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Electronics Manufacturing, Now Bankrupted

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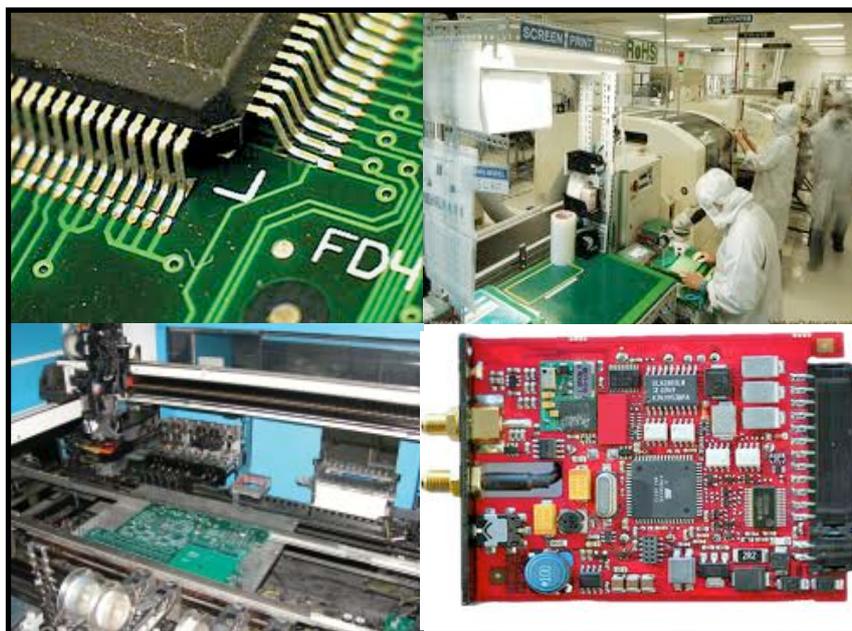
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Appendix E – Business Profile: Electronics Manufacturing

Electronics Manufacturing, Now Bankrupted



Background

History

This BAM business “Company B” began in 2004 after an asset acquisition of an Electronics Manufacturing Services (EMS) firm owned by three separate companies, the largest of which was a well-known Multinational Enterprise (MNE). Company B, located in a major unreached city in China, was a Wholly Owned Foreign Enterprise (WOFE) owned 100 percent by a USA company (CORP). The acquisition of assets also included approximately 140 skilled workers and four key customers, and a rented facility of 3,600 square meters.

For many years the Managing Director looked for a Western technology partner to own a portion of Company B, but was never able to accomplish this goal. The business struggled with rapidly evolving manufacturing technology that could produce circuit boards faster and more economically. Finally after over four years of effort and more than US\$3 million additional capital, the company declared bankruptcy in 2009.

Business focus

Company B provided a high quality and cost effective Surface-Mount Technology (SMT) operation that created printed circuit boards to customer specifications. It was an electronic manufacturing service with value-added engineering. The operation was a lower capacity volume (between 50 to 10,000 boards per month) using 400 parts in up to eight circuit layers. The target customers were the second tier Chinese and MNE Original Equipment Manufacturers (OEM).

Faith background

The MD is not a professionally trained minister, but has a desire to see China reached for Christ. His approach to business is heavily influenced by his beliefs and faith. His objective and purpose was to have a financially sustainable business that would provide a location to introduce Christ to all the workers and others involved with the firm. The main objective was to begin Bible studies and house churches in these factory locations.

The MD operated the company on Biblical principles in dealings with the employees and in its relationships with other stakeholders in the community. The factory workers were provided cafeteria lunch and worked for an average hourly pay and normal hours per Chinese regulations. The factory was closed on Sundays for a day of rest.

The top management team and the MD participated in the BAM initiatives but the missions aspects of the BAM business were accomplished in partnership with other individuals or organizations that took leadership. This allowed the business team to focus independently on successfully operating the company.

Professional background

The MD, a USA businessman, has lived in China for many years. He has been involved in many start-ups and, along with his wife, has a heart for BAM. The MD has extensive business training and experience both in the USA and China.

Strategy and Vision

Purpose

The purpose of the business was:

- To create an additional profitable manufacturing plant as part of the CORP's portfolio in the electronics industry.
- To establish a community of Christ followers near the factory.
- To provide a positive work environment with excellent training programs.

Mission and Values

Mission: "To rapidly bring new world-class products to market by leveraging technology resources in 'Major Unreached City'."

