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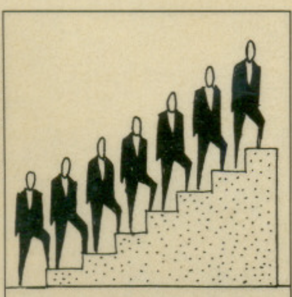
CASE STUDY

Tie-Up Trauma

JAYANT MEHTA, THE CEO OF BEACON APPLIAnces, was in a quandary. Circumstances had forced him to seek an alliance with an overseas partner, and he had two potential collaborators lined up. But the company which Mehta would have ideally liked to tie up with had stipulated a string of preconditions, which went against the grain of all he had learnt under the tutelage of his father, the founder of the business, especially with regard to the handling of the company's human resources. Mehta's belief was that the goodwill and the morale of the workforce were his most important assets. And the transnational's recommendation that he cut the number of managerial levels as well as jobs, felt Mehta, would have a negative impact on the company. On the other hand, the less-desirable partner would probably be less exacting in its demands. So, which company should Mehta—and Beacon—go with?


PAVAN BURAGOHAIN

One of the preconditions that the transnational had imposed was that BAL develop a full-fledged HRD department headed by a professional

JAYANT MEHTA WAS PENSIVE. HIS HECtic schedule over the past few days had left him with practically no time to himself, and he had decided to take the weekend off with his family at the beach-house that his father had presented him on his wedding. Ketaki, his wife, and Rinku, his five-year-old son, were dodging the waves in the distance. The December sun on Bombay's Marve beach was rather strong, and Mehta shifted his position slightly to move into the shade of the beach umbrella. As he closed his eyes, he found it difficult to doze off and, instead, found his mind wandering to how things had progressed in the 15 years since his induction into the family business.

THE BACKDROP

Mehta was barely 21 years old when he bagged his engineering degree and started work as plant manager at Beacon Appliances Ltd (BAL) at its factory in Vikhroli, a Bombay suburb, in 1980. His father, the late Govindbhai Mehta, had set up the factory in 1969 after he migrated from a village in Gujarat where his ancestors were wealthy landowners and moneylenders. At that time, BAL's product range included household appliances like toasters, electric kettles, and irons—all sold under the Beacon brandname.

HISTORY

By 1980, the Beacon brand had established itself as the No. 2 in the marketplace. Its archrival, and the market leader, was Avon Electrical Appliances, a professionally-managed company. Govindbhai had, by that time, acquired the reputation for being a hard-nosed strategist, high on business acumen, with a knack for stretching the last rupee. Looking for a larger market presence, Govindbhai had thrust the company into the manufacture and marketing of mixer-blenders and conventional ovens. It was at this point of time that Mehta Jr had joined the family business.

Within a couple of years, Govindbhai had practically handed over the day-to-day running of the appliances business to his son, himself concentrating on new areas of growth and diversifications. In 1989, he acquired a company that made typewriters, letter-weighing machines, and cash registers. In 1983, an office stationery and supplies business was set up. A year later, Govindbhai established an exports division, encouraged by some exporter-friends, and through these contacts, executed two major export orders to the erstwhile Soviet Union to the tune of Rs 10 crore.

Through an investment company incorporated in 1986, some investments had been made in financing the construction business and also in the production of two Hindi feature films. This division had become defunct, with practically no activities in the last few years. A hosiery business bought in 1990 was sold off in 1992 as it was largely unprofitable. Thus, growth was haphazard and mainly resource-driven. And BAL took whatever oppor-

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tunities came its way, without any overall strategic thrust. But turnover had grown from Rs 47 crore in 1980 to Rs 146 crore in 1994.

ORGANISATIONAL STRUCTURE

MEHTA WAS ABSORBED IN HIS THOUGHTS. The afternoon sun beat down on the golden sand and the blue sea looked inviting. But he didn't want to take a dip, preferring to continue his musings instead. How he missed the benign guidance of his father! Govindbhai was an empire-builder as well as a people man. He nurtured BAL like a parent nurtures a child. He took a personal interest in everything that needed to be done, and the well-being of all his employees.

Over the years, Govindbhai had invested in keeping his people motivated and inspired. Loyalty to the business and to the head of the company was something that was rewarded well. The organisation depended heavily on the skills and commitment of a few key people. Some of these were:

Name: **Hari Gupta**
Designation: Vice-president (commercial)
Qualification: B.Com.
Profile: BAL was his first job. Starting as an accountant, he had quickly gained the trust of Govindbhai, and soon established himself as his right-hand man. Now he handled finance and accounts, materials, administration, and personnel management. Trustworthy and hardworking, his loyalty to the corporation was unquestionable.

