

Balancing an Imbalanced Score Card at BPL Engineering Limited-A Case Study

Dr. Sunita Panicker¹

¹ Christ University

Received: 9 December 2012 Accepted: 2 January 2013 Published: 15 January 2013

Abstract

The Indian electronics Industry has evolved from a undersized government regulated and sluggish growth industry in early 1990,s to a multi-segment export oriented that is witnessing rapid growth and high competition due to changes in Governments policy regime. The once protective policies have been relaxed to a great extent in a bid to attract foreign capital and adapt technology across borders, so that a globally competitive industry is developed. Feeling the heat of the resistance from global brands on its home territory and reeling under the beat of widespread slowdown in the economy, BPL group management worked out a blueprint to substantially reduce its workforce in the year 2002 as part of its restructuring plan. BPL group is an Indian electronics company that deals with consumer appliances (such as refrigerators and washing machines), home entertainment products and health care devices. Over the years, BPL's growth has been subject to constant challenges.

Index terms—

1 Introduction

he Indian electronics Industry has evolved from a undersized government regulated and sluggish growth industry in early 1990,s to a multi-segment export oriented that is witnessing rapid growth and high competition due to changes in Governments policy regime. The once protective policies have been relaxed to a great extent in a bid to attract foreign capital and adapt technology across borders, so that a globally competitive industry is developed. Feeling the heat of the resistance from global brands on its home territory and reeling under the beat of widespread slowdown in the economy, BPL group management worked out a blueprint to substantially reduce its workforce in the year 2002 as part of its restructuring plan. BPL group is an Indian electronics company that deals with consumer appliances (such as refrigerators and washing machines), home entertainment products and health care devices. Over the years, BPL's growth has been subject to constant challenges. BPL engineering Limited which is a part of the BPL group is engaged in the manufacture and sale of components, with its corporate office located in Bangalore, Karnataka. Karnataka state has sizeable presence in automotive and engineering sectors. The proactive policies along with capability and natural resources drive attractiveness for these sectors.

2 II.

3 Industry Profile and Company

Note-Electronics and Engineering Industry

India's electronics industry offers opportunity for growth than need to be tapped to reduce dependence on imports. The industry structure comprises over 5,000 various components that are classified under different segments such as speakers, transformers, power cords and cables, vehicle alarm system, transducers, relays, washing machine motors, and compressors.

The company was started at a time when the government had reserved many areas of business for the public sector. It had also virtually barred most entrepreneurs from entering other fields through reservations on licensing. With the company's supplies mainly concentrating on the requirements of the parent company which is into the production of Television and white goods. A part of their production was also exported to European, Asian and African markets. The onslaught of the Korean and Japanese products who flooded their products into the market with their high profile audio and video equipments and white goods which were competitively priced, started to erode the market share of BPL.

The components industry has evolved from a small government regulated and slow -growth-industry in the early 1990's to a multi segment, export-oriented industry that is witnessing rapid growth and high competition due to changes in the technology. The industry structure comprises over different segments. The industry domain has expanded rapidly over the years and has accommodated a lot of players; all this factors have lent support to the highly fragmented structure of the industry, with no company enjoying a major market share.

Demand for components is generated primarily from two sources, the OEMs (Original Equipment Manufacturers) and the replacement market, the former has a majority share in demand. The industry has been enjoying a robust demand in both domestic and export markets.

BPL Limited (BPL) was incorporated in 1963 as a Private Limited company and was promoted by Mr. Graphical Representation of the PAT and Net Worth of the firm Crore

4 Rs. Years

From the above graph of BPL Engineering Limited it is seen that there is steady growth in the year 2000 and 2001. But there has been a steep fall in the profits after tax of the company in the year 2002 but still on the positive side. In the year 2003-2004 the company's profits have dipped drastically indicating the fatal state of the company. In the year 2003-2004 corporate debt restructuring scheme has been adopted and in 2005 the firms losses have reduced. But due to failure of the same the losses have again fallen drastically and reached -41.99.

The net worth of the company has been slowly deteriorating from 2001-2002 and shown no improvement therefrom. The company was unable to fight competition and adopt to new technology and adopted restructuring but the strategy has failed and has pushed the firm to a financial distress.

The detection of a firms operating and financial difficulties is a subject which has been particularly amenable to analysis with the financial ratios. Every ratio is unique and tells a different story about the financial position of the company, hence instead of searching for a single best ratio Prof. Edward Altman has built a new model that distils five key performance ratios into a single score called Z-Score.

