

Training

A year has passed since the new factory building has been completed and the company had started to concentrate on the valve sector. Turnover was now running at an annual rate of €120 million and profitability was forecast to reach €15.5 million for the full year. Earnings per share had increased nearly 7 fold, and as J Franklin your gross salary has increased from €80,000 on taking up the appointment to a forecast €755,000 for the year to date, in line with your share of this improvement.

This increase in salary has been achieved by the concentration on high added value products and the reinvestment of cash flows into new products and improvements in both workforce and capital equipment. You are concerned that the new annual plan makes increasing demands upon the workforce which cannot be met without a complete reevaluation of the training programme. This was intended for the transition of the company from its original emphasis on basic manufacturing into high technology and high added value design and manufacturing, supported by skilled sales and technical staff.

The reduction in staff numbers had enabled you to increase the overall level of skills within the organisation. Those leaving were those with fewer skills. Since then, changes were necessary as a result of the growth of demand and the continual reappraisal of the impact of new technology. The numbers employed in both design and research had slightly increased, even though continued investment in technology had made the departments far more productive than before. Part of the increase had been the need to transfer staff to the US operation, which now employed 4 full-time in research and development.

With the increased work load had come a substantial increase in the numbers that were needed to maintain the foundry operation, even though a substantial volume of work in this area was now being subcontracted as a result of demands for specialised materials in valve manufacture, which the current foundry machinery could not cope with.

With the new staff had come a worrying drop in safety standards, with a steady increase in the number of minor accidents reported, especially in the foundry. As the quality of design and casting had improved, and the sophistication of the machinery increased, the numbers employed in machining had dropped slightly and there had been no increase in the numbers employed in assembly, even though the volume of work had increased by over 300 per cent. As the quality of products had improved, the demands on technical support had declined as the company was experiencing fewer problems in installation and service.

However, with the growth in the number of customers the sales-force had been expanded. There had also been an additional growth in the Finance Department to cope with the increased number of accounts and the complexities of dealing with foreign currencies and the needs of the US subsidiary.

To offset the increases in these areas, the training that management had received in new technology had substantially reduced the need for secretarial assistance and there had been a reduction of six posts through natural wastage. During the past 3 months the company has completed a detailed appraisal of all those directly employed by the organisation. This analysis provided a skills profile of the entire organisation and is in Table 16 in Appendix A. There were considerable anomalies between departments and levels of skills among managers.

Both the research and design sections had a high level of expertise, while the foundry

section had suffered from a number of resignations that had lowered overall skills levels. The demand for technical support had meant that the company had been unable to recruit sufficiently skilled individuals and the department was still suffering from a low level of skills attainment. By contrast, the Sales Department had been more fortunate in recruiting more highly skilled individuals. You have found that the most skilled individuals are the most productive, and they are producing the successful results for the company. You are determined that the overall skills profile of the company should be further improved, so that growth will continue, together with investment in training. However you are worried about some of the information from appraisals.

Though investment in training has had a considerable impact in manufacturing, it appears to have been less effective in service areas such as sales and technical support. A comparison of the training between the two sectors indicates that manufacturing training has emphasised the acquisition of precise qualifications whereas most of the investment in other areas has concentrated on general skills. This has not been a problem for sales as the recruitment of skilled staff has been so successful, but is a worrying issue for the future in this department and others.

The new business plan proposes a further series of developments. First, was the need to provide further investment in the Pacific rim subsidiary. The initial years' trading had been highly successful with sales of €9 million producing a profit of €2 million even when start up costs had been included.

The director, J Porter considered that €18 million turnover in the next year with a profit of €4.8 million could be easily achieved if the company transferred 5 sales staff and 8 technical engineers to support the growing market in this part of the world. Relocating such individuals would be considerably less expensive than hiring their equivalents in the United States, and would provide other staff with promotion prospects. There were plans for a manufacturing facility on the west coast of the United States which would require a further 10 skilled engineers to be transferred from the home factory, 7 from machining, 3 from assembly and 2 more research and design personnel. Such requirements would put major demands upon the UK factory to maintain a pool of highly skilled staff that was necessary to service the increasingly sophisticated customer throughout Europe. The call from the United States had obviously been for the most experienced staff to be made available to maximise the potential for profitable growth.

