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Towards an Understanding of Marketing Planning Practices in Indigenous Small Firms in the Electronics Sector in the Republic of Ireland

(2 parts)

by

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1.1 INTRODUCTION

In order to understand the context and environment within which indigenous firms in the electronics sector have developed, it is important to consider the way in which industrial policy has evolved in the Republic of Ireland

This chapter examines the major interventions by successive governments which have affected industrial policy since the foundation of the State in 1921 It identifies four main phases in the evolution of industrial policy from that time to the present Each re - direction of policy change is assessed

The initial part examines what is meant by the term "industrial policy" and supports the view that a country such as Ireland cannot hope to trade successfully without a series of interventionist policies

The early section outlines the historical evolution of the manufacturing sector since 1921 While this is not meant to be a comprehensive analysis of the patterns governing the development of the manufacturing sector, nevertheless it is argued that such an exercise helps to clarify the environment within which this sector has operated It is immediately apparent that the key economic developments which have happened in the intervening years, are inextricably linked with political, cultural and social influences

This chapter identifies two elements of Irish industrial policy which have had a profound impact on small firm performance , inward investment strategy and linkages between overseas firms and the indigenous sector A detailed assessment of government policy in both areas is carried out and the chapter concludes by identifying their implications for small firms in the Republic of Ireland

1.2 INDUSTRIAL POLICY IN PERSPECTIVE

The term "industrial policy" refers to the package of specific incentives and programmes, infrastructural supports and the wider macroeconomic measures undertaken by the State which are aimed at maximising the employment and economic benefits of industrial development The ultimate success of industrial policy is dependent a number of factors , an economic environment which stimulates the pace of industrial activity and the attitude of the State to competition policy i e whether or not local, small to medium sized firms should be given a form of protection to ensure fair competition

Any subsequent analysis or critique of industrial policy must address the question as to whether a balance has been achieved in areas such as attracting inward investment versus stimulating the indigenous sector and protecting the local firm from foreign competition versus encouraging complacency and inefficiencies Such an analysis is made more complicated by the fact that there are a number of factors which lie outside the domain of industrial policy per se, but however still can influence industrial development O'Farrell (1) in the context of small firm industrial development, identifies issues such as ,-

> *" societal attitudes to entrepreneurship, the structure of income tax, capital gains and capital acquisitions tax, distortion of capital markets, public procurement policies, the role of the educational system as a seedbed for new entrepreneurs and even moral questions such as the prevalence of the work ethic and honesty in business dealings (O'Farrell, p245) "*

The preceding discussion is based on the assumption that it perfectly fair and reasonable for the State to intervene actively on issues and policies which affect industrial development O 'Farrell(2) argues cogently that there has been such a long history of state intervention in developed countries, including Ireland, that the notion of non - intervention is rendered redundant

Blackwell and O'Malley (3) note that countries such as Ireland who are "late industrialisers" have to compete with countries who are more advanced and have build up competitive advantages in areas such as scale of production, technological capabilities and proficiencies in marketing Thus a very strong argument can be put forward which says that the onus is on the State to smooth out these bottlenecks

The analysis and evaluation of Irish industrial policy in the remainder of this chapter is based on the premise that there is such a strong justification both from a theoretical and pragmatic perspective for State intervention that to contemplate a policy of non - intervention would be singularly inappropriate

1.3. INDUSTRIAL POLICY AT THE INCEPTION OF THE STATE

When the Irish Free State was established in 1992, it could be described quite simply as an overwhelmingly agricultural economy O'Hagan and McStay (4)) estimated that only five per cent of the labour force were engaged in manufacturing activity , representing a total of around fifty thousand workers Any assessment of Government policy towards industrial policy therefore has to take cognisance of the pervading influence of the agricultural sector This is reflected in the fact that by 1926 the agricultural sector generate'd 32 per cent of the gross national product and provided 54 per cent of all employment (see Haughton, 5) The attitude of the Cumann na nGaedheal party at this time is encapsulated in a quotation attributed to the Minister for Agriculture, Patrick Hogan, who saw government policy as one "of helping the farmer who helped himself and letting the rest go to the devil " (Haughton, 6) It was no surprise therefore that this government , almost totally dependent on the support of the large farmers, geared its economic policies towards this area

The government adopted a very cautious approach to protectionism during the first ten years of the State Brunt (7) attributes this stance to the fact that the economy had been so heavily linked to the British trade network due to the historical reasons and also due to the geographical proximity of both countries Apart from putting an average tariff rate of nine per cent on a limited (and incongruous) number of product items ranging from rosary beads to margarine, little attempt was made to implement any form of overt protectionist policies

Haughton (8) summarises State policy at this time as ,-

> " *free trade, low taxes and government spending , modest state intervention in industry and agriculture and parity with sterling* "

Despite this apparent lack of direct intervention, a number of pragmatic steps were taken to establish institutions and agencies which would ultimately provide a necessary infrastructure for further economic development In 1927, the Electricity Supply Board was established The Agricultural Credit Corporation was also set up to provide credit to the farming community.

How effective was this minimalist approach to economic development? The answer inevitably is not clear-cut Haughton(9) identifies a number of positive and negative features Real per capita GNP rose by three per cent per annum between 1926 and 1931, exports increases by twenty per cent reaching a peak of thirty five per cent of GNP in 1929 , industrial employment rose by eight per cent also, during this period However the agricultural sector, viewed as the central platform of economic policy, actually stagnated as the tillage area fell slightly

At the onset of the 1930's therefore it could be stated that the minimalist approach which had enabled the nascent State to emerge in its own right would no longer be viewed as appropriate in the light of major external influences which occurred at this time The "great depression" which emanated from the Wall Street crash in 1929 forced many nations (including Britain) to re - consider their approach to free trade Many reacted by installing protectionist policies, typically characterised by the imposition of a range of tariff barriers The Irish government increased tariffs from nine per cent in 1931 to forty five per cent by 1938 (Haughton, 10)

PHASE ONE : THE PROTECTIONIST ERA

A change of government in 1932 brought Eamon De Valera to power a position he would hold with slight interruptions, until the 1950's

McAleese (12) notes that the protectionist policies pursued by De Valera merely reflected the approach of other European countries and that Ireland was in fact one of the last countries to resort to import controls O'Hagan and McStay (13) note that in some industries such as motor vehicles, that the tariffs were imposed to force Britain and other countries to locate assembly and manufacture in Ireland

The most visible attempt to intervene in the industrial sector was the introduction of the *Control of Manufactures Act (1932)* This required majority Irish ownership in companies and effectively restricted foreign participation in Irish industry (Meenan, 14) and (Lyons, 15) In line with this move towards self sufficiency and independence the State adopted a neutral stance in the arena of international affairs Brunt (16) argues that this act, coupled with the high tariff barriers imposed (an average of forty per cent in 1937) "largely detached the company from its satellite role as defined by British politics" and led to Ireland escaping the main impact of the Second World War However this isolationism led to trade dropping by twenty five per cent during the 1930's, with a further fifty per cent decrease during the period of the war

Another development during this period was the so called "economic war" between Britain and Ireland This was instigated when De Valera, on his accession to power, refused to pay land annuities to Britain This led to the latter country imposing ad valorem duties on the importation of Irish cattle and other exports This in turn led to counter retaliation Eventually the "war" was ended with Ireland agreeing to pay a sum of £10million pounds and Britain ceding control of the treaty ports

There are a number of contrasting views as to the success of the policy of self - sufficiency as promulgated by the De Valera led government Firstly let us consider some of the factual evidence Haughton (17) notes that between 1931 and 1936 industrial output rose by forty per cent and industrial employment increased from 111,000 to 154,000 during the same period By 1938 however industrial output only rose by a further 4 5 per cent Population levels remained static - 2 933 million in 1931 and 2 937 in 1938 However overall unemployment increased to about fourteen per cent of the labour force by 1935.