He has used multiple discriminating analysis weightage used for the different ratios which are used for the different ratios which are: iv.

5 Sickness

The electronic industry in India has been driven by certain key attributes like favourable government policies, low cost of production, skilled labour, burgeoning demand especially from the international markets and competitive environment. The Industry is however, vulnerable to certain concerns and challenges that are likely to erode its competitiveness. Sluggish growth in the end user industry and the imports due to duty reduction, currency volatility favorable transfer pricing by overseas parent company.

Free trade and Preferential Trade Agreements with unequal access to each others markets are all problems faced by the company. The survival of the company was dependent on the Parent Company.

Government policies with respect to Import and Free Trade Agreements adversely affected the company, wherein imports was cheaper and too many local players in the market lead to adverse pricing and there was no scope of price hike. Though they had a small export percentage, it was not sufficient to take the company through. Own manufacturing by some of the multinational companies who were the customers of compressors also posed an additional strain on the demand of the product of BPL Engineering. The industry own fragmented nature and low entry barriers for international players have stepped up the situation. Besides, these factors pricing pressure faced by component manufacturers from OEM's(Original Equipment Manufacturers) and Raw material suppliers have also contributed substantially to rise in competition Rapid increase in material cost, primarily a result of increase in basic commodity prices like steel, aluminum and copper in recent times, are an area of great concern.Import of Compressors into India is another area where the Company is determined to remain vigilant, and pursue legally available means as and when necessary

The year 2004-2005 witnessed a lot of turmoil in the refrigerator industry with one of the key customers of the Company losing a lot of its contracting business as its major customers increased in-house production and did away with outsourcing Rapid increase in material cost, primarily a result of increase in basic commodity prices like steel, aluminium and copper in the 2006, was an area of grave concern as the compressor manufacturers have not been able to pass on a corresponding price increase to refrigerator manufacturers and were consequently forced to absorb a substantial part of this increase, resulting in further erosion of margins. Import of Compressors into India is another area where the Company is determined to remain vigilant, and pursue legally available means as and when necessary. Excess compressor making capacity of various players in the country and imports were a

cause for concern. While these were instrumental in restraining the price increase on finished products, growing input costs was constantly eroding the margins in the business.

6 ii. Internal Causes

The company was able to sell what it produced but it lacked management in accounts receivables which had a drastic effect on its working capital. The company has poor accounts receivable management. The introduction of computerized systems for receivables management would make the system more effective. Thereby reducing losses due to non ability to fund obligations and also maintain inventory BPL Engineering needs to adopt to change in technology. Introduce new technology in its production systems as well as compressors.

Inability to service customers-BPL engineering has not been able to service its customers needs. Thus it is necessary to understand their requirements and change production accordingly.

As observed from the financial ratios of BPL engineering, one can see that the company's borrowings have been gradually increasing over the years but the ability to pay back the borrowed funds has deteriorated. Inability to pass on corresponding price increase to refrigerator manufacturers. Thereby are forced to absorb substantial part of this increase resulting in further erosion of margins.

The company should focus on its core competencies and focus on those domains where they are performing well rather than operating in those areas where its profits are low. And also entering into new areas of operations when the current position is unstable.

V.

7 Strategies for Turnaround

In 2001, "We will have no choice but go the way the world is going. If Nortel or Cisco could lay off its employees by thousands, we may have to resort to a similar measure to sustain growth and remain competitive," BPL chairman and managing director Ajit Nambiar told rediff.com in Bangalore in 2002 on the sidelines of a media briefing to launch Loewe TV models.

"We are working out a blueprint on how to go about it. It's part of the group's restructuring plan to be a lean and mean organisation. It could be a VRS or severance package. We are yet to work out the details," Nambiar stated.

Admitting that like any other manufacturing or electronic company, BPL too was affected by the prevailing economic downturn and uncertainty, Nambiar "It could be flat sales this year," Nambiar quipped, adding, "the situation might see a turnaround during the last quarter (Q4) of the current fiscal, thanks to a good monsoon, which will give fillip to our sales in the semi-urban and rural markets. The urban markets are nearly saturated."

Allaying fears over capacity under utilisation, Nambiar said the manufacturing facilities were operating to full capacities, especially in the home appliances' segment as several national and multinational companies have started outsourcing their requirements.

"For instance, we are the largest compressor makers in the country, supplying them for leading Korean and Japanese brands. Our BPL Engineering facility in Hyderabad is running to full capacity," Nambiar claimed.

