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# ENTERPRISE TRANSFORMATION – A NEED FOR SURVIVAL AND GROWTH IN SMALL SCALE FABRICATION UNITS

Vezhavendhan R<sup>a\*</sup>, Chinmoy Sarkar<sup>b</sup>

<sup>a</sup>Assistant Professor, VIT University, Vellore

<sup>b</sup>Professor, NSL, Pune

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## Abstract

Unable to compete with the globally competitive environment, many companies which follow a traditional approach to business are on the verge of perishing with millions of Rupees being washed down the drain. The market has become globalized, competition is cut throat, customer expectations are soaring and their demands are huge. Despite these, some companies are surviving the onslaught and a few are even thriving under adverse conditions. How are these few companies able to achieve this? How can the battling companies survive? The need of the hour is sustainable growth. Enterprise transformation is the key ingredient for this growth and also the sustenance for this growth. While a lot of research has gone into enterprise transformation of large scale industries, not much research has gone into the search for the reasons why many small scale units have not transformed or even thought of transformation? This paper analyzes why a majority of the small scale units perished along with the reasons for the success and growth of the few successful organizations. And how enterprise transformation had helped them to succeed and grow.

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## 1. Introduction:

Many small scale units which set up shop in the last one year in India in the field of fabrication have been facing a huge crisis. Even well-established large companies have lost orders to low cost competitors.

\*corresponding author: Tel.: +91-9159413911.

E-mail address: [vendhu\\_r@yahoo.com](mailto:vendhu_r@yahoo.com)

This has resulted in inability to repay borrowings from banks and other financial institutions and at times even their employees. This has led to the closure of the units and they are up for sale. A few industries withstood the rough weather to survive and even grow to become successful. The reason behind the success of these industries is enterprise transformation. This paper seeks to understand why many companies failed to transform themselves. We aim at identifying the reasons behind organizations for not transforming and the consequences of not transforming the enterprise. The organizations which had embraced transformation and implemented it successfully were the ones that survived and even grew. Hence enterprise transformation was found to be the savior of the successful organizations, where according to W.B. Rouse “Enterprise transformation concerns change, not just routine change but fundamental change that substantially alters an organization’s relationships with one or more key constituencies, e.g., customers, employees, suppliers, and investor”

## **2. Literature Review:**

Various articles reflect the research work and views of several authors. They look at enterprise transformation from various perspectives. A few of their works and opinions are cited below. John Pourdehnad and Gnana K. Bharathy, (2012) point out that too many organizations have attempted to transform themselves only to meet with failure. Some companies did not undertake transformation efforts until it was too late. Jose Vicente Berna-Martinez et al (2012) in their paper describe the different methods and results to understand the synergies of the employees and the projects developed. They also present the results of the strategies used to overcome resistance to change. M. Radovic – Markovic (2008) delineate that organizational inertia is one of the most significant obstacles to change. While leadership and management skills, such as visioning, prioritizing, planning, providing feedback and rewarding success, are key factors in any successful change initiative.

Aric Hall (2008) states that Employees have many reasons to fear change initiatives, including the survival of their job or their ability to adapt to whatever is new. However, the failure for an organization and its members to continuously change and improve will spell the end of the organization as a whole. He also states that there is a fear of the unknown, fear of failure, or a general lack of desire to learn a new system or procedure. John P. Kotter (2007) emphasizes that in failed transformations, you often find plenty of plans, directives, and programs but no vision. Agocs (1997) points out that individual are comfortable with what is, living in a comfort zone and are not ready to leave their comfort zones.

## **3. Research Approach:**

In order to investigate the cause for the loss of orders, inability to bag orders in a competitive environment and inability to sustain in the market a study was carried out in the form of face-to-face interviews with promoters and the employees of the units which had closed down. An in-depth study in units reeling under crisis was made to analyze the factors contributing to the downfall. Further case studies were performed in two successfully running units to assess how it was doing well despite the adverse conditions existing in the environment. The findings and the inferences were checked with the interviewees. And these interviewees were the proprietors, partners, managing directors, directors and finally a few select employees of the organizations studied. In addition an extensive review of company documents, such as annual reports, financial reviews, and training materials was carried out during this phase.