Name: **Manu Malani**
Designation: General manager (works)
Qualification: Electrical engineer
Profile: Started his career with Avon Electrical Appliances, and joined BAL in 1986 as an assistant plant manager. He was promoted as plant manager in 1989, and had assumed his current responsibility in 1993. He was in charge of all factory-related issues including production, factory accounts, and industrial relations.

Name: **Amrish Khanna**
Designation: Vice-president (marketing)
Qualifications: B.A., diploma in business management
Profile: With BAL since its inception, the colourful and flamboyant Khanna was a shrewd market strategist. With his marketing savvy, BAL had always been neck-and-neck with Avon. Much of the success of BAL and its brand equity was because of his maverick mind.

Personnel systems in the company were practical, basic, and functional since the personnel function had been clubbed with the finance and materials function under Gupta. A system of confidential reports served the purpose of performance appraisals, and annual increments and promotions were based on the recommendations of departmental heads. There was a seven-grade system of wage hierarchy, which adequately provided for the personal aspirations of people who looked forward to a promotion every few years. Other systems of time management, benefits administration, and manpower information were also firmly in place.

THE PRESENT

MEHTA WAS OBLIVIOUS TO THE sounds of the merrymaking from the distant picnickers as he recalled how the sudden demise of Govindbhai in February 1993 had left him in charge of the company's fortunes. The period from February to November 1993 had been taken up in a whirlwind of

Mehta, however, did not see the need for any change in the organisational structure, especially since it had worked well so far

BUSINESS HISTORY OF BEACON APPLIANCES

Year of commencement	Product/Industry segment	Current turnover	% of present business
1969	**Appliances**	**Rs 125 crore**	**85.7%**
1982	**Business machines**	**Rs 20 crore**	**13.7%**
1983	**Office stationery**	**Rs 75 lakh**	**0.5%**
1984	**Exports**	**Rs 14 lakh**	**0.1%**
1986	**Investments**	**Defunct**	**—**
1990	**Hosiery**	**Sold in 1992**	**—**

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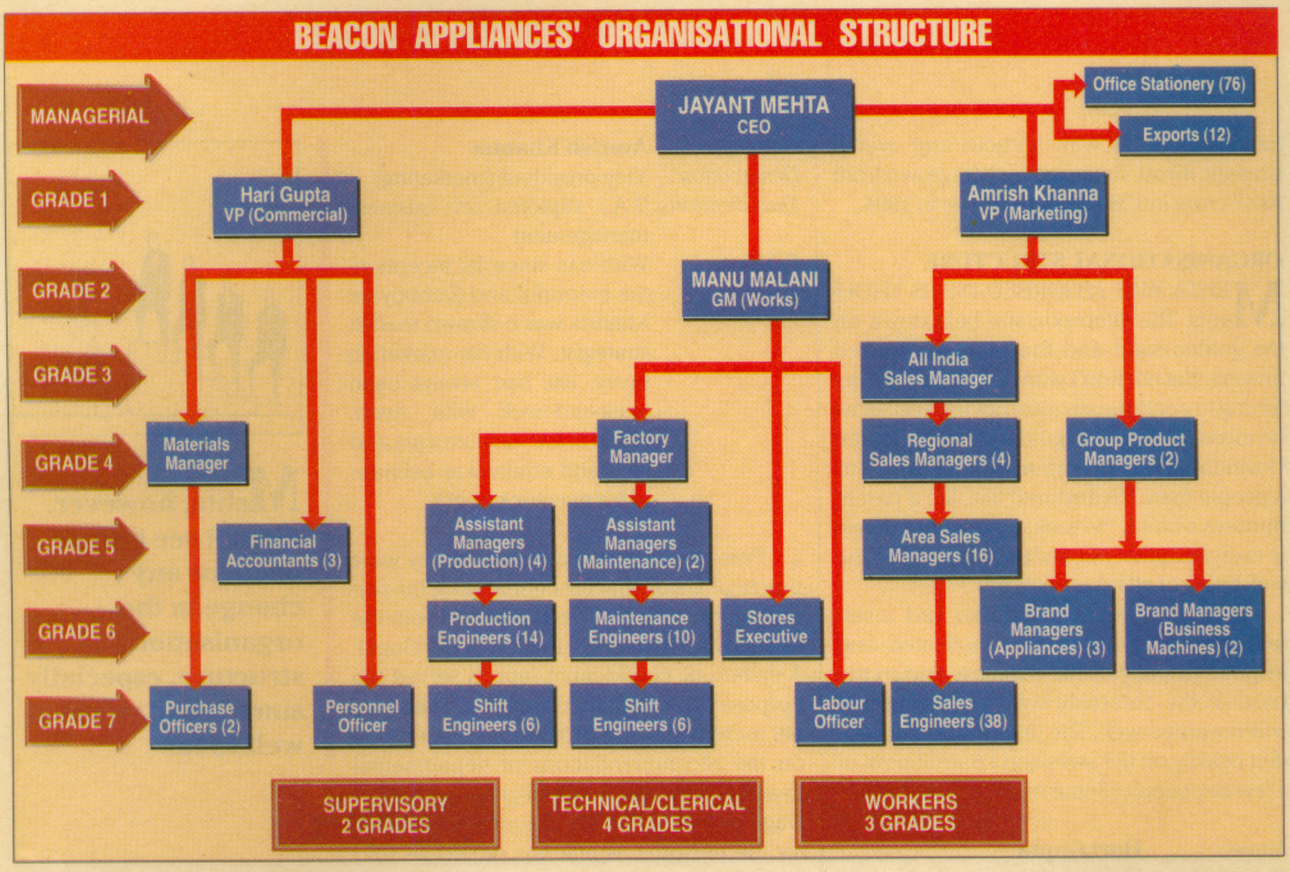