O'Hagan and McStay (18) argue that the protectionist policies in the main was effective in guiding the development of both new and existing industries - most notably in the textiles, clothing and footwear sectors

McAleese (19) adopts a more critical stance, holding the view that the tariffs were set at too high a level and subsequently maintained for longer than necessary and in particular were applied to many industrial sectors without proper discrimination

Overall it can be argued that this protectionist phase was necessary as it simply reflected policies implemented in other countries in response to the fallout from the "great depression" Meenan (20) puts forward the view that "in the circumstances it was necessary for any government to maintain, even invent, employment at any cost"

The subsequent effects of the Second World War rendered much of the protectionist policies ineffective, due mainly to the scarcities of basic supplies such as fuel and essential raw materials, combined with a shortage of shipping capacity which clearly restricted the scope (if the products were there anyway) for exporting Not surprisingly industrial output fell by twenty seven per cent between 1938 and 1943, with industrial output falling from 167,000 to 144,000

O'Malley (21) notes that by 1951 " industrial growth was heavily concentrated on the protected domestic market, however, and few of the "infant industries" developed a mature capability to compete in export markets"

While protectionist policies may have contributed to some extent in the initial development of the manufacturing sector (admittedly from a low base) it was clear that by the onset of the 1950's, such a negative, defensive approach (in the absence of any supporting or complementary policies) created an air of inertia among the protected domestic companies In many ways it created the position of the "double edged sword" where the short term benefits of protectionism, resulting in rapid industrial growth initially, meant that indigenous companies were able to supply the domestic market, but were simply not geared up, either from a structural or motivational point of view, to tackle the demands of entering foreign markets Simply put, the change in "mind - set" required to move from a position of protectionism - spawning complacency and inefficiency, to a situation of free trade was too great for many of these companies Fitzgerald (22) argues that the unusual economic conditions brought about by the depression and the Second World War and the more specific effects of the Civil War in the 1920's, helped to ensure that no proper assessment of protectionist policies could be carried out until the Irish economy settled down to normal conditions

Criticisms can be levelled at economic policy in the 1950's in that no overt attempt was made (despite two changes of government in 1951 and 1954) to reorientate industry to the opportunities which were beginning to emerge in Europe in the post - war conditions which prevailed

Walsh (23) observes that the "preference for the small domestic market ensured that industries which developed behind high tariff barriers were small scale, poorly capitalised, highly priced and ill - equipped to exist outside a protected home environment "

Kennedy et al (24) are more incisive in their criticisms taking the view that the home market was too small to allow local firms to produce on an efficient scale , compounded by the poor performance of the agricultural sector Their most trenchant criticisms are contained in the view that -

> *" An infant - industry approach to industrialisation that did not encourage the infants to grow up was bound to result in an infantile industrial base The disability arising from the small home market was exacerbated*

by the speed and scale of protection, which led to the division of the market among an excessive number of firms " (O' Kennedy et al, p235)

This view is supported by an empirical assessment by an American consultancy firm (25) of the export potential of a number of product, carried out for the Irish Export Board, in 1952 Their most graphic condemnation was contained in the recommendation that no market research should be undertaken in the United States because Ireland had no products of adequate quality to export at that time The study also revealed a number of cultural and social issues which were likely to play a role in influencing export development These are summarised as follows -

* *No inclination to take risk of any sort which they suspected was merely a method of rationalising a negative attitude*

* *The prevalence of family - owned businesses leading to a smugness and satisfaction with the status quo*

* *Illusions regarding the superior quality of Irish products*

* *The illusion that sales could be made to the U S without effort (p15)*

While the conclusions are stark and clearly reveal the inadequacies of indigenous firms at that time, the study also highlights the insularity brought about by a sustained period of protectionism The study was largely ignored by the government and ended upon the shelves

Despite the inherent weaknesses identified, the immediate post - war period did result in an increase in output caused in the main by food shortages in Britain, presenting the opportunity for agricultural exports This was coupled with increased local demands for consumer products which helped to boost indigenous industry This had the net effect of reinforcing the belief that protectionism was an effective policy for cultivating economic development This partly explains (though in no way justifies) why successive governments in the early to mid 1950's were reluctant to abandon a policy which appeared to be successful

The 1950's was characterised by a bleak and harsh economic environment - reflected in high levels of unemployment, emigration and sluggish growth Blackwell and O'Malley

(26) note that "by 1958, manufacturing employment was only 141,800 lower than its level in 1953, industrial production for exports was negligible and economic progress was severely constrained by balance of payment problems"

1.4 PHASE TWO :OUTWARD LOOKING; FOREIGN INVESTMENT SEEKING POLICIES

Kennedy and Dowling (29) pinpoint the publication of the document called *Economic Development* in 1958 as the first comprehensive attempt to chart an economic plan for Irelands' economic progress The originator of this plan was Ken Whitaker

While he was the creator of the document, Sean Lemass (at the time the Minister for Finance) was the main advocate of Whitakers' economic ideas in government circles The document was the outcome of a series of major analyses undertaken by Whitaker in his capacity as Secretary to the Department of Finance, of the Irish economy It also represented the synthesis of the collective thoughts and ideas of a number of civil servants, industrialists and economists

Economic Development in essence was a comprehensive review of economic policy which did not attempt to hide from levelling sharp criticisms of Irelands' economic position - highlighting the fact that it had the lowest per capita in Western Europe, sluggish GNP growth, low levels of personal savings and private capital investment

In his range of recommendations, Whitaker saw the private sector, either local or foreign, as the main source for new enterprises The State would provide assistance with a contribution of £44 million over five years and he also saw the banks and insurance companies as fellow providers of loans to stimulate enterprise development He also urged a reduction in personal and corporate taxes which would act as an incentive

Whitaker argued strongly that foreign investment would be required to play a central role in stimulating economic growth

Specifically he called for the removal of the restrictions imposed on foreign ownership of companies which was contained in the *Control of Manufacturers Acts of 1932 and 1934* He argued also for a much more discriminating approach to be applied in the imposition of tariffs, only using them where a clear, justifiable case existed (31)

Whitaker argued for an indicative planning approach to economic development - where the concept of a five year plan would be adopted in an attempt to monitor economic progress and to gauge whether targets were being achieved This approach was subsequently approved by the Fianna Fail government with Sean Lemass as its main benefactor Much of Whitakers recommendations were incorporated into a document called the *First Programme for Economic Expansion (32)* which was launched in November 1958

Blackwell and O'Malley (33) note that three main policy changes were contained in it ,- protection against imports was to be phased out, industries which showed potential for exports were to be proactively encouraged and foreign direct investment was to be welcomed

O'Farrell (34) summarises the main measures which were implemented as a consequence -

Table A.1

- **The Finance Act 1958 - granted 100 per cent tax remissions on profits from exports**
- **The Finance Act 1960 - extended the period of tax relief from 10 to 15 years**
- **Industrial Development Act 1958 - eased restrictions on foreign ownership of companies and increased the scope and responsibility of the Industrial Development Authority to attract foreign investment**

The first programme very clearly identified the predominant role which the government was expected to play in shaping economic development

The superficial success of the first programme can be gauged from the fact that an overall economic growth of twenty three per cent was achieved for the duration of the programme, as against the projected target of eleven per cent this stimulated much enthusiasm for further programmes This spawned the development of a second and third programme for economic development The net influence of these programmes lasted through the 1960's These subsequent programmes were more complex documents than the rather loose structure within which the first programmes was constructed For example formal economic techniques, including a mathematical model of the Irish economy was developed This allowed for detailed simulations and permutations to be performed Bradley (36) observes that a target growth rate of four per cent for national output was set, with specific sub - targets for the various sub - sectors of the economy These programmes will be assessed later in this chapter

What impact then did the economic programmes have on the overall economy and in particular, manufacturing sector ? Clearly the introduction of a formal planning approach by the government synthesised the main recommendations expressed by Whitaker in his document - *Economic Development* and encouraged positive thinking at a time when there was a great deal of pessimism which pervaded through all aspects of social, cultural and economic life

The programme unambiguously rejected the earlier view that the only way in which economic growth could be achieved was through a range of protectionist policies reflecting a defensive inward - looking mentality In this respect, and irrespective of what impact it would have on economic growth and development, it represented a major re - direction of industrial policy in Ireland, with its focus on the need to attract foreign investment into the country and the twin provision of a broad range of supports and incentives Indeed this re - focusing has had an impact on the subsequent thinking of governments right up the present

There are alternative views as to whether the success experienced by Ireland was as a direct consequence of the adoption of formal economic planning or as part of the favourable international climate Neary (40) argues that "the programmes were not really the cause of the economic progress they accompanied it and charted its course" The main contribution came, in his view, from the range of new "outward - looking" policies which stimulated growth

Neary's thesis is an artificial one It was exactly those policies which were identified in Whitakers' document - *Economic Development* and subsequently subsumed into the *First Programme for Economic Development,* forming the central platform for economic strategy Undoubtedly some aspects of the growth experienced during the 1960's arose from the favourable international environment Likewise the manufacturing sector was starting from such a low base at the time, that improvements would be expected in any case

1.5 AN ASSESSMENT OF INWARD INVESTMENT POLICY IN IRELAND

O'Malley (42) identifies three phases associated with foreign manufacturing enterprise in Ireland The first consisted of mainly British firms operating under the protectionist policies, and catering for the home market, mainly in the consumer goods category The second phase and the one which reflected the first serious attempt by the State to attract foreign enterprises to Ireland, spanned the period from the late 1950's to the late 1960's, consisting largely of companies operating in mature sectors such as clothing, footwear, textiles, plastics and light engineering, and characterised by the common features of standardised, and relatively labour - intensive products The final phase, running from the late 1960's up to the present, reflected a concentration by successive governments on attracting foreign enterprises producing more sophisticated "high - tech" products from sectors such as machinery, pharmaceuticals, instruments and electronics