## **4. Findings from the study:**

It was found through interviews and a detailed study that the companies which had perished could be categorized into three:

- The ones which had stuck to the traditional system of manufacturing refusing to adopt change and adapt to the current market environmental changes which we shall call the ‘Resistive’ type
- Few were the ones willing to change but did not know how to transform itself and even if they knew they could not initiate transformation which we shall call the ‘Receptive’ type

- The rest were the ones that had attempted transformation but could not succeed, which we shall call the 'Adoptive' type.

A representation of the categorization of organizations is given below (Fig 1).

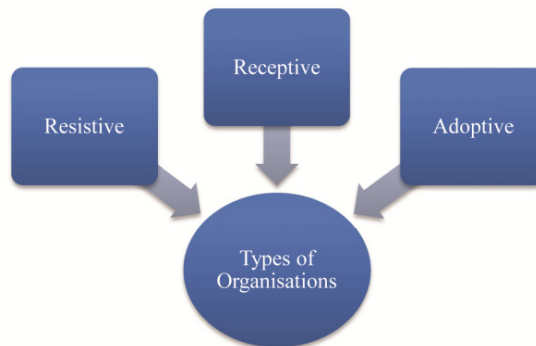


Fig.1. Categories of organizations

The above are discussed in detail below.

#### 1.1 The enterprises that refused to transform – The Resistive type:-

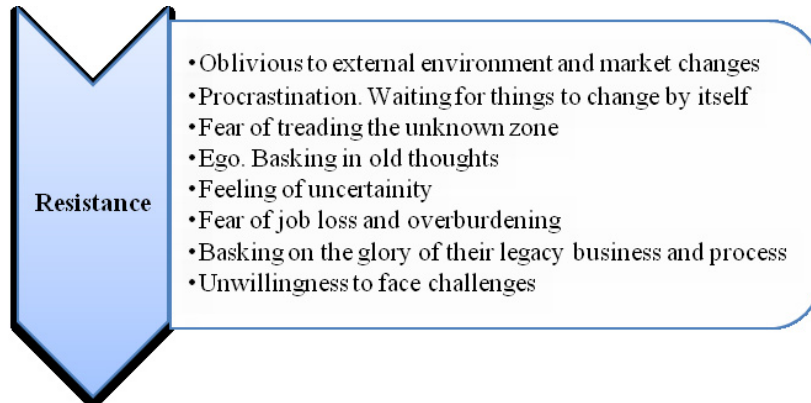
Refusal was from either the management or the employees or from both combined. If it was from the management, it could be inferred that if not today they would be forced to change tomorrow else they would perish. If it was from the employees, tactical ways to convince the employees and removal of fear and resistance could be adopted and transformation could be implemented. Unfortunately if resistance was from both management and the employees, the question is who would convince both? Of course the environment would make them understand the need for change but it would be too late by then. The path to transformation would have been easily chalked out had the management been receptive to transform.

The reasons for the refusal were identified and are as follows.

- These organizations were run by a management which was of the view that they were doing fine all these years and will remain so in the future too, oblivious of the environment outside the organizations.
- The thought that “This too will pass” and procrastination
- They were the ones who were not ready to leave their comfort zones and enter new zones.
- They went about slashing their employee count to improve profitability as they opined that the employee salaries were the biggest cost to the company.
- The annihilation factor was the refusal to change as they believed that they were doing their work that way for years and that was the best way of doing it
- The feeling of uncertainty was a great demotivator.
- Employees and management’s fear of embracing a radical change where management does not know if it would work and how their employees would respond. The next fear is what if it does not work? And the employees fear of job loss and over burdening with work.
- Improper communication on why there was a need for transformation was an important factor for resistance.
- They bask on the glory of their legacy business and process.
- Refusal to find opportunity in challenges and inability to recognize the drivers for change

The above points are summarized below.