funeral rituals, condolences, and legal matters relating to the transfer of his father's estate and properties in his name. Since November 1993, Mehta had managed to keep the functioning of BAL on an even keel and the enterprise was sailing smoothly.

Then, one day in January 1995, Khanna walked in with the news that Avon Electrical was pursuing joint venture plans with a British firm for technical collaboration and a marketing tie-up with a Taiwan-based firm in the hi-tech segment of microwave ovens, microchip-controlled washing machines, and a range of lifestyle products like hair dryers, electric shavers, and food processors. In the next few days, Mehta and Khanna learnt that preliminary market surveys had been undertaken in this regard, and efforts were on to select a site for manufacturing facilities. This new line was expected to be launched by March 1996.

If BAL did not do anything, it would not survive. A quick rethinking of strategy was in order. Mehta promptly called a meeting with his trusted trio—Khanna, Gupta, and Malani—to discuss a strategy for BAL. At the end of several rounds of talks, it was obvious that BAL would have to counter Avon with a similar, if not better, product range. But the technology for products like microwave ovens was not available, and BAL too had not invested in R&D to develop the technology for such products. It was obvious that they would have to rope in an overseas collaborator.

Enter Sanjay Sinha. A consultant, he had been instrumental in catalysing several new joint ventures over the last two years. At Khanna's behest, he was retained by Mehta to explore potential collaborators for BAL in these hi-tech segments. When he contacted several such prospects, two of them showed some interest in investing in India. The first of these was Mounsignex of France, a fairly well-known brand in Europe.

In India too, Mounsignex enjoyed a fair amount of brand equity as was evident from the increasing number of Indians who brought in Mounsignex microwaves and appliances from abroad. The second potential collaborator was Chang Home Products of Taiwan, a totally unknown name in the Indian markets. Consumers in Taiwan perceived Chang products as cheap and efficient. However, with the quality and reliability of its products not very high, Chang catered

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largely to the lower segment of the market.

For Mehta, Mounsignex was an obvious choice. With its brand equity already somewhat established here, Mounsignex and BAL could produce tremendous synergies and emerge as winners. Spurred on by the encouraging signs received from Mounsignex, Mehta made a trip to Paris to initiate a joint venture. The response was favourable, and Sinha set about the task of framing the collaboration agreement. Mounsignex was willing to invest in India with BAL, subject to four conditions.

One was that the business areas be rationalised. The appliances group was to be set up as an autonomous entity with 40 per cent equity participation from Mounsignex. The other areas of business could be handled by the family. Two, the production facility at Vikhroli would be modernised with technical and financial investment from Mounsignex. The third condition was that BAL's human resources should be restructured by:

- Setting up a human resources department with a focus on training and development, headed by a professional reporting to Mehta.
- Carrying out a job evaluation exercise.
- Reducing the hierarchy from the present seven to four levels. And the organisation structure should be reconfigured, based on objective measures of work and performance.
- Reducing manpower by about 30 per cent based on the job evaluation study.
- Recruiting professionals in key areas like cost accounting, purchase, and quality.