A number of general observations can be made at this stage before more detailed assessment is carried out The so called first phase firms declined under pressure from the free trade conditions which prevailed during the late 1950's This is understandable, given their unpreparedness for such a necessary swift transition to a more competitive environment O'Malley (43) notes that the second phase firms became increasingly vulnerable to low - wage economies The most common feature experienced however was the fact that these enterprises only located the basic production and assembly operations in Ireland, leaving the more demanding research and development, marketing and process development functions either at their home base or in some other geographic location

O'hHuiginn (44) carried out an empirical study which revealed that the number of plants located in Ireland which based strategic activities such as research and development and marketing, was quite low almost two - thirds of the plants did not perform the marketing function and seventy eight per cent were dependent on the parent company for research and development

A similar study by (O'Farrell and O'Loughlin (45) also showed from their research that essentially devolve the more routine, operational functions to their Irish subsidiaries and provide the key strategic functions from abroad

INCENTIVE POLICIES

Ruane (46) categorises the broad range of incentives under two headings,-

Table A.2

FINANCIAL	*FISCAL*
Non - repayable cash grants	***Reduced rate of corporate income tax***
Labour training grants	***Allowances against corporate income tax***
Research and development grants	
Rent and interest subsidies	

During the period from the mid sixties through the mid eighties a non -repayable cash grant which ranged at certain points during this period from a high of sixty per cent to a typical average of thirty five per cent of the cost of new fixed asset investment, has been made available both to indigenous and foreign enterprises The "Advance Factory" scheme which provided for the building of general purpose units for leasing to potential manufacturing enterprises also played an important role in attracting foreign enterprise

Perhaps the most important incentive was the *Export Tax Relief (ESR)* tax provision which granted firms which were established in Ireland prior to 1981, complete exemption from taxation on all profits generated from new export sales for a period of fifteen years and partial relief for a further period of five years up to 1990 Firms established since 1981 were allowed to avail of a reduced rate of taxation on corporate profits of ten per cent This was designed to compete favourably with rates granted in other European countries

Stanton (47) and Yuill and Allen (48) put forward the view that the broad range of incentives and grants offered by the Industrial Development Authority led to a situation where Ireland quickly emerged during the 1960's and 1970's as one of the most attractive locations for foreign investment in Europe

APPRAISAL OF FOREIGN INDUSTRY PERFORMANCE

Unfortunately detailed analysis of the performance of foreign industry in the Irish economy is not possible for the period prior to 1973 Indeed it was only in 1983 that the Central Statistics Office separated foreign from indigenous companies in order to carry out analyses of performance However, the annual employment survey undertaken by the Industrial Development Authority started in 1973 (49) , providing some statistical material for analysis

Table 3 indicates the employment levels over the period 1973 - 1988 It reveals a steady rising share of total employment by foreign owned firms, going from 31 3 per cent to 42 per cent This is in the face of an overall decline in the total employment figure of almost 7 per cent over this period This overall decline is attributable to two trends net gains of over 14,500 jobs (over 25 per cent) in foreign firms, contrasting with net losses in the Irish - owned sector of almost 32,000 jobs (over 21 per cent) Ruane and McGibney (50) also note that the decline in jobs within the Irish - owned sector has been underestimated due to the fact that these figures (calculated in 1989) do not reflect the changes in ownership which have occurred within firms , particularly where Irish - owned firms have been taken over by foreign companies since 1973 In these figures they are now classified as foreign companies Examples of this would be Youghal Carpets, Murphy's Brewery, Maguire and Patterson, Navan Carpets and Arklow Pottery , each company being a large employer in relative terms

TABLE A.3

EMPLOYMENT IN IRISH - OWNED AND OVERSEAS INDUSTRY 1973 - 1988

Year	Total	Overseas	Irish	Foreign as % of Total
1973	218,729	68,511	150,218	31.3%
1978	233.381	82,459	150,922	35.3%
1983	223,295	87,632	135,663	39.2%
1988	204,184	85,851	118,333	42.0%
Percentage Change				
1973 - 1988	**- 6.6**	**+25.3**	**- 21.2**	

Source: Ruane in Foley and McAleese p66

Table A 4 identifies the total number of firms in Irish industry during the period 1973 - 1988 This shows a steady increase in companies in every year since 1973, except one (1984) The most interesting aspect of this table is the virtually unchanged share of the foreign firms in Irish industry , averaging out at just over 12 per cent, where from table xxx we can see that their share of industrial employment rose by over 10 per cent

Given the situation of falling total employment and increasing numbers of firms, it is clear that the average size of firms has also dropped dramatically over this period Table 5 tracks this decline

TABLE A 4

NUMBERS OF IRISH - OWNED AND FOREIGN FIRMS IN IRISH INDUSTRY 1973 - 1988

Year	Total Firms	Foreign Firms	Irish Firms	Foreign as % of Total
1973	4,570	576	3,994	12.6
1978	5,466	775	4,691	14.2
1983	7,275	939	6,336	12.9
1988	7,713	944	6,769	12.2

SOURCE IDA EMPLOYMENT SURVEYS p71 Foley and McAleese

The average overseas firm size has increased from over three times the size of Irish firms to roughly five times over this period Ruane and McGivney (51) observe that is not surprising given a situation where foreign plants of necessity would need to be of a certain minimum size, before the parent company would contemplate locating in Ireland

TABLE A.5

AVERAGE FIRM SIZE OF IRISH - OWNED AND FOREIGN FIRMS, 1973 - 1988

YEAR	FOREIGN FIRMS	IRISH IRISH FIRMS
1973	118.9	37.6
1978	106.4	32.2
1983	93.3	21.4
1988	90.9	17.5

They also inject a cautionary note when examining the data and suggest that it would be wrong to assume that the scale of all Irish - owned industry is low relative to that of foreign industry i e one - fifth of its size For instance the average size of the nine *largest* Irish - owned firms in 1988, was 881 employees, while the comparable figure for the nine largest foreign firms is 986

In terms of assessing the net impact of the outward - looking strategy detailed in the *First Programme for Economic Expansion,* two measures can be used the volume of manufacturing output generated during the period under review and the level of employment generated, which might be attributed to the strategy

For the present period under review 1960 - 1973, the average annual growth rate in terms of manufacturing output was 6 6 per cent Clearly this reflects a high level of success, as the foreign companies attracted into Ireland during this period performed well in a situation where favourable international trading conditions existed The figures also reveal a major improvement in terms of labour productivity in the manufacturing sector This of course was only to be expected companies previously trading in a protected, cloistered business environment tended to do so with an air of complacency and inefficiency All companies, whether indigenous or foreign - owned, simply had to raise their productivity substantially in free market conditions Improvements in manufacturing output also had the added effect of creating increased demand for services in areas such as banking, transportation, accountancy and so on

Table A 6 provides some statistical evidence in this regard

The position with regard to employment generation however makes for less optimistic reading Ruanes' analysis(52), contained in table A 6 shows an overall decline of almost seven per cent, although it has to be said that this has been caused by a major decline in the indigenous sector rather than the contribution of the foreign owned area, which showed an increase of over twenty five per cent

A number of central issues have to be examined however when assessing data on the output of foreign - owned firms in Ireland Foley (53) identifies these as being , *opportunities for transfer pricing, implicit or explicit payments for marketing and technology, payments to overseas shareholders and royalty payments*

TABLE A 6 GROWTH RATES OF MANUFACTURING OUTPUT, EMPLOYMENT AND OUTPUT PER HEAD, 1926 - 1986 (FIGURES IN %) IN KENNEDY ET AL P228

	OUTPUT	EMPLOYMENT	PRODUCTIVITY
1926 - 1931	1 6	1 6	0 0
1931 - 1936	7 2	8 6	- 1.3
1936 - 1946	1 2	1 5	- 0 3
1946 - 1950	10 7	5 9	4 6
1950 - 1960	3 1	0 8	2 3
1960 - 1973	6 5	2 3	4 0
1973 - 1979	5 1	0 8	4 3
1979 - 1986	4 1	-2 7	7 0
1926 - 1986	4 5	1 9	2 6
PROTECTIONIST PHASE			
1931 - 1960	4 2	1 9	2 6
OUTWARD - LOOKING PHASE 1960 - 1986	5 5	0 6	4 9

SOURCES CENSUS OF INDUSTRIAL PRODUCTION AND INDUSTRIAL INQUIRIES

The concept of transfer pricing arises because during the period from 1960 to the mid - 1980's Ireland was clearly perceived (as a consequence of its incentives package) as a low - profit tax location for foreign companies This situation presents a great opportunity for such firms to account for as much of their total profit as possible in Ireland , Foley argues that -

> *It would therefore be expected that, to the extent possible, multinational firms would (a) price their inputs at less than market (or arms length) price and (b) price their output at greater than market price Profits in the Irish location would thus be artificially raised above that based on market prices Gross output and net output figures would also be raised " (54, p30)*

