

Crisis or Contingency Planning

As the MD of Burke Engineering, you have become very concerned about certain safety and control issues which you became aware of soon after your arrival. Though the direction of the business has become much clearer during the preparation of the business plan, with the decision to concentrate on the valve sector, there are still many problems that the company may have to face. You have some idea about what these issues may be. You are reviewing a series of documents, some of which you have requested, so that you can make some decisions on which aspects of the business should be subject to special fall back planning.

Item one

From A Siddiqui, Finance Director, to Managing Director

Controls on overdue accounts. We do not at present set formal limits on the amount of credit provided for particular customers. Landers and Belinski always considered that this would put too much of a restraint on the effective development of overseas business most of which is, as you are aware, with foreign governments.

Item two

From Belinski to Managing Director

Dutch competition. It now appears that Sonoven, a subsidiary of a leading engineering company, has started to sell sophisticated valves. Though they have been showing these at the main trade shows in Europe, our sales staff have not considered it important over the last 18 months. I agree that this may affect our plans to exploit the Dutch market.

Item three

From Phelan, Technical Director, to Managing Director

EEC Directives. We do not have a formal system for reviewing the EEC regulations. All our staff are aware of changes in the design demands in Europe.

Item four

From J Porter, Office Manager, to Managing Director

Shop-floor dissatisfaction. We have no method of formally recording shop-floor views. We generally cover these issues at the production meeting where we discuss, with Hunion representatives, all the outstanding matters. These meetings are held normally every week, though they have been a bit erratic recently. This has been further complicated by the changes that have taken place amongst union representatives, with two changes in the last 6 months for the AEU and one for ASTMS.

Item five

From Siddiqui to Managing Director

Recruitment authority. We do not have an immediate replacement for our data processing manager who has just resigned. I would like your authority to contact Stafforce, our recruitment agency, to advertise. This matter is urgent as there is no one in the department with the necessary level of expertise to handle the complex programme that we have developed for staff wages. We did not consider it necessary to formally appoint a deputy, because of the costs involved.

Item six

From Siddiqui, Finance Director, to Managing Director

Export Credits Guarantee. I have reviewed our insurance for export orders and the situation is that the percentage of orders covered by insurance has declined over the past 3 years. Three years ago we insured 88 per cent of total export orders; by last year this had declined to 69 per cent. The responsibility for ensuring that insurance cover is maintained is with Sales and Marketing. What action should be taken?

Item seven

From Julian, Peer Insurance, to Porter, Burke Engineering

Company Insurance. Thank you for your remittance which has ensured that the company now has maintained its basic insurance, as required under the relevant legislation for employee liability. I enclose the certificate. You also asked what the company had insured for loss of business or value of buildings and plant in the case of damage or malicious action. According to our records, Burke Engineering has maintained the total cover (excluding stock) of €2.5 million. The company has never insured against loss of stock or theft.

I feel, and I am sure that you agree, that these sums are inadequate in the light of the substantial increase in costs since the insurance levels were established over 10 years ago. We would of course be delighted to reappraise the level of insurance that would be appropriate for Burke Engineering. This would involve a visit from one of our expert surveyors, and we would hope to be able to give you a detailed quote within 72 hours of this appointment.

Item eight

From S Mclennan, Saracen Security, to Office Manager

Security. Following our exploratory visit to your company, there are major problems which need detailed investigation and assessment.

The main issues are:

1. The lack of a perimeter fence gives both employees and outsiders substantial access to the site.
2. The number of entry points in the plant, each of which has inadequate supervision and control, further complicates the problem of maintaining a secure site.
3. There are no early warning mechanisms for either fire or smoke in the main areas of production and storage.
4. There is limited control over the invoicing and payment of accounts which may cause the system to be open (to abuse).
5. The computer records system is in our opinion highly vulnerable to fire damage or other interference. There may be other areas of concern that would become apparent after a detailed investigation of premises and business practice.
6. The entire research and development department remains unlocked and open to outsiders. There is no central registry of files either here or in any other area of the company where information of potential commercial value is kept.

Should you wish us to continue to progress the matter, we would be happy to provide you with a detailed quotation broken down by area.

Item nine

From J Porter, Office Manager to Managing Director

Fire Drills/Structured maintenance. According to our records, we have had no fire drill in the last 3 years, though I have made repeated requests that one should be carried out. This is contrary to the local fire regulations and we would face prosecution should a fire break out and injury be caused. There is a similar lack of regular inspection of the lathes and other cutting equipment to ensure that guards are properly installed and fully functional. There is no structured programme for either equipment or building maintenance; repairs are carried out when and where necessary. As you are already aware this has meant a number of problems in the older part of the factory. We certainly meet the current regulations on the installation of fire doors and controls in areas of the factory where there is excessive heat, such as in the foundry.

