIMITATIONS OF THE STUDY

As revival of sick units are very crucial, the proposed model here is highly implacable. This model will not only help owners/ entrepreneurs in rebuilding their distress and sick units, but also guide non-sick unit owners in making their business sustainable in ever changing and challenging business environment.

The scare recourse such as capital is get locked in such sick units. The labour force also faces the problem of unemployment if a working unit falls sick. It is therefore important to make concentrated efforts not only to arrest the sickness at earliest but also bring back such sick units from distressed condition. This paper has made an attempt to develop a turn-around flow process model by studying different strategies deployed by the three sick units which were turn-around. The suggested turn-around model will act as a path finder for sick unit owners, who want to turn around their units. The model will enforce their belief that sick units can be turn-around with dedicated efforts and never to say die attitude. This model necessitates further improvement in order to make it more realistic and robust with more number of examples of turn-around stories.

The study is based on the primary information pertaining to the attitude and functioning of the business and the secondary financial data provided by the owner/entrepreneurs. The secondary data could not be verified with banks and financial institutions as they have expressed their inability to share the data due to privacy concern. In this paper a turnaround model has been suggested using the data from 15 sample units and three turn-around stories of them. As the model is based upon such small sample size, its validity and reliability is not established.

[1] see Bhat Khursheed Ahmad (2000). Modern Small Scale Industries and Industrial Sickness, Anmol Publications Pvt. Ltd. New Delhi. p. 12-3 and Deolankar Vivek (1993), " Management of Small-Scale Industries", Commonwealth Publishers, New Delhi. p. 206

[2] see Kaveri V.S. (1983). How to Diagnose, Prevent and Cure Industrial Sickness (A practical Approach). Sultan Chand & Sons. New Delhi. p.21-2

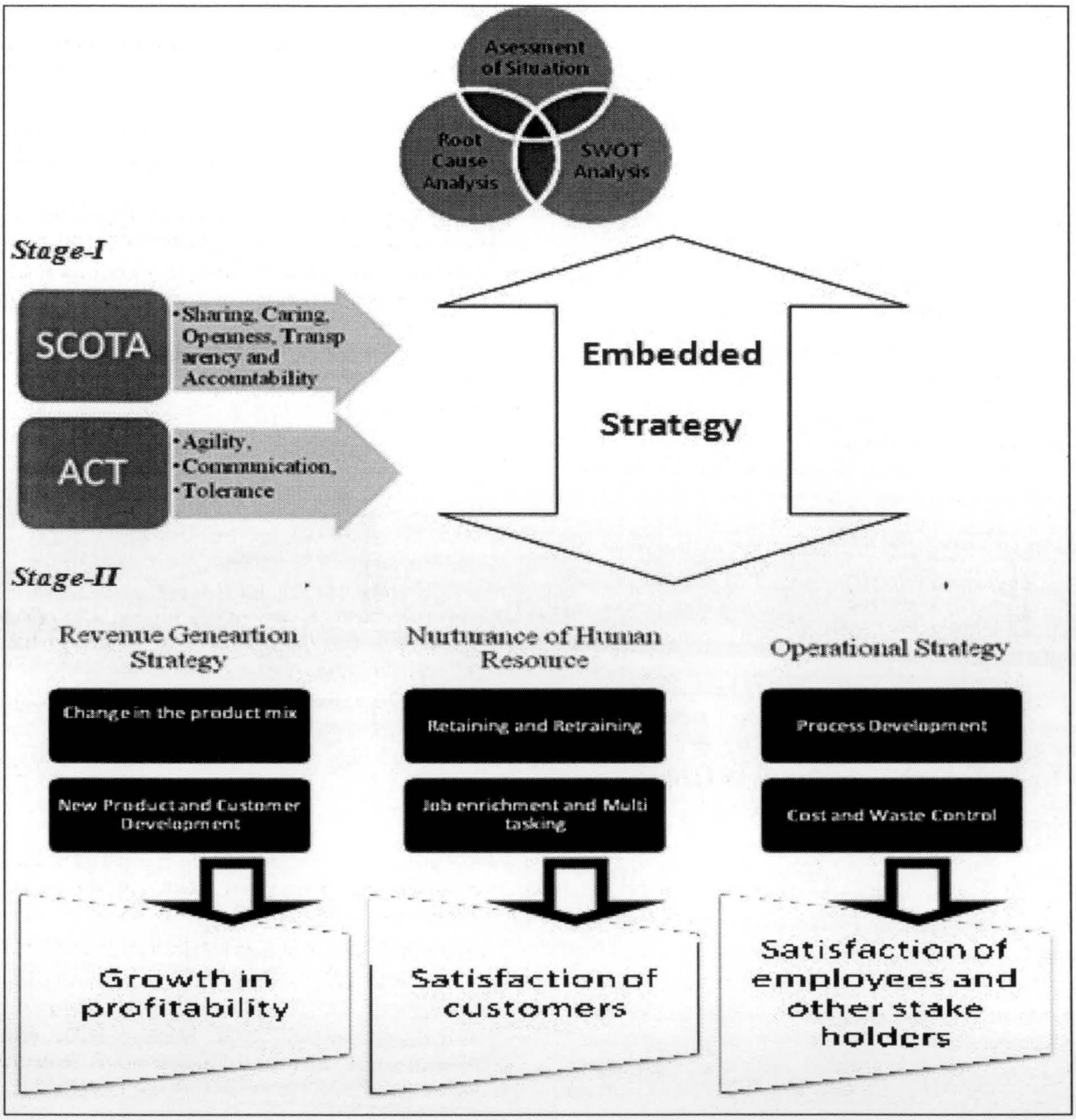
[3] see Kohli Committee (2003). Retrieved from http://dcmsme.gov.in/publications/comitterep/SICKSSI.pdf 15/8/2010

[4] Business Health Index is a sophisticated measurement scale developed for predicting the health of the enterprises. This scale can detect the early warning system which can help reduce the failure rates by providing early signals.

See Kulkarni, Panandikar and Mishra (2010). Measurement Scale to Predict the Health of Small and Medium Size Enterprises. Metamorphosis-A Journal of Management Research, IIM-L, 9(2), 23-41

[5] See Mishra Shivshankar (2001). SCOTA Continuum", The Indian Journal of Commerce, 54, 7 SCOTA - [Sharing, Caring, Openness, Transparency and Accountability] is now globally appreciated but Indian businesses continue with their camouflaging practices.

Figure 4 : Turnaround Process Two Stage Model for Sick Micro and Small Scale Industries



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