

## **The Business Plan**

Following the review of industrial relations J Franklin, MD of Burke Engineering, decides on immediate action. As the MD, you set about improving company policies at once. You are determined to reform formal communications between yourself and the unions now. You take more time in order to walk through the factory each morning to speak to individual employees. You decide to set clearly defined job descriptions for the workforce ensuring that shift work changes are kept to a minimum and that those concerned are informed of alterations as soon as possible. You also set about seeking swift improvements to company disciplinary codes.

At the same time, measures are taken for better safety. You institute fortnightly meetings for each unit, within the company, to discuss working problems and practices. A review of the appraisal system begins. You make an interim award of increased pay to the shop-floor, but make plain that a major restructuring of the company will occur and future employment and wage levels will be affected by this. The need for restructuring involves analysis of all areas of Burke Engineering. This must be completed before you will be able to take any decisions on the working environment and the introduction of new technology.

By this stage, you have a lengthy document containing the detailed information needed to develop the new business plan which the local investors had appointed you to create and implement. You start with the company's past. Burke Engineering was one of the many firms that developed from the engineering demands of the First World War. Thomas Burke, the founder, was a Scots engineer who had trained with Villiers, the pre eminent producer of submarines and marine products.

The company initially specialised in small diving bells, and other specialist marine applications. The depression of the 1930s ended this work and the company diversified into general engineering, producing tailored made piping and valve systems for applications where great extremes of pressure and temperature were required. Because the company had become more involved in engineering projects, the founder had bought 10 hectares of derelict land on the outskirts of Meeds and had moved the works to this new location. Thomas Burke had always emphasised the importance of engineering and, up to the 1980s, the company only appointed engineers to senior positions.

During the Second World War, Burke reverted to submersible design and development and had an important role in the production of mini submarines, including those involved in the raid on the Tirpitz and Italian harbours in the early 1940s.

### **Burke Engineering and The Submersible Market**

After the Second World War demand for the company's expertise continued, both at home and overseas, but especially in the development of the new oil fields in the Middle East. The company was also involved in the steady growth of commercial diving, mainly on wrecks, but also in construction projects such as bridges and harbours. Post war growth of the chemical industry also created opportunities for Burke, both at home and overseas.

However, most overseas activity concentrated on historical United Kingdom markets: Third World countries of the Commonwealth and the Middle East. There was little attempt to develop markets in the growing Pacific basin, North America or Europe. The development of the North Sea gave a major boost to Burke Engineering. Once again, demand came for its submersible technology and sales steadily grew to an expanding UK market. In the last

5 years, there had been substantial changes in the market. These are shown in Tables 1 and 2 of Appendix A.

The first major change was that submersible technology was becoming more sophisticated and demanding. It was no longer possible for solid engineering to compete with companies that could provide the sophisticated technology that could operate at depth. For the market had changed. First, the easier sites had been worked out and exploration companies were entering deeper and deeper waters. Secondly, the scope of undersea work had changed as mineral exploration, communication systems and research became important elements in the use of undersea submersibles. All these required much greater design flexibility which Burke could barely provide. As a result, in the submersible market, the company was generally considered as a subcontractor, and only as lead contractor in supplying newly industrialising countries (see Tables 3, 6, 7 of Appendix A).

These pressures had the inevitable consequence on profitability from this section of the business. Burke, because of its historic position in the market, was still well known by the 500 or so customers, throughout the world, who were involved in undersea exploration and commercial exploitation. The company was still automatically asked to quote for relevant work.

This market position was strengthened by its presence at the key exhibitions, of which the Northern Diving Exhibition was the most important in the UK. Though there were handsome profits at the sophisticated end of the submersible market sector, subcontracting had steadily become less and less profitable. Burke had concentrated on servicing the developing world where customers still preferred the complete systems that the company manufactured.

### **Burke Engineering and the Valve Market**

Fortunately, as the submersible work declined, the company's general engineering and valve production work increased. Chemical plants, operating at higher temperatures and pressures, were producing more toxic and corrosive substances which required robust systems that could cope with such extremes. There were similar problems in nuclear power, and its popularity had proved a valuable additional market for Burke products.