Much of the potential for using this practice depends on the extent of intra - company transactions Where a firm imports its imports from another branch of the same company and exports its outputs to a third division of the same company, then clearly the opportunities are even greater Foley clarifies this by observing that -

Pre - tax profits of the total multinational company would not be increased the distribution of the profits between different locations would be changed from that prevailing on the basis of market prices The post - tax profits, however, would be increased as profits are switched to the low - tax location from the higher - tax location " (55, p31)

Thus the phenomenon of transfer pricing presents great difficulties when it comes to analysing the output and export values as stated by multinational firms Given the obvious attractions of this method, it would indeed be unduly naive to believe that such a practice was used sparingly by foreign enterprises which have located in Ireland since the 1960's

A seminal study undertaken by McAleese in 1977 (56) sheds some light on the issue of the extent of intra - company trading , deemed to be a reliable indicator of the likelihood of transfer pricing occurring He found that as of 1974, fifty five per cent of total exports of multinational firms located in Ireland went to affiliates, and that twenty nine per cent of materials purchases were likewise made from that source Table A 7 amplifies this in greater detail

TABLE A 7

NEW INDUSTRY TRADE WITH AFFILIATES BY NATIONALITY OF ENTERPRISE AS OF 1974					
	% OF NEW ENTERPRISES TRADING WITH AFFILIATES (%)	SALES TO AFFILIATES (£m)	SALES TO AFFILIATES EXPORTS (£m)	MATERIAL PURCHASES FROM AFFILIATES (£m)	PURCH OF MAT IMPORTS AFFIL (%)
U.S	85	141.5	77	28 9	46
U K	69	33 7	39	6 5	38
EEC (7)	63	22 2	29	16 0	32
OTHER	65	14 9	41	10 7	13
TOTAL	74	212 3	55	62 1	29

SOURCE McAleese, Dermot. *A Profile of Grant - Aided Industry in Ireland.* IDA 1977, p37

McAleese's study confirms that the American companies operate a much higher level of intra - firm trade as of 1974 Foley (57) attempts to draw some circuitous conclusions from this by noting that in 1985, the contribution of American companies to the percentage of total gross output from foreign firms, was 63 6 per cent He assumes that if the 1985 pattern of American intra - firm trading had remained at the 1974 level, the relative role of intra - firm transactions in total foreign transactions would have increased between 1974 and 1985 He develops this approach further by applying the 1974 intra - firm ratios of exports to affiliates to the export proportion of the 1985 gross output data and arrives at a figure of approximately fifty six per cent of the 1985 foreign gross output going to affiliates In Foley's view this represents the maximum proportion of foreign firms" gross output on which profit - switching transfer pricing at the selling end would occur This does not take into account the possibility that transfer pricing could also take place on the input prices This could mean that profit switching transfer pricing could rise above the fifty six per cent level previously calculated by Foley

1.6. FOREIGN INDUSTRY AND ITS LINKAGES WITH INDIGENOUS INDUSTRY

The preceding analysis has focused on the contributions of overseas industry to the Irish economy in terms of employment generation and volume of manufacturing output generated Another aspect which needs to be considered is the relationship between foreign companies and the Irish economy This refers the amount of local labour and materials which they use This notion of "linkage" was originally put forward by Hirschman (59) who viewed the establishment of a new industrial enterprise as comprising the potential to stimulate new related enterprise and create opportunities for existing firms to expand their operations by linking themselves to the new enterprise

This has significance for foreign - owned enterprises as they might be expected to seek local sources of supply of materials to a greater or lesser extent as they establish themselves in Ireland From the point of view of foreign firms, linkages with local companies can generate a large reservoir of goodwill as it places them in a good light in terms of being seen to be proactive in encouraging local enterprise development For the indigenous firm, it represents an opportunity to utilise their local advantages of knowledge, proximity and lower potential transport costs This latter point is particularly relevant in a business environment which actively adopts the *just - in - time* principles of supply of material

In addition to these production linkages, Kennedy and Foley (60) argue that a much broader range of external economies and learning effects can arise This is because indigenous firms can move more rapidly through the learning curve in areas such as technological progress, raising quality standards and improving levels of innovation , in addition to exposing local labour to new skills, as a direct result of their involvement with foreign firms

Tables A 8 and A 9 are summaries of the analysis carried out by Kennedy for the year 1986

TABLE A 8

IRISH MATERIAL USED BY FOREIGN AND IRISH MANUFACTURING FIRMS, 1986

	TOTAL MANUFACTURING		TOTAL MANUFACTURING (EXCLUDING FOOD)	
	FOREIGN	IRISH	FOREIGN	IRISH
GROSS OUTPUT (£m)	7,174	7 168	6,062	3,307
MATERIALS (£m)	3,223	4,388	2,654	1,550
PERCENTAGE OF MAT PRODUCED IN IRE	28 8	66 8	17 7	29 3
IRISH MATERIALS (£m)	928	2,931	470	454
IRISH MATERIALS / GROSS OUTPUT (%)	12 9	40 9	7 8	13 7
EMPLOYMENT	75,497	109,612	68,359	78,496
IRISH MATERIALS PER EMPLOYEE (£000)	12 3	26 7	6 9	5 8

SOURCE CENSUS OF INDUSTRIAL PRODUCTION 1986 IN KENNEDY P90

Kennedy (62) puts forward the view that a cursory analysis of the data in table 9 reveals that while the total value for output was almost identical for both foreign and Irish firms, the domestic materials purchases of the former were slightly less than one - third of those of the latter He advances two reasons as to why this is so foreign firms spend a much lower proportion of their output on total materials (45 per cent as against 61 per cent) and of their total materials purchases they bought a much lower proportion in Ireland (29 per cent add against 67 per cent) He explains this variation by suggesting that there is a large dominance of Irish firms in the food sector - which traditionally has a very high ratio of materials to gross output, and the vast bulk of the materials is supplied domestically Kennedy argues that this can hardly be viewed as a backward linkage from the manufacturing to the primary sector , -

" rather, food processing is closer to being a forward linkage from the primary sector" (63, p92)

Quite clearly therefore, it would be misleading to include the food sector when attempting to estimate the extent of backward linkages in Ireland When this sector is excluded, it is still clear that foreign firms purchase much less of their materials from local sources

Table A 9 is based on analysis by Kennedy of data provided by the IDA It is useful because it affords an opportunity to track the propensity of foreign firms to purchase materials domestically over a period of four years , 1983 - 1987 In light of earlier observations, the food sector is excluded on this occasion

These figures are revealing because they indicate little change in the behaviour of foreign firms with respect to sourcing their products and services locally This might be interpreted as worrying , given that it is reasonable to expect foreign firms, once established in Ireland, to increasingly seek out local sources for supply However such an assessment does not take into account the fact that multinational firms have well established sources of supply before they locate here initially Therefore there are likely to be opportunity costs associated with switching to local companies

In any case if supplier switching is to occur at all, it pre - supposes that the indigenous supplier base is in a position to meet the requirements and standards set by foreign companies It can also be argued, with a fair degree of conviction that industrial policy should have in place a coherent programme which is designed to encourage the development of linkages between foreign and indigenous firms This is a central issue which will be addressed in the next section of the chapter

TABLE A 9

IRISH MATERIALS AND IRISH SERVICES PURCHASED BY OVERSEAS AND IRISH MANUFACTURING FIRMS 1983 AND 1987

MANUFACTURING (EXCLUDING FOOD)

	OVERSEAS		IRISH	
	1983	1987	1983	1987
IRISH MATERIALS				
% OF SALES	8 2	7 3	15 8	15 5
%OF TOTAL MATER	19 6	19 4	39 7	39 2
PER EMPLOYEE (£000, 1987 PRICES)	4 5	6 5	6 4	7 9
ABSOLUTE TOTAL (£mill 1987 PRICES)	334	457	369	376
SERVICES				
% OF SALES	12 2	11 5	21 7	18 0
% OF TOTAL SERV	68 9	66 9	92 8	81 5
PER EMPLOYEE (£000, 1987 PRICES)	6 7	10 4	8 8	9 2
ABSOLUTE TOTAL (£mill , 1987 PRICES)	497	720	507	437

SOURCE IRISH ECONOMY EXPENDITURES SURVEYS)

In summary, it is clear from the foregoing analysis and assessment, that the outward - looking policy instigated by the ideas of Ken Whitaker in the late 1950's and subsequently framed in the *First Programme for Economic Development* have had a major influence in re - directing manufacturing policy Much of the thrust of the three economic programmes has largely focused on attracting foreign companies to locate in Ireland

This analysis has shown that overall employment levels have declined by just under seven per cent during the period from the early 1960's to the middle of the 1980's by just under seven per cent However within the foreign sector the rate was lower By 1985, Kennedy et al (65) notes that this sector accounted for one - third of manufacturing employment as against five per cent in 1966 They also note the greater propensity to export of these firms , eighty two per cent of sales as compared to thirty four per cent in Irish firms, in 1983