During the preceding financial year (2000-01), the company posted a 15 per cent growth in the TV segment, selling 5.5 million units against 4.8 million in the previous fiscal year.

8 a) Financial Strategies i. Debt Restructuring

In the year 2003, as part of its mega restructuring exercise, BPL engineering was looking for external commercial borrowing route to bring down the company's debt servicing costs. At that point the company's debts amounting to over Rs 800 crore. The finance team has seen another induction at the top with Mr. P.V.K. Sundaram, a senior partner with S.S. Kothari & Co, joining as Vice-President to head the finance restructuring efforts. BPL, which is servicing a debt burden in excess of Rs 750 crore, has been in talks with the ICICI Bank-led consortium to recast the debts at a favourable interest rate regime. ICICI's exposure to the company is estimated at over Rs. 400 crore.

9 b) Human Resources Strategies i. Reduction of Salaries

While employees sources across BPL group companies like BPL Engineering and BPL Refrigeration confirmed in 2003 that salaries were being delayed, some said that certain higher level managers' payments were delayed even beyond 30 days. There is also talk of more lay-offs among employees in manufacturing units.

10 ii. Downsizing of Employees

The company, was never interested in looking at lay-offs, but the market has forced them to carry out a downsizing exercise. Thus, in 2003 the number of employees were forced to leave. BPL Ltd and its associate companies employ a total of 7,000 people (2200 in BPL Ltd alone). In 2001, the company had a total of 10,000 employees prior to the downsizing exercise in 2003.

iii The Rs 4,500 Godrej group may pick up a strategic stake in the BPL group's compressor manufacturing company BPL Engineering. The Godrej group is also planning to become BPL Engineering's customer. The

compressors manufactured by BPL Engineering find application in the white goods industry. The Godrej group has a substantial presence in this sector through its range of refrigerators and washing machines.

For BPL Engineering, if the Godrej group goes ahead with the plan to pick up a stake, it will result in the infusion of much-needed funds. "We have been informed by senior BPL group executives that the Godrej group has expressed interest in picking up a stake in BPL Engineering," said a senior executive in a financial institution.

11 ii. Hiving off the Business

To get things in action, in the year 2002 "The Balanced Scorecard" based strategic framework devised by the company would be the key to the restructuring programme. "The framework will focus on two key aspects - identifying business units and streamlining the core component business (mainly manufacturing lines) that would feed other businesses," said Mr Nambiar. The plan would not only look at bringing synergies among businesses and leveraging the group's direction in manufacturing, but also construct the manufacturing/component line into a returns churning endeavor.

The consumer business (under BPL Ltd) was rationalized into four key business groups, they include, entertainment electronics, home appliances, soft energy and medical systems. The component line of business will embrace BPL Display Devices Ltd, Electronic Research Ltd, BPL Automation Ltd and BPL Engineering Ltd.

12 Global Journal of Management and Business Research

13 The Balanced Scorecard

The Balanced Scorecard is a structure that focuses on shareholder, customer, internal system and learning requirements of a business to create a system of linked objectives which collectively describe the strategy of an organisation and how that strategy can be achieved. The various aspects of Balanced scorecard adopted by BPL Limited and leading it to an impact on BPL Engineering Ltd are: a) Financial Perspective

The financial perspective measures the results that the organization delivers to its revenues from new products, gross margin percentage, cost reduction in key areas, economic value added and return on investment. Having realized the importance of the financial measure, it was time for the business to fall back on its core strength, "manufacturing". Thus, BPL engineering limited started charting its plans based on a fiery growth map for its components business. The component business itself was estimated to touch the Rs 1000 crore mark in 2003. In 2003 the mix of component business was 50:50 of external revenues and in-house consumption. The company was looking at a double edged strategy to make this a business on its own. Wherein, this would see further consolidation of the manufacturing facilities. Which would in turn lead to enhanced profits and take the company out of red. In the year 2004 the company focused on cost reduction for the evident reason that it was in house and could be done by making the people understand the gravity of the situation the company was in and the economic situation existing in the country and across the world as a whole. The entire factory operations were revamped and redundant expenses arising at all levels were studied and the whole process was restructured. Creating understanding at all levels helped the company in reducing the costs. In addition, outsourcing of non core activities was done mostly to save on the cost. Non Value added services were the foremost criterion where it was weighed appropriately to outsource and not the activities which required particular tasks to do it proficiently. Total Productivity Management (TPM), was implemented and the standard value creation was the key aim. Thus, cost reduction and better utilization of Men, Machine and Materials were the main mantra.

