Structuring Organisations

As J Franklin, you have decided on the new direction for Burke Engineering. The company will be concentrating on the manufacture of increasingly specialised valves. In the business plan, you have already decided the company's new core competence: design and manufacture. Decisions on subcontracting many areas of the company's operations have since clarified what will be organised and managed internally. You have, for example, decided that tool cutting, distribution, security and catering will all be subcontracted. This has considerably simplified the tasks of many departments.

The technology audit has further clarified the work load issues. You have decided to install all the technology that was suggested by Carron Associates with the exception of robot arms in the foundry area. Your decision is that re investment in this area should wait until the arrival of the new generation of automatic foundries and that foundry staff should receive additional training to ensure that safety standards are raised and maintained. You can reduce the total labour force and change the company from a large, poorly skilled and poorly motivated collection of individuals towards a small, highly skilled and highly motivated group. Your expectation of what the organisation will look like is included in Table 15 in Appendix A.

You anticipate that the total number of non management employees will initially decline: from the 320 employed at your appointment to approximately 165. There will be decreases in certain areas, but a need for additional employees in technical support, research and sales. With the freeze on recruitment that you announced on your arrival, the high turnover of staff has already ensured that 50 staff have left and not been replaced. A further 20 youth training scheme, short term employees, are leaving in the next week. You have announced 40 redundancies in all (the areas that you have decided to subcontract including tool cutting, catering, physical distribution, security, and data processing.

You feel that natural wastage in all areas of the company, apart from secretaries and finance, will enable you to meet the new manpower targets without further redundancies. Planned redundancies among secretaries, finance and accounts staff will shed a further 25. You have informed the unions of this decision, and have gained their agreement to the new business plan. Their resistance to the introduction of new technology has been significantly reduced by the time that you have taken over the discussion with all shop-floor staff, and the promise of re-grading and training that will accompany the changes that you have proposed.

Your attention is now on the need to tackle the company's structural problems and to develop a new management team, as you are aware that the main obstacles to new working practices will be amongst management rather than the shop-floor. From your early days at Burke you realise that the existing divisions within the organisation have been a major contributory factor to its poor performance in the market. You are determined that the change in company direction, now underway, must resolve some key organisational issues. Of particular concern are the inter relationships between production and technical departments and between sales and marketing and production.

The organisation of these four departments did not meet either the demands of customers or those of company control. This was underlined by an assessment by major valve customers of the most important factors in supplier selection. Their most important criteria were: quality and reliability of the product, speed of manufacture, the sophistication of materials and design, and guaranteed delivery.

As the analysis of competitive strengths and weaknesses in the valve market indicated (Table 4, Appendix A), the company was uncompetitive. It was vital, in your opinion, that this competitive problem be solved. Historically, the company was organised by department, with each director and the office manager, who was effectively independent, reporting to the managing director. Each director was responsible for a range of specific and shared activities. The finance director dealt with the accounts function, management information (shared with marketing and sales), data processing (shared with the technical department), security, personnel and the canteen (both shared with the office manager).

The production director was responsible for the entire production process (except design), costing (shared with finance), warehousing, physical distribution and all factory maintenance. The technical director was responsible for all research and development, design and installation (shared with marketing and sales). The marketing and sales director was responsible for sales and promotion, sales insurance (shared with the finance department and office manager), and servicing existing customers' equipment. Finally, the office manager was responsible for purchasing (shared with finance, and production), secretarial support, cleaning, company legal services and public relations (shared with sales and marketing). There was little decentralisation of authority.

The result of this organisational design was, in your opinion, unfortunate. Some of the vital operations in the company were carried out poorly, or not at all. Burke Engineering failed to meet the demands of the customers in many important areas: in controlling the flow of business through the company from the receipt of order, to achieving the required speed of delivery, and level of after sales service.

Because of the wide range of often overlapping functions, there had been a tendency to steadily increase the number of managers in each department. But because of the broad span of responsibilities in each department, managers were poorly skilled. Shared responsibility also caused an enormous amount of friction as the early memos had shown, and a poor flow of information between departments. This poor flow of information was only resolved by lengthy meetings throughout the week to coordinate the activities of the various departments.

Decisions are slowly, if ever, made. Though there was low management turnover in the company, as a result of the high salaries, there is very low morale in many areas particularly amongst the younger managers. Management were also very hostile to any interference in their work from other departments.

The combination of overlapping authority with increased manpower had substantially raised the company's expense base. Costs, as a proportion of total sales, had continued to rise throughout the last 3 years. Because of the shared responsibility within the various areas, few attempts had been made to effectively control cost. All administrative overheads have substantially increased, and there has also been a steady rise in the costs of installation and servicing, and overall management expenses. You feel that a drastic overhaul of the organisation is necessary to achieve the demands of the business plan, with the definition of new departmental responsibilities.

Action

How should J Franklin restructure the organisation to meet the demands of the new business plan? What are the most important issues that need to be considered?