However it would be fallacious to suggest that the inward investment policy was an unmitigated success when examined in the overall context of industrial policy The role of overseas companies in the manufacturing sector came under substantial review during the middle of the 1980's and in turn led to another re - direction of industrial policy O'Farrell and Crouchley (66) note that as global trading conditions deteriorated in the late 1970's and as internal inflation levels and labour costs rose, Ireland no longer appeared as attractive a location as heretofore This problem was compounded by increasing competition from other countries (such as Scotland) as suitable locations

1.7. THE TELESIS REPORT

In the late 1970's the *National Economic and Social Council (NESC)* sponsored a series of studies on the development of industrial policy and possible future directions (68) The seminal study proved to be one carried out by *Telesis*, an American consultancy firm (69) This study was quite critical of the prevailing industrial strategies employed by successive governments up to that point in time Its central conclusion was that there was an excessive over - reliance on the overseas sector as the means for achieving employment generation and improving manufacturing output, and a consequent ignoring of the indigenous sector by contrast The most compelling argument for taking this view is put forward by Telesis in the following quotation from the main body of the report -

> *" Successful indigenously - owned industry is, in the long run, essential for a high - income country No country has successfully achieved high incomes without a strong base of indigenously owned resource or manufacturing companies in traded businesses" (70, p185)*

Fitzpatrick and Storey (71) take the view that Telesis are not necessarily arguing that there "is something intrinsically negative about foreign investment" , rather that an over - concentration on this sector is rather limited The main sources of these limitations can be found in two areas the employment generated by overseas firms is subject to the volatility and vulnerability of world trading conditions and of the resulting business strategy of the parent company , and the unwillingness (for arguably reasonable and sound commercial reasons) of such firms to locate key business functions such as research and development and marketing in Ireland This latter point militates against the possibility of building up a long - term strong industrial base, as there is a tendency to substitute and transfer employment to other branches where advanced business functions are located, as economic conditions deteriorate Telesis concluded that -

> *"foreign - owned industrial operations in Ireland with few exceptions do not embody the key competitive activities of the businesses in which they participate , do not employ significant numbers of skilled workers , and are not significantly integrated into traded and skilled sub - supply industries in Ireland " (72,p151)*

The main recommendations for future foreign industrial investment were that -

- the average capital grants offered to foreign firms established in Ireland should be substantially reduced Current levels of incentives should continue to be offered to particularly desirable projects, but the grants to most projects should be severely cut

- consideration should be given to further use of loan, loan guarantee, redeemable equity and participative loans for providing incentives to foreign companies

- better support should be sought from foreign companies operating in Ireland to spur indigenous industry development

- that differentially higher rates of grant should be provided if foreign companies agree to locate key business functions in Ireland, if they could stand alone from their parent firms (presumably if they were treated as a strategic business unit) and / or if they recruited more skilled levels of workers

On this latter point Telesis were less sanguine about the ultimate success of the proposals The reasons for the unwillingness of foreign companies to locate such resources m Ireland were summarised in the report as follows

- marketing functions are best located near the largest concentrations of customers

- establishing engineering and marketing functions in large European countries is seen by American companies as a means of staving off pressure in those countries for the development of stronger indigenous high - technology industries

- keeping R & D functions close to the parent company base minimises the risk of high - technology "trade secrets" leaking out of the company

- Irelands' small size and peripheral location mean that its access transport services will inevitably be more limited than those of larger, more central countries - this constitutes an impediment to the location in particular of marketing functions in Ireland

- locating key business functions in Ireland, such as R & D and marketing would add significantly to the costs of the Irish operation and would thus reduce the level of declared profits in Ireland

Each of these reasons provide compelling evidence to support the view that higher levels of grants alone would not be sufficient to encourage a change in policy Ironically the fact that Ireland at that time, was more lenient than any other country with regard to its taxation of profits generated by foreign companies, worked against the possibility of key business functions being located here - as it would not make much commercial to base high cost operations such as research and development and marketing, in Ireland

While a more detailed appraisal of small industry performance in Ireland will be undertaken in the next chapter, a general observation can be made at this point about the recommendations of Telesis with regard to the indigenous sector O'Farrell (74) and Conniffe and Kennedy (75) argue persuasively that while the findings of Telesis are strong on pinpointing general recipes for improving the performance of the indigenous sector, it is far weaker in terms of identifying specific strategies for achieving the proposals

It can be argued that the Telesis report succeeded in cutting through the confused and muddled thinking which existed both within government circles and indeed amongst economic commentators at the beginning of the 1980's It had the net effect of concentrating the mind of policy makers on the weaknesses associated with placing almost total faith in the overseas More importantly, it did re - direct industrial policy, as we will consider in the next section

1.8. POST - TELESIS.

The most controversial aspect of the Telesis report : that the average capital grants to foreign industry should be reduced, created much disquiet within the Industrial Development Authority who argued that such a recommendation, if implemented, would be very risky in an international business environment which was becoming increasingly competitive with regard to attracting inward investment Subsequent reviews of industrial policy (76) appeared to accept the need to redress the prevailing imbalance of resource allocation between the overseas and indigenous sectors While they also accepted the need to cut back support to companies which were not trading internationally, the National Economic and Social Council was less prepared to endorse the level of capital grants

Their arguments in this regard would appear to be at best naive and at worst going totally against the logic presented by Telesis in their report This again provides evidence that there was a reluctance to recognise the harsh realities as outlined in the report , instead they adopted a vaguer, less controversial approach Fitzpatrick and Storey (79) note that ,-

> *" Rather than accepting what Telesis saw as the long - term limitations of foreign industry and proposing that resources be moved into other areas of industrial policy, the NESC instead placed the emphasis on introducing measures to try to overcome those limitations" (in Foley and McAleese, p54)*

The official response by the Government was predictable In 1984, they published a White Paper on Industrial Policy (80) , which recognised the need to adopt a more discriminatory approach in favour of projects which showed potential for linkages, location of key business functions etc

O'Farrell and Storey (81) argue that the White Paper did not specify how discrimination could be achieved without increasing the industrial policy budget or reducing the average levels of capital grants In this respect they are correct the paper was noticeably unclear in this area However it did contain a number of concrete proposals which were designed to encourage foreign firms to locate advanced business functions in Ireland They included the following measures :-

- accelerated rulings by the Revenue Commissioners regarding the tax allowability of the costs to companies of setting up administrative and marketing operations in Ireland

- allowing the National Development Corporation to invest in certain overseas companies if this would help in the location or maintenance of key business functions in Ireland

- the "new company development approach" involving co - operation between companies and industrial development agencies to encourage companies to locate strategic business functions in Ireland, and also aiming to secure foreign projects which will transfer technology to, and purchase their raw material and component requirements from Irish firms (82)

This paper represented a discernible change in Government attitude to industrial policy It recognised the need to address the specific needs and requirements of the indigenous sector while at the same time maintaining the pre - eminent position of foreign industry at the forefront of policy Kennedy and Storey (83) also suggest that the measures contained in the document, reflected a shift away from focusing on investing in fixed assets to support for developing marketing, research and development, and technology acquisition

Between 1984 and 1986, it was noticeable that the National Economic and Social Council and the Government were becoming more closely attuned to the recommendations contained in the Telesis report This is crystallised in the first ***Review of Industrial Performance*** carried out by the government in 1986
(84) in the following passage ,-

" It is proposed that in the case of overseas projects the equivalent of the existing maximum levels of State support for fixed asset investment should continue to be available for particularly attractive projects As at present, the maximum levels will be the exception rather than the rule But future policy must have regard to the threefold objective of

(a) achieving an accelerated reduction in average fixed asset grant rates

(b) encouraging overseas promoters at the initial stages to locate R & D and marketing facilities in Ireland which would enhance the potential stand alone nature of their project , and

(c) obtaining a better return on the State's investment
(Source Review 1986, p43)

The review also proposed that in the case of all future foreign projects where fixed asset support in excess of forty five per cent (designated areas) and thirty per cent (non - designated areas) is being recommended, any excess must be in the form of either State equity, loan guarantees, deferred grants subject to the achievement of certain targets as regards employment and value added or a combination of these measures

Ruane(85) notes that at this time, the Industrial Development Authority was shifting its resources to the indigenous sector and that the actual grant rates available for foreign investment were below the maximum allowed

In fact in 1987, the maximum grant allowed for expansion projects undertaken by foreign or indigenous firms was reduced from forty five per cent of capital costs (sixty per cent in designated areas) to twenty five per cent Assistance for new projects received higher levels of assistance but the overall net effect was to reduce the average capital grant to all industry from 29 4 per cent of fixed assets in 1986 to 22 per cent by 1988

With regard to policies designed to attract inward investment into the country, the period from 1985 - 1989 also witnessed a refining of strategy in this area More focus was given to those sectors deemed to be capable of offering the greater potential in terms of employment and likewise promotional activities by the State agencies were redirected to territories such as Japan and the Far East

The expiry of the exemption of export profits from Corporation Tax occurred in April 1990, and from that date, corporation tax of 10 per cent applied This alteration in tax rates still left Ireland competitive with respect to other European countries, although the review noted that tax free status, in restricted circumstances, was still available in parts of Italy, and in enterprise zones in France and Belgium

Prioritisation was given to companies who scored high on the following list of factors -

* *complete integrated business entities (with skilled employment, purchasing autonomy and responsibility for key business areas such as product development and marketing*

* *projects with immediate and substantial jobs impact*

* *production units with good technological content, and*

* *commercially viable production units*

(87, Performance Review, 1990 p68)

Again we can see that there is still an expectation that overseas firms will expand the nature of their operations in Ireland However in the review of industrial performance in 1990, recognition was given to the major limitations on the scope for establishing fully integrated overseas projects in Ireland and interestingly the review acknowledges unambiguously that, because of such limitations " the primary focus of industrial policy must be on the development of medium / large indigenous industry

Not surprisingly, in view of the concentration of industrial policy from the 1960's through to the middle to late - 1980's on the overseas sector, the employment performance of the medium / large indigenous sector has been disappointing

TABLE A 11

EMPLOYMENT PERFORMANCE OF MEDIUM / LARGE INDIGENOUS INDUSTRY

	GROSS GAINS	GROSS LOSSES	NET CHANGE
1983	2,170	10,184	- 8,014
1984	1,916	8,222	- 6,306
1985	2,024	7,163	- 5,139
1986	2,373	5,797	- 3,424
1987	1,967	6,941	- 4,974
1988	3,485	5,984	- 2,499
1989	3,751	5,276	- 1,525

SOURCE REVIEW 1990, P51

The job losses occurred primarily in the traditional sectors with over one - third to be found in the food industry By contrast the net gains occurred in the modern sectors such as chemicals and electronics

In summation the response of the State to the recommendations set down in the Telesis report undoubtedly had the effect of redressing the imbalance which existed between foreign and indigenous industry The response however could best be described as "falling between two stools" with a reluctance on the part of successive Governments, during the 1980's, to proactively implement some of the more extreme measures outlined in the Telesis report A " gradualist " approach to the reduction of reducing the level of grants is the best way of describing Government policy Even allowing for the benefit of hindsight, it is still possible to level criticism at this stance After all, the first ever major review of industrial policy, carried out by an independent group of consultants - Telesis, advocated the need for more incisive, remedial action to be taken This was conspicuously ignored It was particularly evident in one area which was highlighted by the Telesis report as giving cause for some of the problems with the effective implementation of industrial policy the duplication and overlap which existed within the broad myriad of State agencies and development boards By the time of the first review of policy in 1986, thirteen State Agencies existed By 1990 (when the second review took place) this had reduced to ten, due in the main to the amalgamation of the Institute for Industrial Research and Standards (IIRS) and the National Board for Science and Technology (NBST) into an agency called Eolas This clearly did not address the duplication problem identified by Telesis, and still resulted in agencies such as the Industrial Development Authority and Coras Trachtala (the Irish Export Board) retaining offices in the same country and overlapping in terms of their contact with foreign firms and overseas agencies

1.8. THE CULLITON REPORT : A TIME FOR CHANGE

At the beginning of 1992, (yet) another major review of industrial policy was brought before the Minister for Industry and Commerce (88) This report was prepared by a team of high profile Irish industrialists and one academic. The Chairman of the Industrial Policy Review Group was Jim Culliton, Chairman of Unidare Thus it could be argued that the constituent members of the group were representative of individuals who have had direct experience of working in the Irish business environment and therefore were receptive to the political, cultural and social influences on industrial policy The key thrust of the findings of this group was a need for change in the prevailing attitude to industrial policy This was based on four central "pillars" -

* Formulation and evaluation of policy for industry needs a broader strategy It must go beyond the traditional departmental demarcation lines to take account of all the major factors, including notably the level and structure of taxation, the cost and quality of infrastructure and the relevance and effectiveness of education and training

* A view that the economy needs much more market - led and production - oriented enterprise Policies that encourage a hand - out mentality, or that otherwise reward directly unproductive activities, must be reformed

* Irish industrial performance must be built on national sources of competitive advantage and in this respect, the role of Irish - managed companies still needs special attention

* Industrial policy interventions need to be delivered in a more integrated and cost - effective manner and their effectiveness monitored continuously and rigorously

(*Source · A Time for Change Industrial Policy for the 1990's p21*)

This report is noteworthy because it states in unequivocal terms that there is no quick fix solution to the problem of solving unemployment It castigates previous policies for committing the country to borrowing for short - term gain in an attempt to come up with short term solutions to unemployment as simply creating a consequent policy of high taxation which is necessary to pay the bill

It differs from previous studies by highlighting much broader problems such as the inequities in the taxation system which militate against fostering a climate of self - sufficiency and entrepreneurship As well as criticising the multiplicity of tax reliefs and exemptions which encourages "unproductive tax avoidance activities", it suggests that the personal taxation system also hinders enterprise sue to the high marginal tax rates applying to single persons with modest earnings

It points to deficiencies in the education system, identifying gaps in the technical and vocational areas which mean that intermediate production skills are often absent Likewise it castigates FAS - the State training agency as falling more accurately into the category of providing support for the unemployed rather than training per se

It reiterates (almost ten years on) the notion that the Irish economy has largely been based on " dependent branches of foreign multinationals and operating almost as an enclave, alongside a traditional indigenous sector which, with some significant exceptions, is largely static or in decline" (89)

It also supports the view that the attempts of successive Governments to implement the proposals of the Telesis report were at best half - hearted and that while industrial performance improved in the latter half of the 1980's, it can be attributed more to the favourable external trading environment than to the specific changes made to industrial policy

It endorses the assessment of industrial policy as put forward by Michael Porter (90) who viewed the shift in policy in Ireland as being "too little too late and that there has not been a strong commitment to the slow process of developing a broader base of indigenous firms "

The report is quite specific on the kinds of changes which are necessary to re - orientate the strategy for industrial promotion It argues for a further squeezing of the grant - aid budget for foreign industry, with a decisive movement away from grants for home - managed industry to the use of equity to meet gaps in the financial market for venture and seed capital This represents a radical shift in thinking and its implications for small firms in particular will be assessed in the next chapter

The report also advocates a more rigorous approach to selectivity when supporting industry In this respect the members of the review group draw on the theory that such an exercise should be directed towards the establishment of industrial clusters around sources of national competitive advantage It identifies other countries which have utilised this principle For example most of Denmark's' world class industries are centred around agriculture - given its competitiveness in barley, beer and fermentation equipment In Germany, mechanical engineering expertise provides a backbone that relates to many of Germanys' competitive industries, including a range of machinery and process equipment industries

The review group are emphatic when arguing that there is a need for a systematic review of industrial policy , in contrast to the ad hoc, infrequent reviews in the past They suggest the formation of a task force to follow up on the recommendations of the report, with direct responsibility to the Taoiseach This in my view is an important contribution to the debate on the structuring of industrial policy In preceding decades very infrequent reviews of policy were carried out In view of the major proposed changes to existing policy identified in this report, it required a major shift in "mind - set" if such proposals were to be carried out This was clearly the case with the Telesis report The key issue is that if there is not in place a task force to actively and systematically review policy, then it becomes very difficult for the Government of the day to make the required changes without attracting criticism from vested interest groups who have their own private agenda for resisting change This is particularly relevant in a situation where there is a coalition government in place or where there is a lack of a clear mandate given to any one political party This latter point has clearly been in evidence in Ireland over the past two decades

The Culliton report in summary, unambiguously reiterated the fundamental flaws of industrial policy identified by the Telesis report almost ten years earlier It criticised existing industrial policy as being half - hearted in terms of shifting away from the dependence on the overseas sector and on cultivating a " hand - out " mentality stemming from a focus on grants and tax exemptions It also broadened the analysis of the influencing factors on industrial policy to more fundamental issues such as the way in which personal taxation rates have militated against entrepreneurship

The recommendations contained in the Culliton report generally have been treated with caution by successive coalition Governments While the structures and departmental responsibility for industry and enterprise have been changed , with the advent of a Minister for Enterprise, the streamlining of State bodies and agencies has not occurred If anything, they have been further complicated There is no tangible evidence that the major recommendations have been accepted There would appear to be a similar reluctance to make difficult decisions as was the case after the Telesis report was submitted almost a decade earlier This does not bode well for the immediate future

CONCLUSION

This chapter has examined the evolution of industrial policy in Ireland since the inception of the State in 1921 A number of distinctive phases have been identified , from the protectionist policies in the first two decades, to the shift towards an outward - looking, foreign investment phase It is submitted that there has been a reluctance on the part of successive Governments since the late 1970's, to correct the imbalance which occurred between the allocation of resources between the indigenous and overseas sectors Put simply, while the contribution of the overseas sector has been strong, in relative terms, there has not been a corresponding improvement in the indigenous sector The level of linkages which have been established between overseas firms and local suppliers has been disappointing These latter issues will be investigated more closely in the next chapter

There has been a further reluctance on the part of the State to fully recognise the flaws identified in the components of industrial policy by two seminal reviews the Telesis Report in 1982 and the Culliton Report in 1992 Both studies recommended a reduction in the level of grant availability to foreign companies and a streamlining of State agencies and authorities, with a corresponding strengthening of support to the indigenous sector, as being central to any alteration in industrial policy At best the responses of Governments to the proposals can be described as half- hearted, with a backing away from the task of implementing some of the more radical proposals In particular the issue of foreign firms locating key business functions in Ireland has not been resolved Both studies clearly pinpointed the fact that the low rate of taxation on export profits has actively discouraged overseas firms from locating R & D, marketing and so on in Ireland Likewise both studies have identified a number of other fundamental reasons which encourage firms to locate such functions elsewhere Yet the White Paper of 1984, and other subsequent plans still retain the belief that overseas firms will strengthen their operations in Ireland There has been a marked reluctance to change this view There has been a tentative acceptance that State agencies need to be more selective and discriminating in terms of awarding grants and incentives This was a strong recommendation which emanated from the Culliton review team However the initial programme for planning from the Coalition Government does not specify to any great extent how precisely this might be implemented

In summary, there is a look of "unfulfilled promise" about much of the industrial policies implemented by successive Governments, particularly over the last two decades Too much focus has been given to the overseas sector and as will be demonstrated in the next chapter, considerable deficiencies currently exist in the indigenous, small firm sector

It is easy to be critical when utilising the benefits of hindsight, and this needs to be acknowledged It should also be recognised that the proportional representation system which is used in this country to elect a government, does not produce a strong mandate to govern As a result, much of the reluctance to undertake difficult decisions such as streamlining State agencies, reallocating resources regionally and fending off pressure groups can perhaps be explained by this feature Until such time as industrial policy recognises and *acts on* the limitations of overseas industry, then it is difficult to envisage significant improvements in the small firm sector

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APPENDIX B

INTERVIEW SCHEDULE: PHASE 1

Interview Schedule.

Objective One: Background Information on the organisation. e.g.

- Historical development of the company,

- Nature and extent of product offerings.

- Nature and extent of markets covered.

Objective Two: The Organisational Structure.

- The departmental structure,

- Who reports to whom?

- The structure of the marketing function

- The role of the Chief Marketing Executive.

Objective Three: The Chief Executive Officer.

- background,

- perception of views towards the various business functions.

- leadership style,

- approach to planning,

Objective Four: To examine the approach to strategic planning.

- time horizon,

- Definition of Business

- Selection of product/market(s),

- Environmental analysis,

- Competitor Analysis.

- Company appraisal

- Market analysis,

- Customer analysis.

- Setting of Corporate Objectives,

- Development of the Business Strategy,

- Review/evaluation procedures.

Objective Five: To examine the approach to marketing planning.

- Time horizon,

- Marketing Audit,

- Setting of Marketing objectives,

- Development of marketing strategy,

- Review/evaluation procedures.

Objective Six: To examine the extent to which the marketing plan influences the strategic plan.

- to what extent is the marketing plan circulated, across functional/divisional areas?

- How (if at all) is this plan integrated into the design of the strategic plan?

Objective Seven: To probe the level of cooperation/collaboration across the departmental boundaries.

- meetings held,

- use of project teams,

- joint involvement in planning activities,

- involvement of non-marketing personnel in customer visits.

Objective Eight. To examine the extent and nature of involvement of the marketing function in various types of decision-making activities.

- Extensive problem solving,

- limited problem solving,

- routine decisions.

Objective Nine. To establish the performance of the company over a three to five year perspective.

- Above average, average and below average being the categories adopted,

- Assessed on the basis of the nature of objectives adopted by the company earlier in the interview schedule,

- Typically some measures would be;
  - sales,
  - profit,
  - market share,
  - return on investment.

Objective Ten: To probe the respondents on a number of general issues such as;-

a). perceptions of the attitudes of other business functions to marketing,

b). specific difficulties/ obstacles

encountered in developing,
implementing and integrating the
plannning activities.

c). initiatives/innovative activities
introduced into the company to aid
planning activities.

APPENDIX C

INTERVIEW SCHEDULE: PHASE TWO

TELEPHONE SURVEY

Section One

Background Information

COMPANY NAME

ADDRESS

INTERVIEWEE NAME

JOB TITLE

PRODUCT CATEGORIES

NO. OF EMPLOYEES

DATE OF ESTABLISHMENT

MARKETS SERVED. Domestic Export

SECTION TWO

FORMATION OF THE ENTERPRISE

Q.2 COULD YOU PLEASE TELL ME WHAT CIRCUMSTANCES LED TO THE FORMATION OF THE COMPANY IN THE FIRST INSTANCE?

The identification of an opportunity not being addressed
As a result of a management buy-out.
As a result of a redundancy.
As a result of job dissatisfaction
A quest for independence
Encouragement from customers from previous company to 'go it alone'.
The influence of colleagues

Q3 AT THE INITIAL STAGES OF THE COMPANY'S DEVELOPMENT, HOW MANY PRODUCTS WERE YOU BRINGING TO THE MARKET PLACE?

A single product
A comprehensive product range.

Q4 CAN YOU TELL ME WHAT CHANGES YOU HAVE MADE TO YOUR CURRENT PRODUCT RANGE BY WAY OF ADDITIONS. DELETIONS TO YOUR ORIGINAL PRODUCT OFFERING? DEVELOPING NEW PRODUCTS OR LOOKING AT NEW MARKETS OPPORTUNITIES.

The company has remained within its present product range and its present markets.
The company has developed new products for its present markets
The company has sought new markets for its existing products
The company has developed new products for new markets.

Q5 WHAT STAGE IN THE GROWTH AND DEVELOPMENT OF YOUR COMPANY WOULD YOU SAY YOU'VE REACHED?

Still at the start-up phase with survival being the main objective
Having overcome the initial hazards of a start-up enterprise, and beginning to see "light at the end of the tunnel".
Becoming established in the market-place with a customer base and a developing reputation based on attributes such as reputation, reliability, quality products etc
Discovering that there is limited scope for further development within existing markets and consequently seeking new markets.-

domestic
foreign

Active consideration being given to

take over by another company
acquisition to another company

Q6 WHAT WOULD YOU SAY WERE THE MAIN DIFFICULTIES EXPERIENCED IN THE INITIAL STAGES OF THE COMPANY'S FORMATION?

Seeking the necessary finance.
Identifying potential customers.
Not having specialist skills in key functional areas such as

Finance
Marketing
Selling
Technical
Other

Not having the factory capacity to handle orders
Cash flow difficulties
Lack of a clear plan to guide the company.

Q7 WHAT DO YOU FEEL ARE THE COMPANY'S MAIN STRENGTHS

Successfully identifying a niche in the market-place.
Bringing a product/service to the market-place which is unique.
Being small and as a consequence being able to react more quickly to developments in the market-place.
Having a large customer which provides guaranteed business
A sound knowledge of local market conditions
Other reasons.

Q8 CAN YOU TELL ME A LITTLE ABOUT YOUR OWN PARTICULAR BACKGROUND?

Education
- Second Level
- Third Level -
  - Primary degree - Arts, Science, Business
  - Higher degree - Engineering, Science, Computing, Some MBA's

Business – Has previously worked for a company in the same business area
Worked for a multinational
Had previously been self-employed
Other

Q9 HOW IS THE COMPANY PRESENTLY MANAGED? WHAT IS THE STRUCTURE OPERATING E.G. IT IS RUN BY OWNER/MANAGER?

A Solely owner–managed. the owner of the enterprise being the person with sole responsibility for all aspects of the strategic and day–to–day decisions affecting the enterprise

B. Owner–managed, with use being made of professional managers.

FINANCE DIRECTOR/MANAGER
MARKETING DIRECTOR/MANAGER
PRODUCTION DIRECTOR/MANAGER
RESEARCH AND DEVELOPMENT DIRECTOR/MANAGER
PERSONNEL DIRECTOR/MANAGER

e.g. Own Managed 1 person with 1 or 2 partners.

Q10 HOW SOON AFTER THE COMPANY WAS STARTED DID YOU BRING IN PROFESSIONAL MANAGEMENT FROM OUTSIDE?