By the time that you were appointed MD, Burke was experiencing problems with the valve market. Though it also continued to grow overall, and show considerable increases in profitability for those companies that could match the growing market demands, other companies were suffering from a combination of factors.

The first was that the type of valves demanded had started to change. With the increasing sophistication of the production processes, manufacturers began to require valves that could be opened or closed under central control, or motorised valves. As microprocessor technology became cheaper and easier to install, more sophisticated manufacturers offered 'smart' valves. These could sense changes in concentration and activity in the piping system, and take the appropriate action to control the process. The market was, as a result, changing rapidly towards more sophisticated products. The market trends over the last 5 years is in Table 2 in Appendix A.

The advent of expert systems, the concentration in each industrial sector, and the worries about safety following such accidents as that at Union Carbide, in Bhopal in India, were likely to speed up the market growth of such products. The most rapid application of such

systems were in the most developed economies: West Germany, Switzerland and Japan. UK manufacturers were much slower in appreciating the advantages of such systems, so the market was far smaller than in nearby continental Europe. Companies using such valves found that though they were individually far more expensive than the traditional type, they needed fewer of them, and they could achieve more cost efficient management of the production process.

As a result, this trend in valve engineering looked set to continue. Burke Engineering's approach to this market had been haphazard. Though there were an estimated 12,500 companies or 'buying' points in the market for tailor made products; and a much larger number for standard valves from specialist industrial wholesalers (of which there were an estimated 400 in the industrialised world).

Profit margins for products sold through such outlets were, as might be expected, significantly lower than for the more sophisticated products, and were generally only viable for companies with high levels of capital investment in automated production processes. The average 'smart' valve sold for around €3,000; the motorised valve for around €1,500, and the traditional valve from €12 for the smallest, to €400 for the largest. Promotion in this market was largely by advertisements in relevant technical publications, and employing a highly skilled and technically qualified sales force to service customer requirements for products built to exact specifications. Sales through the wholesalers were dominated by those large companies that could achieve economies of scale through high volume production of a small number of standard valves.

### **Burke Engineering and General Engineering**

The third market in which Burke operated was general engineering and contracting. Most of this was for the local water authorities, and involved small scale construction of pumping stations, water and sewage works. Most of this work was carried out by construction companies, but Burke acted as a subcontractor in manufacturing valves and pipes for particular applications. Investment in water infrastructure had declined throughout the United Kingdom following restrictions on government grants both at local and national level.

With new European Community directives on water quality, such expenditure was bound to rise as the water companies moved from public to private ownership. It was, however, unlikely that this would significantly increase the amount of business for Burke, as the construction companies became steadily more engineering orientated and carried out a greater proportion of work within the company. However, specialist valve manufacturers would inevitably see a substantial increase in the level of demand in the short term, and it was possible that Burke could benefit from such developments.

There were no available estimates for the volume of such general engineering work either in the United Kingdom or overseas. All the evidence tended to support the view that major companies were gaining a greater share of business, and that though the market was profitable for these companies, it was becoming increasingly less so for the subcontractors, a similar position to the submersible sector.

### **Competitive Environment - the Submersible Sector**

Three main types of company operated in the submersible sector. Submarine manufacturers were major competitors within their own national markets but, because of

the sensitivity of the technology, they were not generally encouraged to push for export business other than defence interests. Then there were the large engineering companies with substantial marine interests.

Electronics and aerospace contractors had, for example, found that their technology could be transferred to undersea operations. The percentage of this business from marine operations tended to be small, but because these companies had a high level of technical sophistication and good financial resources they were becoming an increasingly important force in the market. Typically, these companies were capitalised at over €1 billion. It was usually for these companies that Burke engineering would subcontract, producing the hull or shell to be filled with the higher added value electronics or hydraulics by the lead company. Finally, there were marine specialists, like Burke, that had specialised in particular areas of marine engineering.

Research and development, especially in materials technology, was becoming more and more important to stay ahead of the market. The large companies spent around 8 per cent of their turnover to develop new lighter but stronger materials that would be more resistant to corrosion. Burke had carried out a straw poll of its customers and had found the company status to be slipping in an area which had historically been so important to the company. The results are in Appendix A, Table 3. It would apparently become more and more difficult for the company to establish and further develop a competitive edge in this particular market.