14 b) Customer Perspective

The customer perspective considers the business through the eyes of customers, measuring and rejecting upon customer satisfaction. The measures are:-market share, customer satisfaction, customer retention percentage, time taken to fulfill customers request.

In 2004, to be a key player in this industry, BPL engineering desired to go global and therefore they were targeting the clientele in Europe and the Asia Pacific market. With sturdy design and expansion support, the components group of BPL Engineering limited had become a chief player in the world component market. In addition to this, BPL Engineering also became the principal manufacturer of compressors and motors for washing machines and refrigerators and targeted the 1-million compressor mark for the year 2005.

Unlocking worth in conditions of novel branding and product contribution to gather a bigger pie of the market became vital element of the overall expansion plan for the business. Revamping of the audio line of company was on cards in line with the innovative strategy. In 2004, the audio market was valued about Rs 1,000 crore in India, of which music systems accounted for 45 per cent by value, others 55 per cent with a escalation of about 10 per cent. BPL Limited was present across all segments in the audio sector with a total of 36 models. The company had followed a twopronged strategy wherein, they entered the market with a latest set of products and targeted the core of the market, the Rs 6,000-Rs 12,000 segment and offer products with a higher configuration category contributing audio products besides Colour Televisions. The strategy is aimed at reducing close competitors in this group like Sony which was aggressive in price points of Rs 20,000 and above, Philips at about Rs 15,000 -Rs 18,000.

15 c) Internal Process

The internal perspective focuses attention on the performance of the key internal process which drives the business such as innovative process, operation service and post-sales services. The implementation of a technology backed image was also set to give the company a play in the 'innovation/smart' product image segment. The sanctioned assessment of the brand in 2004 was estimated to give a boost to the brand image. "The plan for BPL is to clearly straddle all brands and segments through a system of sub-branding to address specific market niches, segments and price bands," according to BPL corporate brand management head Anand Narasimha. The BPL's brand design straddled a large variety of psychographic and demographic segments as component of its strategy of providing to a heterogeneous market. As a part of the brand campaign, BPL's brand building began with the BPL company brand or corporate brand encircling all product categories. BPL limited identified the component business, which is BPL Engineering Limited, as a core line which will feed other businesses as well as drive revenues independently. Component business set to crossed Rs 1000 crore mark the year 2005. This move also enabled the organisation to tap the contract manufacturing business. Organisational competencies, technology enablers, employee education and skill level, employee turnover ratio, information system accessibility, employee proposal implemented. To make sure noteworthy synergies amongst business initiatives, BPL limited had set up a software development centre in the year 2004, which would focus on growth of embedded software and systems for consumer electronics and telecom industries, network solutions, call centre solutions, ERP solutions, etc. Besides, total mechanical and industrial design solutions for the consumer electronics industry. This intended at providing BPL limited a obvious opportunity to migrate to a business model that is based on hardware and services thus enhancing its value in future. "BPL is already a backwardly integrated company with significant part of the value addition for the end product being created in house," says Mr Nambiar. When the entities strikes proper balance amongst the above four items the result will be optimum.

In the Research and Development activities, the Non -CFC technology Compressors and new model of the same. The replacement market has to be tapped fully and products have to be catered for the market. There is much scope for this market and has to be tapped fully.

The Company focused on Product improvement and thereby, New washing machine motors were also developed as per customer requirements.

New Hydrocarbon refrigerant based compressors are developed to meet the demands in the European markets. Development of 5.1 Home Theatre speakers and other accessories for the Pro Fx range of Amplifiers and Speakers were carried out. For the mobile phones, chargers, speakers and microphone components were developed. Ceiling Speakers for channel music system was developed and tested successfully.

Anticipated growth in domestic white goods markets would provide a large market size for the company. If the demand of the parent company's products goes up, naturally the company would also be seeing the light of the day, as it is directly proportional with the sale of the goods of the same.

A major fire broke out in the factory premises in Bangalore in Sep 2006, when a considerable amount of equipments were damaged beyond normal usage. Though Insurance claims were processed, it will no longer be able to continue its operations, and as an immediate measure, it decided to close its factory.

Mobilising of working capital was the key factor, wherein the sourcing of new working capital was a was secured with favourable terms for the company.