It was likely that employment in the UK factory would also have to increase during the next year. Analysis of the work load developed from the plan suggested that Burke would have to employ another 1 in research, 2 in design, 3 in machining, 2 in assembly, 2 in finance, 6 in sales, 2 in technical support, and 1 in marketing. Numbers employed in research would have to be further increased should a commissioned report from outside consultants suggest that there was significant potential in the development of a range of micro valves for hydraulic systems (much in demand for new robotic machinery) and for human surgery.

Though the US subsidiary is one of the priorities, it is not the only one that is making demands on skilled manpower. The shareholders, impressed by the rapid turn around of the company, have insisted that you as managing director consider the possibility of acquisitions to speed growth and profitability. There are growing cash balances in the company, partly as a result of the improved profitability but also from the better than expected returns from the sale of land in the retail park.

You have resisted such a move because of the complexities of incorporating new

businesses into the working practices of Burke Engineering and its sophisticated manufacturing and information systems. Nevertheless you have agreed to set up a team within the company to look at, and evaluate potential acquisition targets.

You estimate that this will involve 3 management level staff, 2 from finance and 1 from research, who will also have to be replaced in their current jobs as this team will be a long term group set up to continually review market opportunities. Of far more value in your view are the possibilities that exist in East Europe. The recent expansion of sales throughout Europe by Burke Engineering have encouraged you to consider the creation of an additional subsidiary to service the growing markets of Hungary, Poland, Czech Republic, Slovakia, the old Soviet Union, and Bulgaria. You are aware that operating in such markets is filled with difficulty and it would require an investment of both time and skilled manpower to achieve effective market development.

There are 3 individuals within the organisation that would appear to be ideal for such an exploration. The marketing manager, M Kowalski speaks Russian, German and Polish. One of the most skilled technical support staff also has basic expertise in some of the languages, and has spent time in the majority of these markets working on pipeline installation. The third suitable individual is the senior sales manager for Eastern Europe who has already been instrumental in developing trade contacts throughout the region.

Finally you are aware that new employees in the firm are having considerable problems in settling in. The initial introductory programme is not working. You have had a number of suggestions from management during your weekly meeting about possible improvements, and it appears that to create an effective induction programme would cost around €500 per employee, compared with the current lack of spending in the area. The overall cost of training to the organisation was becoming a major problem. It started from the fact that the company could not recruit sufficiently skilled staff.

You as J Franklin have found that the on average, because of the poor technical and general training available within the area, you can only recruit individuals with an adequate or average skills level. They certainly did not normally meet the increasingly sophisticated demands of Burke Engineering. Training them to higher skills levels required both time and money.

Experience again suggested that it took approximately one year and €3,000 to raise a staff member to a higher skill level, and was slightly more expensive for management (about €4,500) even though the time required was the same. Two years investment were considered necessary to raise individuals from the normal average skill level at intake to meet the demands of current Burke Engineering operations. You had in the previous plan allowed for a substantial increase in the training budget, with the aim to increase skills at a more modest rate. This enabled the company to spare staff for the 30 days training that was on average necessary to move staff up to a new level of skill (costing about €100 per day for staff and €150 for management).

As products became more specialised, the company was also needing to spend more to maintain skills and knowledge and offset the tendency of individuals to forget particular techniques and approaches, a problem made more acute by the fact that the complexity of the manufacturing processes, research and design was also increasing. Estimates made by you suggest that to keep staff at existing levels of skill require around 8 days training per year, with the impact of the increased knowledge base requiring an additional 4 days in the current year. The effect of increased levels of training could be to interfere with the

smooth running of the company. With the possibility that certain staff members could be away for up to 45 days in the year, the chances of providing adequate staff cover would be considerably reduced. This would mean that training would have to be restricted in many departments.

You are worried about the possible consequences of reducing training on the overall shared values within the organisation. Much of the new atmosphere in the firm has been the result of shared training and development. Constraints of time and money could put this under strain, but you were determined that training should be maintained as a motivational factor for as many staff as possible.

You are also concerned that the training budget is steadily consuming a greater proportion of overall revenues, and feel that there is a need to be completely clear about the priorities that exist before committing over € 1 million, or 2 per cent of turnover, the maximum allowed by the major shareholders. Even that was smaller than that required by the business plan.

Action

How do you as J Franklin approach the problem of training? What issues are important? Where should the training be concentrated?