### **Competitive Environment - the Valve Sector**

The valve market, was by contrast far more segmented. Though large multinationals had subsidiaries that produced valves, their overall share of the market was small, and valve manufacture had remained the preserve of small to medium sized specialists throughout the world. Over the last 5 years, Scandinavian and German companies had tended to steadily gain market share and had recently won a number of orders that Burke would have been certain of winning in the past.

The reasons for this change in market share were:

- a) far greater attention to the customers requirements. German and Scandinavian firms tended to employ a much more highly skilled technical sales force than their competitors.
- b) More sophisticated designs and more flexible products. The equipment installed in German and Scandinavian factories was capable of far greater range of materials and designs. They were always first in the market to offer new materials and concepts.
- c) Much greater attention to delivery schedules and timing of contracts.
- d) Greater support in installation and maintenance.

Pricing was not considered to be an important factor. General trade opinion was that the valve market was not particularly price sensitive and that other product benefits were far more important. Because Burke Engineering had failed to meet the new competitive standards it had experienced significant problems in establishing an international presence in the valve industry, even though the quality of its work was considered to be superior to that of the competition, as Table 4 in Appendix A demonstrates.

Promotion in the valve market concentrated on direct contact with potential buyers, but also involved substantial expenditure in international exhibitions and the relevant technical magazines. Companies, comparable in size to Burke in Europe, were spending anything between € 300,000 to € 500,000 on such promotional activity. In the current year, Burke

forecasted expenditure of € 45,000 on attending two exhibitions to promote their valve.

The level of research and development expenditure was also becoming an important factor in the increasing international strength of West German firms. These companies estimated that they needed to spend around 5 per cent of annual turnover on research and development to remain competitive. The comparable estimate for Burke Engineering was 0.5 per cent or € 90,000 for the current financial year.

### **Competitive Environment - the General Engineering Sector**

In the general engineering market, the company lacked the resources of many of its major competitors. Often, it had to compete on price, even though the quality of its work was still well considered. It was likely that this competitive pressure would become increasingly strong as barriers to European firms supplying in this sector were progressively lowered under the Single European Act.

This would also mean that price elasticities would become more severe than they already were. The company achieved its highest rating in the general engineering sector of all the sectors in which it operated, in the poll that it had carried out with its major customers as Table 5 in Appendix A demonstrates. However, it should be noted that all these customers were from the UK, in contrast to the other two sectors where the majority of clients were international.

### **Product Resources**

The main sources of turnover and profitability for Burke are listed in Table 6 in Appendix A. Undersea work had declined as a percentage of total turnover over the last 5 years, whereas there had been a substantial increase in the contribution of valves and general engineering. The submersible sector had failed to keep pace with inflation, and margins had also greatly suffered.

This had been the main contribution to the steady overall erosion in profitability. An additional factor in the declining profitability was the problems that the company had in operating in the UK, the Far East and Americas, areas which produced low profits. This is shown in Table 7 in Appendix A. The company was also highly dependent on government related work, as indicated in Table 8 in Appendix A, which continued to be less profitable than other sectors. The emphasis on government work meant that much of the revenue came from a very small number of major clients as Table 9 in Appendix A indicates.

### **Pricing**

Burke Engineering faced continual problems with the pricing and control of its contracts, particularly overseas. The initial design work included a detailed costing. However, the company always encountered problems with such costings and had developed the policy of adding an additional 30 per cent over the official costing to allow for such complications. On top of this costing, the company added its standard margin, which then became the minimum price at which the contract could in theory be accepted.

Recent experience with overseas contracts, especially large ones, had been that the contract price tended to be negotiated downwards to allow higher commission payments. This was a particular problem with large submersible contracts, and the company had far fewer difficulties in the sale of valves, and general engineering. The result had been that

the company had seen the average price of its submersible orders drop over the last 5 years, while prices for valves and general engineering had risen, though general engineering remained more competitive than the valve sector on price. The trends in the three areas are in Table 10 in Appendix A.