The reason for the company continuing to be in sicknes is that criteria the BPL Engg., was solely dependent on its Parent ie, the BPL Ltd. which had the chargers, accessories, Television, and white goods.compressors and motors and plastic injection moulding materials etc.

16 VII.

Reasons for Further Failure a) Adoption of Latest Technology If the demand of the parent company's products goes up, naturally the company would also be seeing the light of the day, as it is directly proportional with the sale of the goods of the same. So considering the above, it necessary that the company has to seek markets of the components on its own rather than being in the shadow of its parent company. It has to invest in Research and Development a good amount as the current investment is only 0.26% as of 2004, with respect to the total turnover. Cutting edge technology is the only way out for reaching out to European countries and other Export markets, as well as to capture the internal markets. In the Components manufacturing operations below the breakeven sales have resulted in the cash loss of the company. BPL Engineering needed to adopt to change in technology. Introduce new technology in its production systems as well as compressors. Re-designing of equipments and innovating new products with latest technology.

17 b) Inefficient Accounts Receivable Management

The company has poor accounts receivable management. The introduction of computerized systems for receivables management would make the system more effective. Thereby reducing losses due to non ability to fund obligations and also maintain inventory.

18 c) High Input Costs

Rapid increase in material cost, primarily a result of increase in basic commodity prices like steel, aluminium and copper in the 2006, was an area of grave concern as the compressor manufacturers have not been able to pass on a corresponding price increase to refrigerator manufacturers and were consequently forced to absorb a substantial part of this increase, resulting in further erosion of margins. Import of Compressors into India is another area where the Company is determined to remain vigilant, and pursue legally available means as and when necessary. Excess compressor making capacity in the country and imports were a cause for concern. While these were instrumental in restraining the price increase on finished products, growing input costs was constantly eroding the margins in the business.

Distorted duty structure as between input duties and import duties on components and finished goods, nascent export market in the West European countries and beyond, which are high on quality and energy efficiency which are light years ahead in technology, pose a problem. Engaging the government on respective issues wherever necessary, enhancing internal cost competitiveness, upgrading product and technology where necessary, and addressing key export markets with renewed efforts. Anticipated growth in domestic white goods markets would provide a large market size for the company.

19 d) Overambitious Expansion

Since the group had an over Ambitious Expansion programe and it invested in Power and Telecom. Both these sectors are highly Technology driven and they have a long gestation period. So whatever cash they had derived in these verticals of white goods and domestic appliances were invested in these two sectors. So, there was not enough working capital and their debt restructuring programe was also not successful. And the threat from the korean products in the likes of LG and Samsung were also the cause.

So considering the BPL engg., they had a very less production for external companies other than the group companies. The ratio will be in the likes of 85 : 15. which will be 85 -Internal Group consumption and 15 External Supplies. including a miniscule percentage of export. The compressor division's production was marred due to non-availability of operational capital. Though manufacturing was started in the later period, it was less than the break-even quantities. Pressure in input prices of washing machine motors and competitively priced imports were making the business unviable. Though modifications and value engineering were carried out, it did not resulted in the desired level of meeting the price points of the motors that were imported.

Though the acceptance of the motors were there in the west -European and middle east market, the conversion into commercial orders could not be done due to the extended working capital cycle for exports and limited availability of operational capital. The Company's' operating businesses have been under severe pressure due to working capital constraints and have not been able to perform to their optimal level. Consequently, net sales and other income of the Company has significantly reduced, resulting in loss for the year 2007 and 2008. g) Understand the Needs and Wants of the Customers BPL engineering has not been able to service its customers needs. Thus it is necessary to understand their requirements and change production accordingly. h) Pricing of Products Rightly Proper Management of the men, material and money. It is necessary to price their products rightly and not to absorb a substantial portion of material and manufacturing price.

20 i) Efficient Handling of Manpower

Man power is very essential for efficient management. Thus HR Issues are sensitive and need to be handled with care.

21 VIII.

22 Future Plan of Actions

The Company is continuing its efforts to address the working capital requirement and is hopeful of arranging the required funds during the current financial year 2009. With infusion of the additional funds and completion of restructuring exercise, coupled with certain new initiatives, the Company is hopeful of making optimum utilization of all resources available at its disposal.

Small Export Orders presently being serviced has to be developed into big business and expanded to various destinations. Improve energy efficiency and noise levels to match European market requirements. Development of new models for developing business from new segment opportunities. Indigenization of chemicals and oils in the Non CFC, to reduce materials and inventory costs. Cost reduction benefits to be achieved from alternate sourcing and design improvements and design modifications and value engineering. Import substitution was done in the Audio side in Speakers Amplifiers and other accessories.