And the fourth condition imposed by Mounsignex was that four representatives of the French company would be appointed on the board of directors of BAL.

THE DILEMMA

THE SUN WAS SETTING, AND A CHILLY wind had started to blow. Ketaki and Rinku came up and told Mehta that they were going in. He told them to go on ahead and that he would follow in a short while. Mehta thought once again of the decisions ahead of him. On the surface of it, the Mounsignex proposal seemed to make a lot of sense. In essence, it was just what a lot of local firms had been doing ever since the reforms process had begun.

However, some doubts continued to nag Mehta. He did not want to go into this major diversification being pushed by the competition. He was a prudent risk-taker, and thought through all his decisions intensely. BAL had always been an organisation which firmly believed in the power of caring for its people. A downsizing exercise would be bound to have the undesirable fallout of losing out on the goodwill of the employees that had been earned over the decades.

He had heard from his friends in the corporate circuit how strong, vibrant organisation cultures, like BAL's, had drastically changed as a result of the flattening of hierarchies and resulted in insecurity and a demoralised workforce. He had also witnessed how organisations that had gone in for flat structures were paying the price in terms of higher turnover in their managerial ranks. In many cases, organisations had landed up losing the good talent they had, and the people that stayed behind were the mediocre ones.

BAL had acquired the reputation of being a solid and steady employer. Its industrial relations situation had been eventful, but peaceful. The organisation had been able to nurture its managers' ambitions and provide them with ample opportunities for growth and promotion. Mehta believed that the human element was critical to maintaining and creating the competitive edge of BAL. Besides, the existing structures had served the company well, and there was no real need to change the way they had been doing things so far.

Somehow, some of the conditions put forth by Mounsignex did not fit in with Mehta's way of doing things. This was particularly true of the clauses about reducing the number of levels in the managerial hierarchy. He felt that this would stifle the growth opportunities that the average Indian manager wanted. At the same time, Mehta did acknowledge the need for providing more focus to the training and developmental activities that a professionally-qualified HRD manager could undertake.

The wind had died down and the tide had gone out. Mehta picked up his belongings and made his way to the beach house. Tomorrow morning, he was to meet the Mounsignex team for the final, and crucial, round of negotiations for their joint venture. Should Mehta agree with the conditions that Mounsignex had imposed? Or not? That was the critical decision that Mehta had to take that night.

■ Case Study by ANEETA MADHOK, Professor of HRD & Organisational Behaviour, Narsee Monjee Institute of Management Studies, Bombay.
Refereed By the BUSINESS TODAY Panel Of Referees

Moreover, Mehta was convinced that reducing the number of jobs would erode the goodwill BAL had built up over the years

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Solution-A

ERNEST FERNANDES

Director, Xavier Institute of Management

THE WRITING ON THE WALL is too stark for Mehta to ignore. Unless he evolves a strategy to counteract his competitor's moves, BAL will soon witness a decline. He has acted fast in identifying a potential foreign collaborator with a brandname known both to consumers in Europe and to Indians returning from abroad. Typically, the proposed collaboration is conditional and carries several riders. And these conditions are perfectly valid.

However, they raise some basic issues. Should BAL focus only on the appliances business and sell off the other businesses? What will the role of Mehta and his team be? Should BAL abandon a "concern for people" approach which has worked well so far in favour of a "concern for production and marketshare" culture which Mounsignex apparently wants? How would one achieve a transition from a decision-making style based on family ownership to a professionally-managed environment?

Mehta has several points in his favour. He has worked for many years in the plant. He is sensitive to what makes people tick and also to the technical aspects of his business. His apprehension that restructuring could seriously damage the most productive asset of BAL—its people—is well-founded. The challenge before him is to manage the change in a planned, smooth manner. He would be well advised to focus only on the appliances business. He should take his employees into confidence while explaining to them why the collaboration has become imperative and the benefits it would bring to the company.

Mehta should dissociate himself from day-to-day operations and delegate more of his operational responsibilities to Gupta, Malani, and Khanna. Now is the time for him to move out of the nitty gritty and concentrate on policy issues and strategy. Finally, he should take direct responsibility for the HRD function until a full-fledged HRD department comes up. The transition from a family business environment to a professionally-managed company would be less bumpy if Mehta takes a personal interest in matters relating to people.