With the growth in foreign business, Burke had become increasingly vulnerable to foreign exchange movements. Most Third World contracts were quoted in dollars and this had meant that the company had had to cope with the increasingly volatile exchange rate. Burke had encountered additional problems with such orders during the last 5 years, as 3 contracts had been cancelled at a late stage, involving substantial write-offs.

Work had to be quoted in the relevant currency for European customers, with the added complication of providing CIF (carriage insurance and freight) prices to the overseas port of destination. The failure of Burke to accurately cost freight and other elements in such pricing had been another worry in many of these contracts. However, such European customers had not caused significant payment problems: a major issue with submersible contracts with certain non European clients. A further problem that the firm had encountered during the past five years had been the continually changing prices of raw materials.

The company had tended to buy large quantities of raw materials, especially metals, at the top of the market, with the result that the costs of the finished product had been considerably higher than would have been the case if a more effective buying policy was in place. Recently, the company had moved to a policy of spot purchases because of cash constraints. With fluctuating metal prices this had also reduced margins on many of the long term contracts in which substantial quantities of metal were involved, particularly in submersible production.

## **Personnel and Production Resources**

You have completed separate analyses for the various areas of the company. This has taken the form of commenting on each area of company activity itemising the staff skills in each sector, their cost to the company (including wages and all other costs per annum), and the floor space that they occupied. These details are in Table 11 in Appendix A. You have also prepared a separate chart identifying the management staff reporting to each of the various directors and their level of expertise. This is included as Table 12 in Appendix A.

**Design.** At Burke Engineering, the production process involved Marketing and Sales providing the Technical Director and his staff with a series of technical specifications from the customer for particular applications. Then, the Technical Director asked his design team to translate these requirements into specific designs. Costing would be handled by the Production and Finance Departments, and then passed back to the Sales (and Marketing department for final verification and contact with the customer. All designs were produced manually and had to undergo a rigorous period of checking by management before they could be approved.

The average time for creating a drawing could vary from a basic 7 days for the most simple operation to around 20 for the most complex, which would involve a number of staff. Burke's main competitors in its areas of operation had now installed computer aided design systems. You realise that the company has become increasingly un-competitive in this area. The Technical Drawing Office was in the factory complex, whereas the Product

Development and Technical Management were both in the administration block.

The current Drawing Department employed 15 personnel occupying 250 square metres which cost the company approximately € 25,000 a year in fixed costs (wages and other overheads). The Technical Department had the responsibility of producing new products and developing new materials for Burke Engineering clients. Their record in 4 years since the department had been established had been poor, and they had been drafted in to act as progress chasers for many production problems.

Research. The Research Department was limited in the way they searched for new ideas and, in the equipment that they had available to test new materials and develop new products. The result was that though they were relatively highly skilled, as shown in Table 11 in Appendix A, they had not been effectively utilised.

Production. The designs would be transferred to the tool room, which reported to the Production Director, where the moulds would be manufactured using traditional, manually controlled cutting equipment. The Production Department, in common with others in Burke Engineering, operated a standard 8 hour day with any additional work being covered by overtime. The average overtime worked over the past 3 years was 40 minutes per day, but there were substantial fluctuations to this figure. There was no weekend working, and the factory closed for 2 weeks in August for the summer holidays.

The company was operating significantly under capacity. The minimum time that it took Burke Engineering to complete a mould using basic cutting equipment which had been installed over 15 years ago, was 15 working days, but the average length of mould production was around 25 days and was considerably longer for complex designs. You are aware that other companies have either installed computer aided cutting devices themselves or are increasingly turning to outside specialists to complete such work at lower cost, to higher specification, and within shorter time periods.

At the end of the mould cutting process, there was a detailed inspection to identify those moulds that were sub standard. Failure rates had increased over the last 3 years until the most recent figures indicated a 20 percent failure rate. The finished moulds would be transferred to the foundry which cast them in the relevant material. The foundry had been installed around 5 years ago and was one of the most up to date items of equipment that the production plant had, enabling a whole range of materials to be used. It was, however, slightly limited in the size of item that could be produced. The cooled chunk of metal would then be moved to the machining area where the necessary work would be completed before the addition of other components in the final assembly phase.

There was a considerable amount of sub-assembly work to complete components, a tradition which the original founder of Burke had insisted upon to ensure high quality work. Much of this had now become repetitive and was all very time consuming.

Both machining and final assembly areas still relied heavily on 10 year old equipment, and you are aware that other companies have installed more and more sophisticated flexible manufacturing systems that have substantially increased productivity and improved quality. The completed unit would move to final inspection where they would be tested prior to despatch.

Most of the assembly work was carried out manually and required a high level of skilled staff. Because of the great variety of work in which Burke had historically been involved,

staff continually shifted their work from one area to another and this posed problems for the development of a specialised workforce. There was a growing problem of quality control largely a result of the poor state of the plant, little of which had been replaced over the past few years. The company had not attempted to work towards ISO 9000 or the newer ISO 14000, even though customers now required such certification in some areas. The company had not considered the exercise "worthwhile".

Even though a full time maintenance crew of four worked as hard as possible, equipment breakdowns were commonplace. The average age of the production equipment was over 10 years, and spare parts were becoming more and more difficult to find. You are also aware of continual conflicts between departments concerning production scheduling. Though there are weekly meetings of the works management committee there appeared to be no attempt to effectively plan the schedules. As a result a considerable amount of shop-floor time was wasted. In other companies, where you have worked, there is an increasing reliance on computer systems to determine production timing and to achieve effective coordination with other departments.

The production plant had grown up over the years, with a number of ill coordinated and aging buildings separated by piles of old production equipment and rusting obsolescent stock. The industrial relations project reveals problems with noise, temperature, dampness and other poor working conditions in the company. Material was moved between the various areas by a combination of manually operated trolleys and fork lift trucks, which employed three warehouse staff. You are already aware that the decrepit state of the buildings is causing employee dissatisfaction. You have already been involved in dealing with a number of serious complaints from the two unions in the plant.

The company has to be prepared to make a substantial investment to create an effective working environment. The details of the staff that are employed in the various areas are included in Table 11 in Appendix A together with other fixed costs of the departments in which they worked.

Distribution. Next to the production complex, but separated by a windy and frequently wet 50 yards of crumbling concrete, was the warehouse which contained the raw materials, components and finished stock of all Burke Engineering products. Historically, the company had maintained high stocks of most raw materials, because they had found it difficult to get material of sufficient quality, though this policy had recently changed (see above).

Raw material stock still however comprised around 40 per cent of the total inventory figure in the accounts. During the past 3 years, this supply problem had eased, and such high stocks appeared to you to be no longer necessary. The second stock problem was the high level of components, which made up around 25 per cent of the total stock value. Many of these components had been held for many years against orders that never materialised, and could for the most part be termed obsolescent, though they were included in the accounts at their purchase price. The current value was difficult to ascertain. Over the past 6 months the level of finished stock had risen considerably and this explained the difference between the figures in the two sets of annual accounts.

The warehouse, occupying 8000 square metres, was built over 20 years ago. The internal layout had not been re-organised within the last 10 years. The northern end of the depot was for bulk storage, with a range of racking systems elsewhere to hold finished stock. Currently all stock control was carried out manually, as was most internal movement within

the warehouse.

You know of considerable advances in technology which could both improve the physical movement of goods within the warehouse and the way in which the stocks are controlled. Twelve staff were currently employed within the warehouse. Three were used for internal transfer of goods between the various areas of the production plant.

## **Distribution**

Burke Engineering owned a fleet of six trucks, two large and four medium sized, which were used to deliver the completed orders from warehouse to customer or to the docks. All of these vehicles were more than 6 years old and had a high level of breakdowns.

The drivers averaged two accidents a year each, and insurance costs had risen steadily as a result. Though there were fluctuations in demand, it was rare that all lorries and drivers were out of the factory at the same time. You found that on average only three out of the eight were on the road at any one time, and that the length of journeys had steadily diminished over the past three years. Because there were a variety of delivery tasks, the available vehicles were often not suitable. Often large vehicles were carrying small loads. The information that you are collecting on distribution costs suggests that the company was losing considerable amounts of money in this area.