Continuous improvements for increased efficiency and noise reduction to make Company's product competitive in National and International markets. Understanding the changing customer needs and upgrading the products to their desire. Develop an application engineering team to support the customers and strengthen Company's presence in the commercial refrigeration segment.

23 Sources:

Annual reports, Business reports, Newspapers, Prowess database and interactions with the company personnel.



Figure 1: Interpretationa)

¹© 2013 Global Journals Inc. (US)

²© 2013 Global Journals Inc. (US)Balancing An Imbalanced Score Card At BPL Engineering Limited-A Case Study



Figure 2:

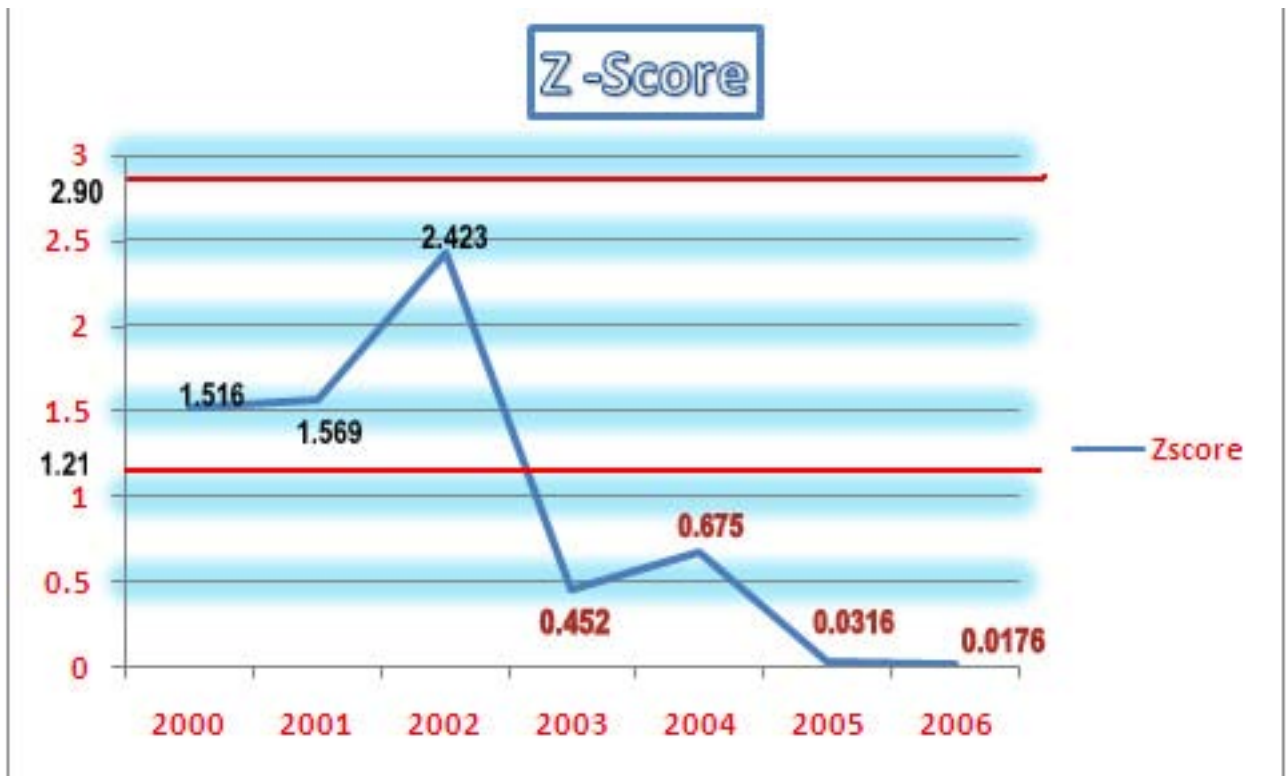


Figure 3:

Ltd.

BPL Engineering Ltd., a subsidiary of BPL Ltd.,
was incorporated in 1982. The company, BPL

Engineering Ltd is the component manufacturing arm of BPL Ltd. They were supplying components to various
cables, vehicle alarm system, transducers, relays,
washing machine motors, and compressors, The
Company employs around 487 employees in both their

Figure 4:

c) Marketing Strategies

i. Identifying Newer Markets: 2004

Figure 5:

