DEPARTMENT OF HEAVY INDUSTRIES

CHAPTER: IV

Braithwaite and Company Limited

Highlights

The Company invested Rs 1.51 crore for procurement and installation of an Enterprise Resource Planning system with the objective of increasing efficiency in various financial and operational matters and marketing a tailor-made package in the wagon industry. Because of deficiency in monitoring of the process of computerisation, absence of proper documentation and departure of trained employees, the process could not be implemented and the investment did not yield any benefits.

4.1 Injudicious expenditure on procurement and installation of Enterprise Resource Planning package

Braithwaite and Company Limited (Company), a subsidiary of Bharat Bhari Udyog Nigam Limited (BBUNL) is mainly engaged in manufacture of wagons and cranes of various types and their repair and maintenance at its Clive, Angus and Victoria units. The Company was referred to the Bureau of Industrial and Financial Reconstruction (BIFR) in 1992. After financial restructuring, the Company came out of BIFR's purview with effect from June 2006.

The Company initiated (December 1998) a proposal for total computerisation of its activities to effectively address its business requirements. The Company, therefore, proposed to integrate the Payroll system and the Commercial and Purchase, Stores and Inventory, Accounting and Finance and Management Information System at a cost of Rs.76.85 lakh which was approved by the Board on condition that the Company would have to generate its own funds for implementation of the project. The project was scheduled to be completed by September 1999.

In the meantime, BBUNL entered into a MoU in August 1999 with CMC Limited (CMC), the vendor of Baan ERP[*], to prepare a 'Proof of Concept'[*] of Baan software for implementing in the Company. It was stipulated in the MoU that CMC and BBUNL would develop and refine a business model for the wagon and passenger coaches industry. The business model when completed would be the joint property of CMC and BBUNL and the same would be jointly marketed in India and abroad and revenue from any such sale would be distributed between CMC and BBUNL. It was envisaged that the business model would increase the efficiency of the Company in terms of different operational and financial parameters *viz.*, increase in productivity, reduction in inventory holdings, powerful decision

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[*] ***Baan is a popular enterprise resource planning (ERP) software created by Baan Corporation, Netherlands now owned by Infor Global Solutions which integrates various activities of an entity for better resource utilisation.***

[*] ***Proof of Concept is an initial study to prove that the core ideas of the project or proposal are workable and feasible, before going further***

support mechanism *etc.* The package would also be implemented in other group Companies. As against the sanctioned cost of Rs.3.69 crore, the Company incurred (August 2006) an expenditure of Rs.1.51 crore for implementation of Baan ERP in the Company.

Audit scrutiny revealed the following:

(i) Although the project was in the nature of a joint venture between CMC and BBUNL for development of a customised Baan ERP for the wagon industry involving sharing of revenue, there was no sharing of cost for the development of the package. The Company paid Rs.39 lakh towards consultancy charges to CMC although the domain knowledge and business process were provided by them.

The Management stated (November 2006) that the payment of consultancy charges could not be linked to revenue earning which was contingent upon certain things happening. The Management's reply was not tenable because development of the customised Baan ERP was the basic requirement for future generation of revenue. The consultancy charges being a part of the cost of development of prototype should also have been shared.

(ii) The implementation of the ERP system in the Company was to be completed within July 2000 *i.e.*, 11 months from the date of signing of the MOU with CMC. But the proposal for sanctioning of the fund was sent to the Ministry of Heavy Industry only in April 2001 and implementation of the same throughout the Company could not be completed till September 2006. In the mean time, CMC backed out from the venture on completion of four years when the validity of the MOU expired. This left the development and implementation of the package incomplete.

The Management accepted that support as per the MOU had not been provided by the CMC and there were no penalty provisions in the MOU to pursue the matter further, once CMC backed out of the venture.

(iii) During the course of implementation of this project, due to fund crunch, an amount of Rs.75.50 lakh was diverted from other approved Schemes (Rs.71.66 lakh from Dished End Project and Rs.3.84 lakh from Tank Wagon Project) which were part of the BIFR package to revive the Company. This led to delay in completion of those projects and one of the projects, Dished End, was yet to be completed.

The Management accepted the delay.

(iv) There was no IT steering committee and monitoring was not done by the Company to adhere to the various milestones of project implementation. The Company spent Rs.7.50 lakh for imparting training to its personnel in the ERP package. Almost all such trained officials left the Company subsequently causing serious hindrance even in managing the package. Finally the Company had to incur an additional expenditure of Rs.6.25 lakh towards generation of final accounts for the financial year 2002-03 and Rs.2.50 lakh towards training for the new users in January 2005.

Thus, because of delay in monitoring of the computerisation efforts of the Company due to absence of a steering committee, absence of documentation and departure of employees who were trained in computerisation, the Company could not achieve the benefits envisaged from computerisation in the key functional areas. The benefit of a powerful decision making mechanism was also not realised as the overall integration of the functions of different units had not yet been completed. Non implementation of the computerisation that was intended to increase efficiency in financial matters meant that the benefits of the expenditure of Rs.1.51 crore were not obtained.

The Management stated that they planned to complete implementation of ERP in all its units in 2007-08.

The matter was reported to the Ministry in November 2006; reply was awaited (December 2006).