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RESEARCH ARTICLE

BUSINESS REJUVENATION DURING COVID 19 OUTBREAK: A CASE STUDY IN MEDIUM SCALE MANUFACTURING IN SRI LANKA

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ABSTRACT

COVID 19 was a cyclone passed over the world impertinently exploring a new arena to think everyone in the world. This pandemic outbreak proved how powerful nature and no one can challenge to the nature. Thus the pandemic retards all the process and made all to relook how to prepare their countries and plan for a major strategic renewal with the drastic downfall in the economic activities. The study conceptualized the concept of strategic renewal as a strategy to energize in the process of resumption of all the activities in terms of economical and financial within a short period of time from the prevailing situation of the manufacturing industries in Sri Lanka. The industries serve a significant portion to the economic development; thus, it is essential to discuss the strategies that can be applied to restore without sacrificing stakeholders requirement. The case study analyzed the factors based on two research questions what and how the industry faced the challenges to revitalizing the situation in the short and long term. The study focused on financial status as against the unprecedented situation and how the organization executes business rejuvenation through strategies conceptualized in the concept of strategic renewal.

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INTRODUCTION

COVID 19 was an economic cyclone emerged through human behaviour as an output of natures' ungracious to renew the world for another journey. The outcome is twofold one is economic affection, and the other is environmental regeneration. This pandemic event proved again that nature power is powerful than any other power in the world. Nature poises everything and takes actions against. The affection was vulnerable to the countries who act against nature and emitting pollution, greenhouse gases and selfish human activities. Countries with industries suffered a lot than countries with agriculture. Industry contribution is much higher on emitting greenhouse gases. Sustainability is the integration of responsible, repeatable and ethical. Those who have adapted in sustainable practices may have more probability to survive in the business future. However, focusing the world scenario COVID 19 made remarkable damage to the world economy and the impact was for every country. As the effect of COVID 19, most of the countries have forgotten the globalization concepts and made concentration toward localization.

The entire world was locked down and health sector was only activated; the economists were highly concerned on how to uplift the declining growth, socialist interact with digital platforms, technologies explored in many inventions, industrialists seek renewal strategies etc. But the impact on the economy was the most vulnerable; thus, many giant countries made mistakes and loss many human lives as a result. The outcome of the pandemic depends on the trade-off between the economic and the human life. The past observation of how the hegemonic leaderships performed and their focuses will be seeding for future researches. However, every country has to have preplanned strategies on how to rejuvenate the economy and move forward after the pandemic. COVID 19 blowing started passing through in Sri Lanka in mid-march 2020 and country was locked-down from on 17th March onward up to 11th May 2020. The total lockdown period was around 50 days and there were no economic and social activities held during the period. The essential businesses allowed to carry on and all others processes were standstill. That made a major impact to all industries without sense of small, medium and large. However, the study focused on the impact of the medium-scale manufacturing industry taking a sample of steel-based article production in Sri Lanka. The industry has a 60% market share and annual turnover is around one billion. The industry was performing better before the pandemic situation and all the processes became standstill suddenly

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with the outbreak of COVID 19. This paper focused on how organizations managed the situation and what strategies used to implement in revive at this stage in the manufacturing SME industries focusing a case study of steel product manufacturing industry in Sri Lanka. The imperative factor in this pandemic is not as simple as other economic downfall happened in previous in year 2008. COVID 19 was an unprecedented event the major impact was the imbalance of cash flow. The two question dominated in this study how the situation was managed as a short term and what strategies as long term in the business. The organizational processes were standstill as a result and no cash inflow but the entrepreneur was compelled to spent on fixed costs and some of the imported raw materials ordered previous. The industries cannot restart their processes using previous practices after a long duration of holidays. The dread issues in this circumstance were a high risk of gathering employees. Manufacturing cannot be done online as other office work; it required involving in the work stations.