The company's guiding Values were:

- Teamwork
- Integrity
- Accountability and Ownership
- Problem-Solving
- Effectiveness
- Dedication

Business goals and objectives

The business goals and objectives were formalized in writing and tracked monthly. The overall goal of the business was to become a sustainable and profitable business enterprise that reflected Christ to the Chinese community.

The specific *business* objectives were:

- To grow sales double digit per year.
- To have at least 10% net profit.
- To have top quality.
- To be number 1 or 2 in the niche market.
- To innovate and produce new products.
- To have a top trained work force.

The specific *ministry* objectives were:

- To proclaim Christ and convert Chinese in the factory.
- To begin a factory Bible study or house church.
- To provide excellent training.
- To live and exemplify Christ in the local community.

Additional facts and statistics

Company B provided their customers with material purchasing, incoming quality control, SMT assembly, manual assembly, functional testing, cable assembly, burn-in testing, packaging, distribution, and import-export services. Their industry niche was the OEM communication device industry, including cell phones circuitry, blue-tooth, wireless routers and PCMCIA wireless cards. The initial capital to purchase this company was less than US \$1 million.

The company struggled from the first year of operations because the for key customers had begun to move to other providers because of their fear of the unknown with the sale of the company. As part of normal acquisition processes, the MD evaluated the workers and released about 60 workers. In subsequent years, Company B experienced strong price competition and lost sales to the original customers. During the following years, the MD continued to look for a technology partner to share ownership but without any success. The number of employees at peak levels was about 120, with about 20 percent devoted to management or technical roles. The production workers were typically highly educated and about 50 percent men and 50 percent women.

The business was never healthy because of stiff price competition. There were no industrial secrets and local well capitalized Chinese businesses could purchase newer and faster equipment and severely cut costs by almost 80 percent.

Company B continued to need more money for new equipment to compete. After more than UA\$3 million in additional funds, the MD decided it was time to close operations through bankruptcy in 2009. The bankruptcy process in China was difficult and took over two years to complete. The landlord locked the building and confiscated the machinery. Legal fees and return of funds to some customers continued to drain the funds of CORP.

Some of the workers and managers were hired at other CORP subsidiaries. Some of the relationships that had been made suffered as a consequence of the bankruptcy.

BAM Experiences

During the 5 years of operations, the General Manager (GM), a Christian trained in business in the West with 10 years of business experience, went through a six month mentorship with the MD. The GM was paid wages and bonuses based on achieving annual targets from the company.

The business and factory operations never used charitable donations or voluntary work. The discipleship programs at this company were either subsidized with a small stipend from operations or were a 100 percent volunteer efforts by individuals from para-Christian organizations (not mission agencies).

Success was defined by the business stakeholders as a profitable and thus sustainable enterprise which would provide a product for the Chinese market. The spiritual success was measured by successful Bible studies and many new converts.

Although Company B was not very successful financially, many of the ministry purposes and objectives were accomplished in the five short years of operations. Local Chinese workers became followers of Christ with multiple successful weekly Bible studies at the factory. A house church was also started.

One of the highlights of this BAM enterprise was that the factory employees were positively impacted by the work conditions and employment practices.

Lessons learned

Even when there is spiritual fruit, BAM enterprises must also financially succeed to be sustainable. Capital funds and industrial technology are keys to a successful BAM start-up.

The key *business* findings were:

- Must have a USA or Western technology and capital partner (shareholder).
- Dynamic technological environment obsoleted manufacturing equipment quickly.
- Lack of industrial or other trade secrets to the manufacturing processes meant low entry barriers.
- High quality circuit boards became a commodity that was subject to tremendous price pressures.
- Success in a highly dynamic technological environment is difficult to sustain.
- MD needed to decide more quickly to stop investment, but this was difficult because the company was always “about to turn the corner” and make a profit.

The key *spiritual* findings were:

- Opportunities for witnessing and living Christ were abundant because of the marketplace setting.
- Positive opportunities for community involvement because of the business operations.
- Multiple Bible studies and a house church were successful.

Recommendations

Future BAM start-ups in China should consider joint ownerships with other established companies for capital and technological expertise. The BAM owner needs to be willing to stop or go into bankruptcy sooner rather than later.

Research:

Interviewee: Company founder and Managing Director (MD)

Interviewer: Daniel Sterkenburg, Associate Professor of Business, Cedarville University