

Return Patterns and Restructuring of Distressed Manufacturing Firms: Smart Innovation Approach.

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Abstract

The aim of the study is to better understand the effectiveness of restructuring strategies and understand stable capital growth of South African manufacturing firms employing smart innovation approaches as managerial security measures in distress status quo. The paper emphasises on manufacturing firms that is why it is so vital that organisations understand how innovation principles influence restructuring and turnaround of distressed operating manufacturing firms. The study offers a number of specific recommendations for action. During a crisis, early and decisive reaction initiated as part of a comprehensive restructuring program is essential. From the very start, investment in innovation must be sufficiently considered in the financial planning of the restructuring program ("headroom").

Introduction

Innovation differs from the other resources as it multiplies itself by using and/or sharing it (Auer, 2004:4). Companies which do not actively manage innovation as a key resource will not be able to sustain growth and competitiveness. The Steel industry in South Africa is planning large expansions over the next five years and it is evident that one of the key constraints to realise these expansions is not labour, land or capital but the availability of innovative personnel to drive the expansions. Based on the planned expansions and new processes to be developed and implemented it can be assumed that steel manufacturing firms in South Africa will need the relevant knowledge and skills to achieve its expansion targets. The nature of basic steel production has also undergone dramatic change, new processes methods are being perfected that reduce long time dependence on high scale manufacturing processes. The combined impact of these changes in market and process has shifted the strategic posture of steel producers. Thus why manufacturers must design processes based on the work that needs to be done since different processes provide different capabilities, a firm's structure must be appropriate for the volume and variety of the products it produces.

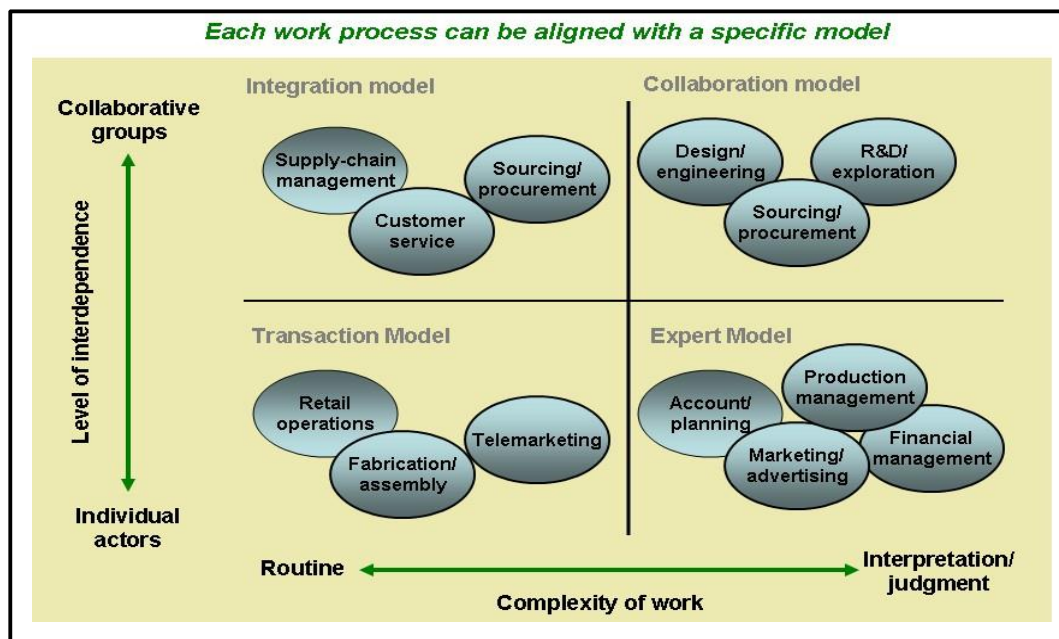
METHODOLOGY

The return pattern study The paper titled "Restructuring and Turnaround of Distressed Manufacturing Firms" using smart innovation is based on a south African sample of manufacturing firms in KZN, Gauteng and western cape that have been hit by fiscal difficulties. The study examines the effectiveness of restructuring strategies in relation to the time of their implementation. The objective is to formulate realizable recommendations for the top management of companies caught up in distress. The study was conducted by Mpho Motebele as part of her thesis, which has been awarded the Masters degree 2016. An Empirical Study. 2016 the Africans that have been hit by financial difficulties. The study examines the effectiveness of restructuring strategies in relation to the time of their implementation. The objective is to formulate realizable recommendations for the top management of companies caught up in distress.

For manufacturing firm to compete effectively it must be able to integrate manufacturing capability into a meaningful marketing value proposition. To a certain degree, a firms manufacturing capability drives the feasible range of effective marketing strategy. Manufacturing firms must develop a philosophy which in general will emphasize the minimisation of the amount of resources including time used in operations of the company. The elimination of waste is actually the defining principle of lean which is the operational process which is a buzz word emanating lately if companies are efficient and have few wasted resources. When lean capabilities are

incorporated in a firm it can produce smaller quantities and it can change outputs more quickly in response to changes in customer demand.

Together with the student, ArcelorMittal has conducted a survey of over 200 key manufacturing plants of different scales and from various sub-sectors in South Africa, with the purpose of understanding their restructuring journey under the “Made in SA 2025” plan. There were 150 valid survey responses. In the survey, 46 percent of African manufacturing companies admit that restructuring has only covered one of their single businesses, and another 6 percent of companies have not even launched any restructuring initiative. According to these companies, the biggest challenge of turning around is related to the comprehensive application of software in the production processes, followed by difficulties in the collection and analysis of system data.

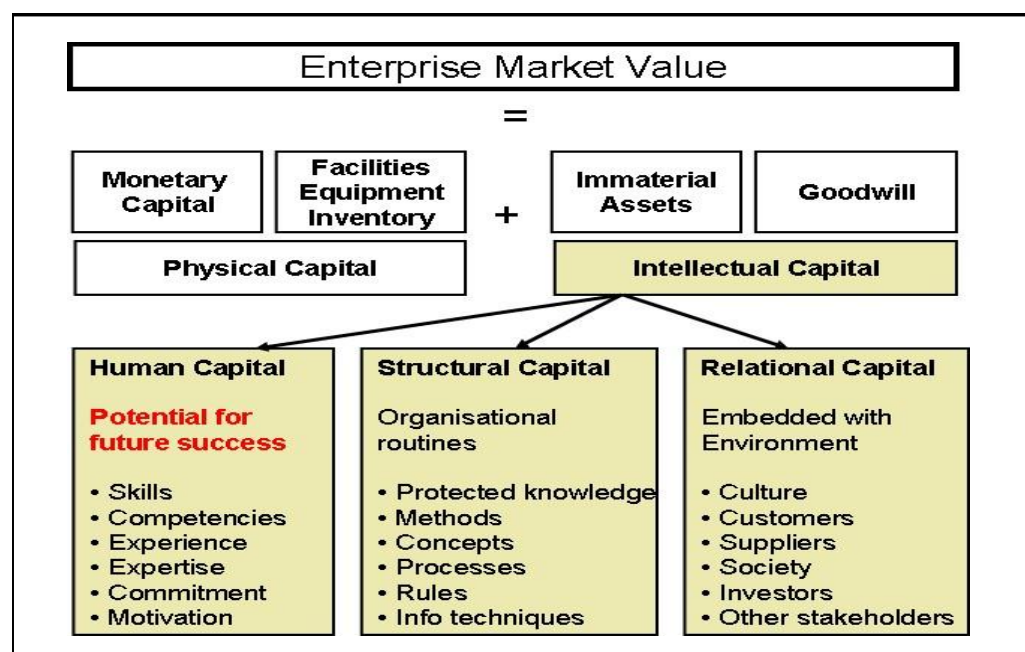


REVIEW ON LITERATURE

Importance of intellectual capital for future success in manufacturing

Identify intellectual capital and understand the increasing value of IC to create sustainable competitive advantage

Organisational restructuring can also speak of two **intellectual capital** and can be defined as the transformation between the market and the volume value of an enterprise. In the new knowledge culture it can happen that the enterprise value is much higher than the physical capital, equipment or inventory in the balance sheet due to immaterial assets, goodwill and intellectual capital of the enterprise. “It is not what you have it is what you know” (Auer, 2004:2). Enterprise market value consists of both physical and intellectual capital (IC). IC can be split into human, structural and relational capital. This is summarised in figure 1 below. The potential for future competitiveness and business success is depended on the **value of human capital** which includes skills, know-how, experience and expertise of employees. The three components of IC are interdependent as human capital raises the structural capital and both of these together generate relational capital (Auer, 2004:2).



Source: Adapted from Auer (2004:2)

Manufacturing perspectives and strategies

The range of products a firm manufactures is based on its technological capability and marketing strategy. Firms perfect manufacturing competencies on the basis of market opportunities and willingness to take innovative risk. At the outset, a manufacturing firm creates or invents new product assortment as its entry point as a value added supply chain participant. Initial market success serves to define and clarify firm's competency as perceived by customers and suppliers. The firm's manufacturing competency is based on brand power, volume variety constraints and lead time requirements

RESULTS AND FINDINGS

- It is evident that most of the largest steel companies in South Africa, struggle to attract and retain innovative personnel to maintain their existing manufacturing facilities.
- The turnover of skilled resources is high and it is very difficult to attract people especially to remote sites such as Newcastle.
- The impact of this is that innovation is lost and very difficult and in many cases not possible to replace over the short to medium term.
- It is also evident that the retaining of skills has been identified as one of the top business risks of ArcelorMittal South Africa (ArcelorMittal, 2008).
- Based on the literature and benchmark study and the problem to attract and retain skills and innovation together with the expansion strategy, it is evident that the Steel industry in South Africa needs to focus on the creation and sharing of knowledge and creating a learning organisation on a strategic level.

This conclusion is supported by a new analysis of a manufacturing company facing economic peril. The study examined how operational, financial, managerial, and portfolio related restructuring measures influence the probability of a successful turnaround. One key finding is that operating measures make an eminently significant contribution to the success of a restructuring project, because programs designed to reduce costs, increase efficiency or adjust capacities address the crisis's causes directly. For this reason, the rapid implementation of operating moves such as cuts in personnel, reductions in investments or footprint consolidation is critical in the effort to fend off a potential insolvency. The study also shows that the move's effectiveness depends strongly on the context of the overarching strategy and the timing of their implementation. In addition to the early announcement of a comprehensive restructuring program, product innovations almost always have a particularly big effect on the company's ability to overcome a crisis period. Product innovations as a success factor Expanding or restructuring the current, often loss-bearing product portfolio through innovations does not just create an opportunity to send a strong signal to customers, suppliers and investors.

On the positive side, the paper concluded with some major opportunities for manufacturing companies during their transformation journey. Firstly, many South African companies are expected to embark on mergers and acquisitions to increase market share, acquire technology and undertake vertical expansion. The rapid digital transformation in South Africa also enables manufacturing companies to use the Internet platform to improve in areas such as brands, marketing, service delivery and innovation. In addition, South Africa manufacturers are also attempting to establish industry platforms for integrating resources and technology, and sharing demand and supply information.

“Another opportunity is related to the emergence of a new industrial system known as the 'maker's platform', focusing on tailored designs and productions to cater to the specific needs of consumers. Certainly, challenges will include intellectual property rights and quality control, but market potential in this space is unparalleled

CONCLUSION

A 2014 Strategy& survey found that 42 percent of executives felt that their organization was not aligned with the strategy, and that parts of the organization resisted it or didn't understand it. If that's a familiar problem in your company, the principles in this article can help you develop an organization design that supports your most distinctive capabilities and supports your strategy more effectively. An appropriate organisational design drives efficiency and effectiveness and assists the organisation to meet its objectives. Organisational design to provide a customised organisation structure based on best practice in order to support organisational strategies and goals today and into the future. Remaking your organization to align with your strategy is a project that only the top executive of a company, division, or enterprise can lead. Although it's not practical for a CEO to manage the day-to-day details, the top leader of a company must be consistently present to work through the major issues and alternatives, focus the design team on the future, and be accountable for the transition to the new organization. The chief executive will also set the tone for future updates: Changes in technology, customer preferences, and other disruptors will continually test your business model.

For many business leaders, answering those questions means going beyond your comfort zone. Have to set a bold direction, organise the organization toward that goal, and prioritize everything you do accordingly. Sustaining a forward-looking view is crucial. A fair number of organization design initiatives fail to make a difference because senior executives got caught up in discussing the pros and cons of the old organization. This situation can be avoided by declaring “amnesty for the past.” Collectively, explicitly decide that you will neither blame nor try to justify the design in place today or any organization designs of the past. It's time to move on. This type of pronouncement may sound simple, but it's surprisingly effective for keeping the focus on the new strategy.

Decisions are paired with norms (governing how people act), motivators with commitments (governing factors that affect people's feelings about their work), information with mind-sets (governing how they process knowledge and meaning), and structure with networks (governing how they connect). By using these elements and considering changes needed across each complementary pair, a design needs to be created that will integrate your whole enterprise, instead of pulling it apart. Fix the structure last, not first. Company leaders know that their current org chart doesn't necessarily capture the way things get done — it's at best a vague approximation. Yet they still may fall into a common trap: thinking that changing their organization's structure will address their business's problems.

We can't blame them — after all, the org chart is seemingly the most powerful communications vehicle around. It also carries emotional weight, because it defines reporting relationships that people might love or hate. But a company hierarchy, particularly when changes in the org chart are made in isolation from other changes, tends to revert to its earlier equilibrium. You can significantly remove management layers and temporarily reduce costs, but all too soon, the layers creep back in and the short-term gains disappear. In an org redesign, you're not setting up a new form for the organization all at once. You're laying out a sequence of interventions that will lead the company from the past to the future. Structure should be the last thing you change: the capstone, not the cornerstone, of that sequence. Otherwise, the change won't sustain itself.

RECOMMENDATIONS

1. Discovery and recollection of talented people

Those people that have the institutional knowledge. They may not be your top performers, they know all the ins and outs of the company—and are vital to understanding the impact of potential changes on the business. Many times they are the disgruntled ones, unhappy with the company's performance. People who are willing to point out the uncomfortable truths. A turnaround is also a real opportunity to find the next level of talent in an organization. Good turnaround managers actively look for those people and find a way to get them involved.

2. A restructuring program

A restructuring program requires two key actions: First, traditional steps must be taken to adjust costs and capacities as well as to increase efficiency, to stop the bleeding in the short term. Second, growth-oriented moves are required to create and sharpen competitive advantages, exploit acquisition opportunities and enable a company's return to profitable growth. It also builds the foundations of a sustainable competitive edge in the market. The long-term differentiation arising from this restructuring move complements steps designed to generate short-term revenue, such as price adjustments or the intensification of sales activities. Since it can be assumed that product innovation's positive and, above all, sustainable effect in the marketplace will not occur immediately, early implementation is crucial. External conditions also underscore this.

It is frequently easier to lure away experts or to enter technology partnerships with competitors that create valuable intellectual capital during an industry-wide crisis than it is to do so once the recovery phase has begun.

3. Concentrating on innovations

In the first two years of the crisis, allows for laying the foundations to achieving a sustainable turnaround. Together with the productivity gains made during re - structuring, selling-oriented product innovations form an excellent base for the return to profitable growth.

4. Differentiating and growth-oriented product innovations

Innovation projects that are critical to a company's success must be stepped up, because any delays could have serious consequences amid the vicious competition that exists during an economic crisis. In addition to differentiating and growth-oriented product innovations, work should focus on innovations designed to deliberately reduce product costs. In addition, these activities must be actively communicated to business partners – particularly customers and investors – in order to also attain a signalling effect.

Smart innovation manufacturing is one of the priorities in the 2025 plan and it means that information technology will play a pivotal role in driving the success of South African manufacturing industry for the future. To succeed, companies need to deal with the challenges in the application of information technology, and this involves a 360-degree understanding of their own production processes and a detailed execution plan.” Specific recommendations for action Cutbacks in research and development should be made only selectively, and should exempt the core areas.

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