## **Administration**

Separated from the production area by a large car park was the administration block, built 5 years previously on two floors, occupying a total of 1000 square metres. It contained the Finance, Marketing and Sales departments together with the directors' offices and secretarial services. The Finance Department of 32 included the data processing unit, and the company computer. This had been installed 4 years previously, initially for payroll management. It now carried out some of the other accounts functions, though inventory control, order processing, and accounts payable were still manually produced.

The main reason for this slow conversion of accounts systems to the computer appeared to be a combination of inertia and lack of computing expertise within the department. The Data Processing manager had made detailed recommendations concerning future progress, few of which had been effectively implemented. The accounts department prepared a monthly management statement which was circulated to the board and to outside shareholders.

This remained the only regular and consistent management information that had been available before your re-evaluation of the information needs of the company. Also reporting to the Financial Director were the Transport manager (with responsibility for the company cars and other vehicles), the Company secretary, and the Security manager. The secretarial pool was housed next to the Finance Department. All senior managers (those earning in excess of €40,000) were entitled to a secretary, with others using a secretarial pool. All secretaries had electric typewriters. Only two had any word processing experience. None of the current management with the exception of some of the sales staff, the project managers in the technical department, the data processing manager (who has resigned since your arrival at the company) and most of the technical support engineers had any computing expertise. Little attempt had been made to provide training in the development of computer skills.

The Marketing and Sales Department was also housed in the administration block. It was mostly sales orientated. The five sales managers were often away from the office, as were the five technical support engineers, who were responsible for all installation work. During the past 3 years, the expense bills of the Marketing Department had tripled from €35,000 to €100,000 per annum. This was claimed to result from greater activity and overseas travel. There was little effective product marketing occurring, with the marketing manager mainly concerned with the production of sales literature and the organisation of exhibitions. There had been little effective marketing information available to the company until your re organisation, with the information assistant mainly involved in maintaining records of tenders and contract availability throughout the world.

The Technical Director and some his staff were also housed in the administration block, separated from the Drawing Department in the factory. Two project managers had been recruited during the past 3 years to help Burke develop new products, but most of their time, and the time of others in the department, was concerned with the coordination of the activities of Marketing, Production and Finance departments to ensure that all production schedules were met. The Technical Department as a result has not had a good record in the introduction of new products. Though there has been some work done towards the development of a motorised valve, and a submersible with retractable arms, no functioning products had yet been introduced into the market.

You are also aware that there is considerable friction between the Technical Department and other areas within the factory, because of a lack of clear objectives and direction. The administration block also housed the Office Manager, who was responsible for a whole range of tasks none of which had been clearly defined.

The factory canteens were on the ground floor and basement of the administration block. There were three dining areas; one for the directors which employed two staff, one for management employing three (the chef was shared with the director's dining room) and one for the remaining staff which employed four. There was a canteen manager who organised the menus and the purchasing for all canteen operations. These canteens provided heavily subsidised meals, which added a further €150,000 to the total wage bill. With the directors' salaries, and other benefits, the total management wage bill was €1,400,000 approximately €100,000 of which was non travel expense claims. The level of management expenses had increased threefold over the last 3 years. All managers were entitled to 5 weeks paid holiday a year. Management had access to the staff social club in the canteen which provided low cost drinks at the end of work.

## **Structure**

Burke Engineering had a rigidly centralised departmental structure, based on a functional division of authority and responsibility. Directors had the final authority for expenditure of any sum over €100, and had to agree to all recruitment.

All requests for liaison with other departments had to pass through the directors. The structure had been slightly modified over the past 4 years with the creation of Technical and Marketing departments. Within each department, there were a large number of managers. Over the last 7 years, non board management numbers had increased from 20 to 36. It had been company policy to promote long serving staff into management positions, and this is reflected in the analysis of skills, age, position and current salary which is provided in Table 12 in Appendix A. Company policy had been to replace supervisory staff with management wherever possible, with the result that management

were closely involved in all the minutiae of production and administration.