Table : 01: Summary of reasons for refusal to transform



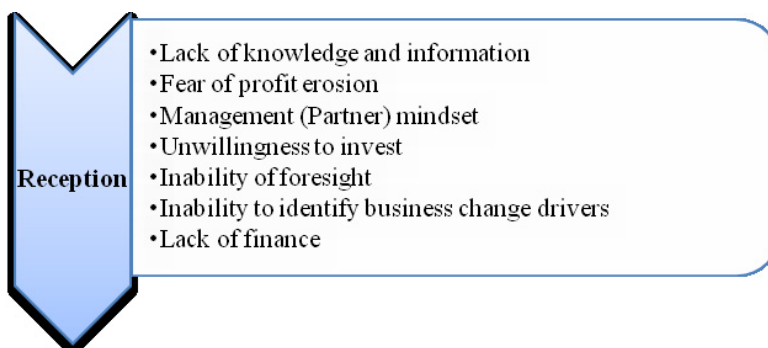
### 1.2 The enterprises that were willing to transform- The Receptive type:-

The management of the receptive type of organizations knew that they were not up to the mark. They were sure that there was a need for a change in the way they were running their organizations but were unsure of what to do and how to go about it.

- Lack of knowledge and information was cited to be the major reason for inability to change.
- Fear of erosion of profits and fear of entering uncharted zones crippled the thought of even beginning a transformation process
- Some organizations were run by multiple partners. One or few partners resisted the transformation process. They failed to understand that their business cannot survive for long without reorienting and reinventing the organization.
- A major hindrance was the unwillingness to invest to reinvent and push transformational reforms by one or more partners. This in turn prevented the other partners to go ahead with transformation.
- The lack of ability and foresight of the organization to identify business change drivers to enable the transformation process.
- Lack of finance to promote transformation was cited to be a major constraint among the small scale units. It's a harsh reality that money facilitates the mobilization of resources needed for transformation.

The above are given as a summary below.

Table: 02: Summary of reasons for inability to implement transformation



### 1.3 The organizations that had attempted transformation – The Adoptive type:-

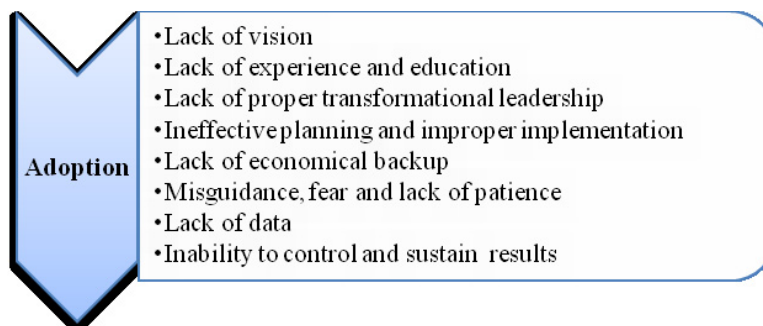
The management had attempted transformation with the hope of transforming to survive initially and then grow after survival. But factors that were unknown to them and blocks that stood in Their way did not let them

pursue transformation. They knew they had to transform and initiated the process but their efforts were stalled due to various roadblocks that they had not anticipated.

- Lack of vision and in cases of the presence of a vision, the lack of a clear vision were found to have a significant effect on transformation for, the vision is the one which indicates the direction in which the organization needs to proceed and reorient itself. Lack of vision stalled the process and lack of right vision misdirected the organization. In failed transformations, you often find plenty of plans, directives, and programs but no vision (John P. Kotter)
- Business experience of the promoter(s) and their education levels were directly proportional to the success of the transformation. Previous research conducted by Tennant and Tanoren (2005) revealed that 80 per cent of the respondents to a survey were unaware of the popular Balanced Scorecard concept. If this is the case for a very popular concept then it should not be a surprise to know that many did not even know of the various strategies that existed for transformation.
- Change champions, the true leaders of transformation had not communicated the need for transformation and the disastrous effects of not transforming, making it “just another activity”. Transformation is impossible unless hundreds or thousands of people are willing to help, often to the point of making short-term sacrifices. Employees will not make sacrifices, even if they are unhappy with the status quo, unless they believe that useful change is possible. Without credible communication, and a lot of it, the hearts and minds of the troops are never captured. (John P. Kotter)
- Ineffective planning and improper implementation of the plans were a major cause for the failure. An effective transformation route map had not been laid which resulted in loss of money and all other resources that were ploughed in for the efforts.
- Lack of economical backup to pursue the transformation that had been started was found to be a major stumbling block to overcome resulting in abandoning the transformation process halfway through and perish.
- Misguidance, fear and lack of patience had contributed to withdrawal of the transformational efforts before it could be completed.
- The lack of data and lack of a proper data collection methodology if it were collection has contributed significantly to the failure as the companies could not proceed with their efforts without the help of data or the required data.
- Inability to control and sustain the results obtained through transformation made the management and employees think that the efforts were a waste and demotivated them from pursuing the sustenance phase of the efforts resulting in the organization getting back to square one.

The above are given as a summary below

Table:03: Summary of reasons for failure of transformation



## 5. Successful Transformations - An analysis.

While a majority of the industries failed to transform which made them perish over a period of time, some withstood the wrath of time and the market environment. An analysis was made through face-to-face interviews with the management of the successfully transformed industries to identify the various factors that contributed to their success, survival and growth. The following points were found to be the factors contributing to successful transformation.

- The management had a well defined and clear vision for the organization and they saw to it that their resources were directed towards fulfilling the objectives of the vision.
- They had been collecting data on the process and a good analysis of data for finding root causes of problems and other areas had been of great help to transform. Armed with data the company used it as a perfect tool to leverage their presence in the market.
- Identification of niche areas and opportunities and using them to their competitive advantage has had a significant effect on the survival and growth of the organization.
- Customer focus was the mantra of the organizations which led to identification of the said needs and even the hidden needs of the customer which helped in customer satisfaction and creating a loyal customer base.
- Quality focus and implementation of quality initiatives had led to optimization of the processes, reduction of defects, improved employees satisfaction, better customer satisfaction and higher margins.
- Utilization of techniques and skills to overcome the resistance to transform through eliminating the fears of employees, proper communication and motivation
- Employee empowerment to solve issues that arise during the process helped in taking decisions fast and also gave them a sense of pride and responsibility. The employees who were empowered also helped in convincing the ones who resisted the transformation initiatives resulting in improved motivation. Improved employee motivation is the primary management goal behind the change management strategies (B. Craine 2007)
- The use of advanced and latest technologies has contributed to the success of the organizations. The fact that technology is only an enabler for transformation is not to be denied.

The various factors that have contributed to the successful transformation of small scale units and the effects through them are given as a tabular column below.

Table: 04. List of factors contributing to transformation and their effects.

<b>Factors</b>	<b>Effects</b>
Clear Vision	Proper resource utilization
Data Availability	Root cause analysis Improved market presence
Opportunity Identification	Competitive advantage Growth
Customer focus	Customer satisfaction Improved customer base
Quality focus	Optimized process Reduced defects Employee satisfaction Better profit margins
Application of skills and techniques	Elimination of unwanted fear Motivation
Employee empowerment and motivation	Improved responsibility Lower resistance
Use of Technology	Transformation enabler

## Conclusion

This paper is an analysis of the roadblocks to transformation and the reasons for the inability to transform. A study of the factors that have contributed to successful transformation and the lessons learnt has also been done. It is an undeniable fact that many of the above mentioned reasons and effects have already been mentioned by many researchers. But these are the words of experiences encountered by the management and employees of small scale organizations that have perished and that have succeeded. Transformation may be equated to the rebirth of an existing state of affairs of an enterprise to a new state of affairs for the growth and development of the organization. Transformation is a necessary hardship that every organization has to undergo in order to survive and grow in the competitive market. It may be concluded that every organization needs to be open to transformation and will need to transform at some point or the other as the external environmental conditions surrounding it is continuously changing not only for survival but also for growth.

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