

ROYAL MACHINE

WORKS Ltd.

Ronald Edgerton, head of Royal Machine Works Ltd.'s **valve division**, tore open the confidential memorandum.

The memo explained that failure to keep expenses in line with declining revenues had caused the company to record a loss in the first half of the year. Therefore, it would be necessary to impose stringent controls on expenditure, especially in the personnel field, during the second half. By the following Friday the division heads were to reduce staff by 10% from the level on June 30. A list of those to be made redundant must be on the managing director's desk by next Friday. A total ban was imposed on new or temporary hiring and salary increases. Even promotions would not carry any rises for the next six months, although the company hoped to make "appropriate adjustments as soon as there is a return to reasonable profitability."

Before he had completed reading the memo, Edgerton was on his way to see **Stanley Packard**, the **managing director**. "Surely this does not apply to my division," he said as he was ushered into Packard's office.

"I'm afraid it does," Packard replied. "If I exempt you from these economy measures, then everyone will want to be a special case. That was the problem two months ago when we told everybody to bring spending into line with revenues. It simply didn't work. Everyone had an excuse for why their predicted revenues did not materialize. That is why I decided on prescribing action that is certain to reduce our expenditures."

"My division's sales are 5% ahead of budget and our profits are on target," Edgerton argued. "In addition, we have a very strong order book and the new butterfly valve we have introduced is selling extremely well. We really need to expand both our sales force and our production capacity if we are to be able to capitalize on the strong demand for this product."

Packard responded: "It is up to you which 10% of the labour force you cut. You can sack secretaries and research people, but you must comply with the directive. As you know we have a major bank loan to re-finance at the end of the year. If we are not in a profit position this may be very difficult. Every division must contribute to that goal, no matter how painful."

"But as long as we can meet our profit and sales forecast, which I assure you we can do, we should be exempt from cutbacks." Edgerton persisted.

Packard replied, "I admit you have a good record behind you. But don't you realize that what you are saying is what every manager will say. Everyone will promise me that he will hit targets if I spare him from this cutback."

Edgerton stood up. "But you know what I am telling you is the truth," he said. "Ever since I have been with this company I have met or exceeded my targets. My division is the biggest profit contributor in the company. Some of the other divisions have been losing money for two or three years now. I can see the logic of making them adhere to these cutbacks. But surely it is madness to penalize a prosperous division to subsidize money-losing ones. If they are making the loss, let them take the cut."

"If your division were left untouched, even more drastic cuts would have to be made in other divisions," Packard replied. "It is they who most need more money to survive. We're all part of the same group, after all. You must realize that although the valve division is profitable now, it required resources from others in the group to set it up. I don't mind saying we deferred a lot of other divisions' proposals in order to establish ourselves in the valve industry."

"Nevertheless, your cutbacks would wreck my division. So don't expect a list from me on your desk. I don't intend to fire anyone. If there are any layoffs in my division they will have to start with me," Edgerton said and strode out.

"That is exactly what I will do." Packard thought. But as he began to consider how he would explain to the board his reasons for sacking the manager of the company's most profitable division, he began to have second thoughts. Perhaps he should simply look the other way if Edgerton did not comply.

- a) *How would you characterise/analyse the discussion between Packard and Edgerton?*
- b) *How could the showdown between Packard and Edgerton have been avoided?*
- c) *What should Packard resp. Edgerton do now?*