There were very low levels of turnover in management, typically around 4 per cent, per annum, in contrast to the other areas of the company, where turnover was in the region of 20 per cent. Management costs had risen by 6 per cent above inflation for each of the last 6 years, in contrast to the workforce, something that you have taken into consideration in formulating a new industrial relations policy.

## **Systems**

Burke Engineering had had no major overhaul of its systems in the last 5 years. It had made little progress towards a centralised information system. There was no established communication policy within the firm to develop new ideas and keep the company informed of progress and new developments. It had followed government legislation in issuing job descriptions to all employees, but these had become increasingly out of date, as they had not been reviewed for the past 6 years. There was little personnel direction, which meant that the other components of management control had become increasingly confused. The company had no formal methods of negotiating with the unions, and had no laid down policy with respect to either the employment of minority groups or the disabled.

The company paid management well in relation to others in the area, with the base of each grade being around 20 per cent higher than the average for similar management positions. There was a fragmentary bonus system in operation for management, even though the current shareholders had indicated their willingness to issue shares as part of a changed compensation package. Bonuses were awarded in a fairly erratic fashion as an examination of the appraisals in Appendix B reveals. There appears to be little logic to the level of bonus awarded, though length of service has some effect. The benefit package for managers had been recently extended to include private health insurance and there was the intention to make company cars available to all managers earning above €30,000 rather than restricting them, as at present, to directors and those with sales and marketing responsibilities only.

There was no formal recruitment policy. Managers used a local recruitment agency to handle all the initial work and to present a short list of applicants with a recommendation which was normally followed. The company carried out very little training. The local government training office occasionally arranged courses for engineering workers and these were irregularly attended. Burke Engineering had been a most active supporter of the Youth Training Scheme. This provided them with around 20 low cost staff each year, which would be replaced at the end of the training scheme. You estimate that the average amount of training that each manager had received over the past 4 years was around three days in total, and most of this had appeared to be wasted. You know that competitive companies are spending considerably greater resources on training, with the industry average around 5 days per manager in the UK but nearly 10 in Germany and Japan.

The company had started an appraisal system following the visit of the previous Managing Director to a business conference. This system provided information about management shortcomings and successes but was not used in a consistent fashion.

It provided the basic information about all management in Appendix B. The appraisal system had not been extended to the shop-floor, and managers were individually responsible for grading staff within their departments. You think that this often bears little relation to the individual's value to the organisation.

The rigid divisions within the company meant few discussions apart from the works management committee which involved the workforce directly. You know that your competitors are steadily introducing more and more employee participation to improve quality and involvement of the workforce. There were no consistent standards concerning discipline in Burke Engineering.

Absenteeism has risen over the last 10 years, mostly claimed as sickness. This was a common problem throughout the area. Mondays were the worst, with absence during the last year running at over 8 per cent, with an average of 4 per cent of the working week. This was considerably in excess of the regional average approaching 2 per cent. The company had also seen the number of appeals steadily increase over the last 5 years, from 22 to 61. The most marked increases had been in disputes over wages, grading, (contributing over 50 per cent), time keeping and sick pay. In general you are aware that the company is suffering from increasing fragmentation.

Different managers treat their staff in very different ways, some insist on strict time keeping, whereas others are far more relaxed. Attitudes towards sickness and other absence requirements also varies enormously. You are concerned that the company has no common values whatsoever.

## **Finances**

The Finance Department has prepared a set of accounts comparing last year and what is likely to be the position in the current financial year. These are included in the balance sheet in Table 13 in Appendix A. You are particularly worried about some of the trends that the accounts show, with the company in an increasingly precarious position. However, the freehold site underpins the prospects for the company as the valuation in the accounts is both out of date, and based purely on the assumption that the site could only be used for manufacturing purposes. You are fully aware that land in the area is increasingly being turned over to retail uses and other forms of distribution.

Should planning permission be obtainable, and this on first inspection does not appear to be a major problem, the company is in a stronger position than might otherwise appear to be the case.

## **Action**

How should you as J Franklin approach the problem of deciding on the future of Burke Engineering? It is your responsibility to plan for the future. Should Burke stay in the sectors it is currently in? Should it concentrate its activities? How quickly should it change? What are the most important factors in deciding whether such a proposed change is realistic or not?