Item ten

From A Wellie, Security, to Managing Director

Theft. The results of the investigation that you requested into the amount of company property, lost through theft over the last 3 years, are still not complete. This is largely because of the shortage of records in a number of key areas, with no available records kept in either production or warehousing. In the office block, reported thefts have increased over the past 3 years. The value of such thefts has increased from around €2,000, 3 years ago, to around €10,000 last year, and the total number of reported incidents have increased sevenfold.

Item eleven

From Belinski, Sales and Marketing, to Managing Director

Short term forecasts. You are right in your assertion that no short term forecasts are incorporated in the management report. Because of the very individual nature of the business in which we are involved, the previous managing director decided that we should not attempt to create controls of this type as they would, in his view, be counterproductive and worthless diverting staff from more essential tasks, such as selling or producing.

Item twelve

From A Siddiqui, Finance Director, to Managing Director

Finance costs. We have never attempted to identify the likely effects of changing interest rates on profitability, and we have never looked at alternative financing arrangements other than overdraft for our short term debt. Our current costing system does not allow us to identify likely problems in short term changes in raw material costs; the current policy is to calculate standard production costs every 6 months. We rely on our reports from the bank for forecasting foreign exchange movements.

Item thirteen

From J Malran, Production Manager, to MD

Changes in energy costs and energy efficiency. We have no procedure for reviewing the effects of energy costs on production. Because of the wide range of projects in which we are involved, the old MD thought that such review mechanisms would be inappropriate.

Item fourteen

From J Porter, Office Manager, to Managing Director

Company policy statements/office heating/first aid.

There are no existing company policy statements on health and safety at work, discipline, or appeals procedure. There is an informal group which meets every month in my office, and this is the main route for complaints from the shopfloor, apart from specific production issues which are raised at the weekly meeting by the union representatives. We have some fans which are held in number 3 toolshed should the heat in the main factory areas go above the legal limit. However, there is no central method of monitoring temperature levels anywhere in the factory. Heating is achieved by old electrical radiant fires which are plugged in close to the working areas to raise the temperature during the winter. These are very expensive to run. We have currently no individuals skilled in first aid except myself. There is no official first aid post in the building, though I have continued to carry out some first aid from my office on a purely ad hoc basis.

Item fifteen

From A Siddiqui, Finance Director, to Managing Director

Computer security. We have never attempted to restrict access to the computer; it continues to be accessed from outside for bank information on foreign funds transfer.

Item sixteen

From J Malran, Production Manager, to Managing Director

Power cuts. I have investigated the position over the last 5 years. We have lost 55 hours production over this period.

The average hourly production is worth currently around €20,000 (assuming normal overtime). As a result, we have lost approximately €1 million. The provision of backup power was raised with the previous managing director who felt that €40,000 to provide reserve generating capacity could not be justified. The lack of emergency support is of particular concern during the winter months when darkness in the factory and administration blocks can cause major problems, as there is no emergency lighting system installed.

Item seventeen

From A Belinski to Managing Director

Stock control. We currently monitor stock levels of all components and finished goods manually at the end of each quarter. Generally we find that there is a 0.5 per cent stock loss each quarter.

Item eighteen

From J Malran, Production, to Managing Director

Production support. Though we have used a number of local companies over the past 5 years for specific jobs, we have not formally identified companies that could take over if there were particular breakdowns in specific areas. The main companies with whom we have had dealings, or who have quoted us in the past, are in design, tool cutting, metal casting, machining and assembly.

We have used third party transport in the past for some long distance haulage and have been approached by a number of companies to provide us with support for data processing. Most of the companies should be on file in the administration block. Our last

MD thought that we should try to be as self sufficient as possible.

Item nineteen

From A Belinski to Managing Director

Customer complaints. You are correct that we currently have no formal procedure for handling customer complaints, and no way of monitoring their outcome. I have tended to let the individual managers deal with these in their own way. I do not think that we have lost any business as a result. You are correct that we do not separate out causes of customer complaints into areas such as product, customer service, and delivery.

Item twenty

From J Malran to Managing Director

Competitive pricing. We have lost a number of contracts over the last three years that we felt certain that we would get. In each case we have lost them to the same company, Devlen Systems, which underbid us very slightly. This company does not have a great deal of expertise in the type of products that we manufacture.

Action

What are the main problems that Burke Engineering might face that have not been sufficiently considered by previous management? What type of contingency or crisis management controls should you consider introducing? Are there any other issues that might have been forgotten?