Literature review: The SME contribution to the GDP is more than 52%, and employment is more than 45% in Sri Lanka (CMA, 2018). Industry share in the GDP of Sri Lanka is 26.9 % and, out of that 15.9% contribution to manufacturing (CBSL, 2018). The manufacturing industry contribution is 94.7% and the employee engagement in manufacturing is 85.4% from the entire industry (DCSL, 2018). The share in GDP of other East Asian countries Indonesia 40.8%, Malaysia 38.9%, Philippines 30.9%, Republic of Korea 38.9%, Singapore 26.1 and Thailand 35.8% (Yoshino & Wignaraja, 2015). The total number of the establishment in the SME sector 1.107 million, including the micro Industry that provides income for 2.22 million persons in Sri Lanka (DCSL, 2015). SME manufacturing has affected and underperforming industry having 15.4% share in GDP (CBSL, 2018) in Sri Lanka due to various factors such as high direct cost, poor management system, low productivity, lack of skill operators, lack of market etc., (Amaradivakara, 2016; Dassanayaka, 2009; Priyanath, 2006).

The Greiner's life cycle theory (1972), Hoy (2006) strategic renewal applicable after the maturity stage; otherwise, there can be a decline stage. The term strategic renewal has been defined by dividing into two parts, such as strategy and renewal (Agarwal & Helfat, 2009). Strategic renewal has been fragmented to four mechanisms reanimate, rejuvenating, restructure and venture for managing change spatial and temporal separation (Baden, Fuller, & Volberda, 1997). Strategic renewal is the most important factor in the growth of the organization that involves in competitive advantage. The organization visited was in the growth stage as a factor of implementation of strategic renewal with or without knowing. Rejuvenation is revitalization some of the existing core competencies with an approach of radical holistic change in a temporal separation (Baden et al., 1997). The organizations look back on the roots of problems and rejuvenate to eliminate unproductive and unprofitable operations. The capability of identification analysis and implementation is an important factor to be reconsidered. Self-renewal or strategic renewal is a dimension explained as a periodic transformation of organizations through renewals of new or key ideas and resources (Guth & Ginsberg, 1990; Zahra, 1991). Transformations of the organization through the renewal of key ideas identified as self-renewal.

The self-renewal dimension is focused on strategic reformulation, recognition, and organizational changes (Mokaya, 2012). Self-renewal or strategic renewal includes a redefinition of firm vision, mission, reorganization of organizational activities, business concepts, innovational activates to increase organizational abilities (Sahra & Pearce, 1994).

Case study analysis: The analysis conducted focusing the two research questions in the aspect of financial, economical and social factors provokes throughout the period until the resumption of the situation. The impact to the businesses was categorized into three scenarios of high, low and survival and yet the instability is prevailing in the world. Question one search the information related to the financial impact of the manufacturing sector during the COVID 19 outbreak. The case study narrated entrepreneur's connotations transcribed using NVivo software.

Research question

- 1: What were the major impacts to the small and medium scale manufacturing business immediate after the COVID 19 outbreaks?
- 2: How and what are the strategies implemented to revive the business of small and medium scale during and after the COVID 19?

RQ1: The Case study explored the theme of cash flow as one of the major factor as affected to the manufacturing sector immediate after the outbreak. Therefore, it was discussed what were the major impact to the business. Following themes derived in the analysis.

Cash flow management: Organizations should be prioritized to smooth cash flow carrying out stringent operational performance concern to all the functional areas. Frugality may enhance the increase in profitability at this stage. Majority of the organizations were suffering from non-availability of working capital which was a result of the poor operational excellence. That was the reason many organization has to work out zero up strategies in this stage. Small and medium scale organizations were based on entrepreneurial leadership business. This unpredicted and unexpected lock down made standstill all the operations of the organizations. Many of the entrepreneurs were made panic on how to manage the cash flow of the organization. The chaos situation explained by the entrepreneur as follow,

"I was crazy with this unexpected situation there was not cash inflow whole county was lockdown, no way to collect outstanding amount of Rs 519 million".

However, further he pointed out that he was able to come out with the situation having introducing a patiently as a strategic decisions after having more discussion with the relevant managers and expertise. Also he highlighted some of the opportunities that he came across as new outcome as follows.

"We were giving three month credits facilities; I reduced it to one month and introduced a new incentive system to sales on collection giving dead line"

Even though having constraint of cash flow, the entrepreneur had decided and paid salaries for all the employees for the two months during the period of lock down.

That helped lot in major scale in maintaining relationship between employer and employees. Employee satisfaction and motivation enhanced which displayed by the attention on work during the lock down period in some urgent work such as container unloading and stock taking. However, strategies were formulated on collecting outstanding payments as inflows and payment of salaries, clearing the imports and overheads as outflows for the period of two months.

Inventory cost: Inventory cost was one of the main constrain contributed in the cash flow management. The ordered raw materials before the pandemic were stated stocking thus, imported raw material inventory piled up and all the cash available involved in clearing the material. However there were many advantages and disadvantages as well that was explained as follows,

" Our ware houses were full of materials and no production. One way it blocked our cash flows but remember this situation was impacted for everywhere in the world. We were safe and able to resume our production very soon within around one hand half months time. After the resumption we had enough stocks to produce and supply the huge demand in the market. We made historical sales within first month after the covid 19"

The major portion of the raw materials was imported from China and China recovered soon and started their operations in a shorter period of time. All the raw material ordered before the COVID 19 started exporting. The impact on inventory had two advantages as explained follows,

"When China was in lock down we did not have enough raw materials for the process, we were lucky enough we had enough stocks for three months, when finishing the raw material stocks our country was in lock down situation. However even if we no covid 19 we ought to stop the process without raw materials"

Industries tend to maintain economics of scale as competitive advantage in their processes. Achieving high production reduce cost of production which reflected in the unit cost. China supplies raw materials and the China is the lowest in price compared with the other countries and as a result of fast recovery of china the impact to the business made very minimum.

Fixed cost and overheads: Fixed cost is a hidden factor when the operations are progressing. All the operations were standstill and no cash flow exist to the organization, Entrepreneurs were concern on how to manage the fixed cost and overheads, following are stated the burden existed concern.

"There were no operation going on but need securities, electricity, salaries to pay on safety and retention employees, I had concerned on having reserves to pay those all because of that I was able to manage the situation".

One of the important factor that highlighted in this statement is having enough reserves to for emergency situations. Organizations rely on insurance to mitigate the risk, insurance also in a critical situation at this stage where non of the insurance had considered in this type of crisis in the world.

Business organizations need to relook at this factors in future how to face this kind of unprecedented crisis and work independently harness of there organizations. However the situation lasted around two to three months and, with the support of government many organization were able to revive back to the usual situation, some of them are yet suffering due to many other constrains such as issues in global market.

"There was no significant government support received during the period, I was able to manage all my expenses of fixed cost with my reserves. All the banks were closed and no bank facilities available at that time"

All the banks were closed and no sources available to borrow, some of the online services were available. It was an eye opener to the organization that importance of having reserve to an organization. Majority of organizations were unable to pay salaries to their employees and that was a lesson learned from the pandemic.

RQ 2: How and what are the strategies implemented to revive the business of small and medium scale during and after the COVID 19?. The top management commitment displayed in the preparation of strategies to come out from the situation. There are long term and short term strategies introduced after conducting an environment scanning. Following are explained some of the renewal strategies, The planning strategies were indicated as follows,

"My management staff was excellent they supported having proper plans after a analysis the situation, we had enough raw materials which came during the period".

Process rejuvenation: Economic development through industry performance is one of the contributing factors. The zero up plan concentrates on strategic renewal effect in the growth of the organization. There are different type of strategies to be implemented in all four categories of manufacturing industries in micro, small, medium and large in Sri Lanka. This paper discusses each strategy that can be implemented in the manufacturing industries. Safety was one imperative at this stage and what and how the safety procedures are practiced in the organization. The next imperative fact is how long it will take to achieve the usual production as early. The other way was focused on the strategy of localization there could be exponential demand in the market some product and doubtful demand for exports such as garments, spices, rice, grains etc. The paper gives some clue in formulating strategies in manufacturing organizations. Radical holistic structural change (Baden et al., 1997) is required to implement. The worst scenario of an organization is turnover below the breakeven point. Starting manufacturing just on the line of breakeven using minimum no of employees is one of the best solutions. Large scale organization utilizes manpower labour often. The possibility of discontinuation of manpower service for a temporary period of time would effect in reducing expenses. The two rejuvenation strategies turnaround and retrenchment are validating business excellence. The capacity utilization cannot be reinstated at 100% from the initial stage. Further scarification on production would be benefited for a long reliable opportunity. Those who make plan patiently would help to survive in continuous facilities of their operation.

Those who take panic decision would suffer from the second round of the virus attack. Thus matured decisions would comply with nature's acceptance to continue their operation to last long.

"My first choice was the survival, so I was preparing a zero up plan for the restart of the operation. No one could think what to do at that situation, because whole world was affected"

Manufacturing organizations tend to right size labours having implementation more technological advancements as a result of labour-related issues. Some of the organization tends to outsource their operations due to lack of required labours in their vicinities. Those who maintained a portfolio of labour services enabled a relief to organizations on direct cost, and it helps to at the reinstate stage to maintain breakeven condition until the pandemic is solved. Some organizations tend to retrench their labour force or take action on retaining them until resume total capacity utilization.

Operational excellence: Since the period was at the end of the last financial year of 2019/2020, many organizations tend to prepare new operational budgets. The financial year 2020/2021 would be a very tough year for the industry with the pandemic situation; hence an interim budget would be applicable in addition to the original budget. The trend of this pandemic situation is unpredictable since it would be useful in having two budgets plans for the organizations. The effectiveness of the interim budgets discerns the operational excellence that thrift of the expenses and improve profitability. Renewal strategies are useful when the life cycle is at the decline stage where it is in a similar stage (Baden et al., 1997). Turnaround and retrenchments are the long and short term two strategies usable to the industry in concern to the strategic renewal. Machine operators' are important players in manufacturing and categorized under productive staff. Many industries planned out retrenchments focused to operative staff as short term strategy. The short term plan retrenchment can be adapted as an immediate action, and turnaround is the long term planning. Both the planning strategies are most important at this stage for a good plan for the operation as a win-win strategy. It is important to consider more productive labour rather than non-productive employments to give priority when listing labour requirement to the immediate start-up. The health institution recommendation could not be achieved having engaging total workforce. Thus, human engagement to be planned in consideration of at least to fulfill the breakeven capacity. . Manufacturing has become highly competitive with low-cost imports and substitutes. Priyanath (2006) found 59.4% of SMEs failed to achieve their targets due to a deficiency of planning that harms the growth of SMEs in Sri Lanka. (Fairoz, Hirobumi, & Tanaka, 2010) asserted a low level of entrepreneurial orientation in manufacturing industries in Sri Lanka.

"I was more concern on growth evaluation. Organization should think on their growth pattern, I know in what stage we are?"

As the new trend in this pandemic, there are many avenues, opportunities and changes in policies depending on political leadership.

However, many countries tend to revise their policies considering localization as a lesson learned from the issue. Control of imports, rethink of agriculture's and development of local industry would be some of the outcomes. It is high time to think on backwards/ forward integration. The industry tends to import all necessary spare parts, raw materials, consumables from the other countries. Somehow, there were vast no. of lessons to the manufacturing industries, it opened up many avenues with regard to the localization. However, yet the situation is continuing and manufacturing organization make plans for the survival strategies all the time.