Solution-B

C. SELVAN

General manager, (marketing), Heinz India

THE KEY ISSUE BEFORE MEHTA is whether the conditions imposed by Mounsignex with regard to human resources management will fritter away the accumulated goodwill of employees, which has been one of the success factors till date at BAL. Inherent in this is the need to change the prevailing structure of the organisation.

A change in organisational structure is always a sequel to a change in strategy which, in turn, flows from changes in market forces and the external environment. To survive the competitive onslaught and to exploit emerging consumer needs, business strategy needs to change. This calls for a focus on the core business, which, in the case of BAL, happens to be appliances. This is precisely the condition put forward by Mounsignex. The change in strategy has necessitated a change in structure. And Mehta should keep this in mind while evaluating the conditions stipulated by the collaborator.

A change in structure implies several things. It crushes the pyramid. It reduces manpower requirements; it leads to deployment of people into unfamiliar areas. It generates insecurity, demotivation, and demoralisation. It might result in an exodus of talent which is badly needed at the organisation. But it is a myth that flat structures cannot satisfy the career aspirations of hi-fliers and whiz kids. Today's managers are no more interested in mere upward mobility, which only means changes in title, perquisites, and an illusory status. They demand larger responsibilities, empowerment, challenging targets, and performance-related compensation.

But any talk of manpower reduction, even in a liberalised context, sends shock-

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waves through any organisation. However, excessive manpower too has its hazards. It makes the organisation uncompetitive and lethargic, with under-employment and low productivity—all of which reduce the earnings of managers over time. Mehta should keep an open mind on the issue of restructuring, and take a longer-term view. He should not lose sight of the fact that as the momentum of business growth picks up—as a sequel to the collaboration—it will open new opportunities for people within.

Instead of looking at the conditions of Mounsignex as causing instability at BAL, he should examine how the association would benefit BAL. He should demand the transfer of product technologies, access his own resources in order to upgrade the technical and managerial skills at BAL, and take steps necessary to make BAL a stronger organisation. He should, in fact, seek the deployment of expatriate managers to accelerate the process of change.

The trust and faith of employees are no doubt valuable, but that alone is not enough. Mehta should realise that survival in a competitive environment depends on their skills-base. Any attempt to enhance the skills of the people in an organisation should be welcome. It is in this context that Mehta should delink the personnel management function from the vice-president (commercial) and take on a full-time HRD professional. Once he is aboard, it will send out the necessary signals to people in the organisation. And prepare them for change.

Solution-C

R.R. LIKHITE
Group Senior VP (HRD),
Mafatlal Industries

THE STAND TO BE TAKEN BY MEHTA IN the final round of negotiations with Mounsignex depends on his response to the conditions put to him by the collaborator. With the changed market scenario, it is imperative to adopt a course of action whereby BAL can retain or improve its market position. Hence, the condition of rationalising the business and having the appliances group as an autonomous entity is relevant. It is as necessary to modernise and expand the existing manufacturing facilities. It is also obvious that Mounsignex must have its representation on the board of BAL as a sequel to equity participation.

Mehta's dilemma is about human resources. But he should accept the suggestion of setting up an HRD department under a professional manager reporting directly to him. A job-evaluation exercise will bring out the fact that although there are several grades of management staff at BAL, there are only four or five clusters or bands of jobs. Thus, Mehta should agree to reduce the organisational hierarchy to four levels. Simultaneously, he should persuade the collaborator to retain the seven salary grades within the framework of the four levels.

The condition about the reconfiguration of the organisation structure, based on objective measures of work and performance, might lead to disorientation on the part of old-timers. But, in the long-term interest of BAL, Mehta should take a detached view. The fact that these senior managers have contributed to BAL's growth means that they are competent and should, therefore, be given roles that match their competencies.

However, the condition regarding the 30 per cent reduction in manpower seems premature. While agreeing to it in principle, Mehta should convince the collaborator to decide on the number of jobs to be reduced after the job evaluation. He should ensure that the new HRD manager considers redeployment in areas of expansion or designs a voluntary retirement scheme. This is in the long-term interests of BAL, and means taking employees into confidence so as to pre-empt a backlash. And since this is the job of a professional HRD manager, it is another reason why Mehta should hire such a person.

With regard to recruitment, Mehta should suggest the appointment of professionals in different fields like costing, purchase, and quality. It is also necessary to find out the suitability of existing people to move into responsible positions in tune with the changed circumstances. Once Mehta marshals his ideas on the above lines and presents it to Mounsignex, the latter will see merit in his arguments. And that should pave the way for a joint venture.