System implementation: Large organizations usually adapt systems especially ISO, OSHAS, GMP as compulsory requirements to their processes. Small and medium scale organizations really adapted to implement this kind of implementation, considering only the cost of implementations. There are vast numbers of opportunities with these systems which involve changing human behaviours'. The important part of the system implementation is the third-party audits conducted by world accredited organizations. System implementation curtails human mistakes that foolproof which in Japanese technique "Poka Yoke". The organizations where systems implemented may get benefits at this stage to the prevention of COVID 19 without additional expenditure. Thus it may be a better opportunity to think on adapting systems and use the systems effectively that enables safety fulfillment and operational excellence as well in their organizations.

"Organizations practice systems and maintaining good practices therefore, no chance to have mistakes. Systems made us easy on survival of our business in this situation."

Systems enable preventing mistakes those who practiced systems were safe at this situation. System control waste and thrift costs functions. The stringent processes followed Plan-Do- Check- Act (PDCS) control organization activities. Highly entrepreneurial firms are risk-taking, innovative, and proactive and systems mitigate the mistakes. In contrast, highly conservative firms are risk-averse, less innovative, and practice "wait and see" posture (Barringer & Bluedorn, 1999). However, the system implemented organizations were more safe than the other organization in the aspect of economical and social.

Health and Safety practices: The imperative factor to be considered was the safety hazards in the working places, how health safety is implemented in the organizations. Large scale organizations comparatively in high standards in fulfilled safety requirements through standards such as OSHAS, GNB etc. The number of employees is huge in large scale; hence there is a threat of safety even under high standards. Following are exemplified the entrepreneur's impression.

"We have good safety systems in practice under ISO systems. Therefore no need to implement additionally".

The standard practices may involve better safety practices in larger scale some extend relevant as protection from the COVID 19. But how what was the effectiveness? Is it adequate to have avoided this virus? It is obvious the manufacturing industry cannot restart their operations as it is

from where they stopped. The answer is No; there should be a complete change in the systems and part and partial responsibility for human behaviour. If none of the industry can continue their operation as expectedly with the second round of virus attack. It is high time to make use of the benefit of this pandemic to correct ourselves at this moment. The most effective solution is the change the systems of the operational flow and asks employees to follow the system. Implement all the safety measures introduced by the health authorities as possible because there cannot be any single mistake at this moment with regards to this issue.

Conclusion

COVID 19 pandemic was nature powered traumatic experience to the world economy and made to change the human behaviour. It made to lock down the whole world and allowed only to nature to become active. It made human to have a rest and change their behaviours and think on how to think and plan their strategies at the end of the pandemic situation. This writes up discussed all the brainstormed plans and strategies during the quarantine period to resume work back focusing manufacturing organization in Sri Lanka. The concept of strategic renewal would enable to energize the manufacturing industry as theoretical input at this stage. The hegemonic factors discussed in this write up are the major constraints with the operational standstill of the industry, health and safety practices as concern of prevention measures to the human behaviours', how the process rejuvenation could be implemented and operational excellence adaptation of frugal activities in the planning budgets and importance of systems. Human capital is one of the scares resources in Sri Lanka; thus it is needed to plan how to retain human strength in an effective manner. Many organizations tend to introduce the strategy, retrenchments as a strategic renewal in their processes which as a short term activity. Proper strategies are needed to be adapting in this situation that would be a detriment to the long term processes of the development of the organization. The case study identified how systems involve in the rejuvenation process of the manufacturing process concern to the entrepreneurial leadership in medium scale organization. The system implemented organizations prone to be safe with the thrift processes and controls. All the safety measures were usually practiced in the process and strategic thinking process has predetermined opportunities and threats. The first strategy that has been addressed was the business survival. The system enabled a collective decision-making process which was paramount in the worst situations.

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