Colleagues were already involved at the initial stage
Within the first six months
After one year of trading
Other

Q11 WHAT SPECIFIC BUSINESS ACTIVITIES DID YOU LOOK AFTER? (IN THE EARLY STAGES OF DEVELOPMENT)

Production
R&D
Sales
Marketing
Finance
Other

Q12 AGAIN, IN THE INITIAL STAGES, WHAT WERE THE KEY FUNCTIONAL AREAS WHERE YOU NEEDED TO BRING IN OUTSIDE EXPERTISE

Everything was in place
Production
R&D
Sales
Marketing
Finance
Other

Q13 IN TERMS OF LANDING NEW BUSINESS WHO ACTUALLY TAKES RESPONSIBILITY FOR THIS TASK?

The Managing Director
Fellow Directors (in an ad hoc fashion)
A person with sole responsibility
Sales Director/Manager
Sales representative

ESSENTIALLY, DO THEY HAVE A SALES FUNCTION?

Q14 HOW DO YOU GO ABOUT GETTING NEW CUSTOMERS?

Direct sales calls
Referrals – based on personal contacts
–based on word-of-mouth
–from existing customers
Attending trade fairs/exhibitions
Getting on approved suppliers lists
Using trade directories with follow-up calls
Media advertising (Trade Journals)
Mailing company brochures with follow-up calls
The efforts of the managing director

Q15 AS THE BUSINESS HAS DEVELOPED HOW HAVE YOUR OWN AREAS OF RESPONSIBILITY CHANGED, IF AT ALL

Has remained the same
Have relinquished areas of responsibility as professional management expertise has been brought into the company.

Has ceased to be involved in the day-to-day operations of the business, concentrating instead on the long-term decisions which have to be made.
Other changes

SECTION THREE *THE PLANNING PROCESS*

Q16 CAN YOU INDICATE TO ME THE TIME-FRAME WHICH YOU CONSIDER WHEN PLANNING THE COMPANY'S BUSINESS ACTIVITIES?

A one year perspective
One to two years
Three years
Over three years. (please specify)....

Q17 HOW DO YOU GO ABOUT PREPARING A BUSINESS PLAN?

Based on intuition, experience of the market, but not formally written into a document.
A formal written document produced by the managing director only and subsequently circulated to colleagues.
A formal written document produced from an annual assessment of the market(s) position by senior management, involving.

Managing Director
Financial Director
Marketing Director
Production Director
Technical Director
Other (Please Specify)

IF NO FORMAL PLANNING ACTIVITY EXISTS, PLEASE GO TO QUESTION 23

Q18 HOW OFTEN IS THE PLAN REVIEWED?

Annually
Every six months
Quarterly
Monthly
Other

Q19 WHO CARRIES OUT THIS REVIEW?

Managing Director
A committee consisting of those who originally developed the plan
Specific Personnel (please specify)

Finance
Marketing
Sales
Production
Technical
Other

Q19B HOW DO YOU GO ABOUT THIS REVIEW? (MECHANISM/S)

-Weekly review meetings
-Written quarterly reports

Q20 WHAT ARE THE MAIN ELEMENTS WHICH ARE CONTAINED IN THIS PLAN?

A review of the current business situation facing the company.
An assessment of the mam opportunities and threats presenting themselves to the company.
A company mission statement
Business objectives - stated in terms of -

sales volume	[overall]
	[region]
market share	[overall]
	[region]

A stated target return on investment.
Other (please specify)
A breakdown of the budget allocated for the achievement of stated objectives-containmg.
general media advertising
attendance at trade fairs/exhibitions
production of brochures/publicity material
product development/enhancement
Training programmes.-

product
sales
management development
marketing
technical
corporate hospitality
other

A breakdown of planned expenditure in the areas of.-

new equipment/machinery
factory expansion
extra staff
other (please specify)

A section containing an assessment of the competition.

A section detailing the business strategy to be employed.-
if yes.- what areas are included?

Segmenting the market on the basis of a number criteria.

The broad strategy employed for promoting the company's products/services

media advertising
selling
attendance at trade fairs/exhibitions
other (please specify)
mailing brochures

The strategy to be employed for distributing product to consumers

The strategy adopted for sourcing materials for manufacturing the final product

Strategy covering the area of customer service e g delivery policy

Other [please specify]

Q21 DOES YOUR COMPANY DEVELOP.-

a) A single comprehensive business plan which acts as the sole working document for the company?
b) A business plan which is made up from a number of functional plans, each of which are developed separately?

IF B PLEASE OUTLINE WHAT FUNCTIONAL PLANS ARE DEVELOPED.

SALES PLAN
MARKETING PLAN
PRODUCTION PLAN
FINANCIAL PLAN
OTHER [please specify]

IF B WHO TAKES RESPONSIBILITY FOR THESE FUNCTIONAL PLANS?

SALES DIRECTOR
MARKETING DIRECTOR
PRODUCTION DIRECTOR
FINANCIAL DIRECTOR
OTHER [please specify]

Q22 COULD YOU TELL ME WHAT YOU TAKE THE TERM "MARKETING CONCEPT" TO MEAN?

Satisfying the needs and requirements of the market-place
Marketing equates to selling
Marketing equates to advertising
Providing a comprehensive level of customer service
Other [please specify]

Q23 WHAT BUSINESS ACTIVITIES WOULD YOU ASSOCIATE WITH THE TERM 'MARKETING'?

Advertising
Marketing Research
Sales Forecasting
Pricing
Personal Selling
Product Development

Distribution
Customer Service
Sponsorship
Other [please specify]

Q24 DOES YOUR COMPANY EMPLOY SOMEBODY WITH DIRECT RESPONSIBILITY FOR MARKETING?

Yes–Job Title
No

IF YES, PLEASE OUTLINE THE ACTIVITIES FOR WHICH HE/SHE TAKES RESPONSIBILITY.

MARKETING RESEARCH
CUSTOMER LIAISON
BUSINESS PLANNING
IDENTIFY POTENTIAL NEW CUSTOMERS
SETTING THE PRICE LEVELS
DEVELOPING PROMOTIONAL LITERATURE
OTHER [please specify]

IF THEY DON'T, WHO TAKES RESPONSIBILITY FOR THE ABOVE ACTIVITIES?

JOB TITLE.
MARKETING RESEARCH
CUSTOMER LIAISON
BUSINESS PLANNING
IDENTIFYING POTENTIAL CUSTOMERS
SETTING THE PRICE LEVELS
DEVELOPING PROMOTIONS LITERATURE
OTHER [please specify]

Q25 FINALLY, AS YOUR COMPANY CONTINUES TO DEVELOP WHAT IN YOUR VIEW, ARE THE PRIORITY AREAS WHICH BOTH YOURSELF AND YOUR FELLOW EXECUTIVES NEED TO ADDRESS?

New product development
Becoming involved in export markets
Attracting larger, more lucrative customers
Other [please specify]

APPENDIX D

COVER LETTER: PHASE TWO

UNIVERSITY OF
STRATHCLYDE

SE/JMcF

Dear

Allow me to introduce myself My name is Sean Ennis and I am currently lecturing in marketing at the **University of Strathclyde in Glasgow.** Prior to this, I lectured in the **College of Marketing in Dublin** and remain an active member of the Marketing Institute of Ireland, having served as **Chairman of Education in 1986 and 1987.**

However, enough of my life history ! Let me get to the purpose of my letter to you I am currently engaged on research for my PhD and am registered with the Dublin City University at Glasnevin My objective is to obtain a general perspective of current practices within indigenous firms in the **electronics sector** with regard to their business planning activities

Because of the logistical difficulties which I face in terms of making face-to-face contact with companies and after consultation with my research supervisor **Professor Peter Chisnall**, I have decided to use the telephone as the most appropriate method for collecting information

I have drawn up a sample of some eighty companies from the **Kompass Directory,**a report entitled " *Strategy for the Irish - owned Electronics Industry*" - published by the **Department of Industry and Commerce** and the **Golden Pages Directories.** As a result I have selected your company for participation in the project

The interview should last for no longer than fifteen to twenty minutes The topics will cover general background to the development of your company how you have expanded your product - market base, your overall approach to planning and any difficulties which your company has experienced as it has grown

In order to ensure a high response rate and provide minimum disruption to your daily routine, my research colleague **Colin McGilvray,** or myself, will phone you in a couple of days to arrange a time which is convenient for your participation We would then propose to interview you at that agreed time

STENHOUSE BUILDING 173 CATHEDRAL STREET GLASGOW G4 0RQ
Tel 041-552 4400 Telex 77472 UNSLIB G Fax 041-552 2802
Head of Department Professor Stephen Young

I would like to assure you of complete confidentiality with regard to any information which you impart and that I will be following the guidelines established by the Market Research Society In any event, the focus of the research project is not designed to investigate potentially sensitive areas of your business operations Moreover, no individual company will be identified by name in the thesis

I am very keen to learn from your experiences and feel that your contribution will help me to obtain my PhD I hope you will find the interview interesting and thank you for your cooperation to date

Yours sincerely,

Sean Ennis
Lecturer in Marketing

APPENDIX E

ASSESSMENTS OF CASE STUDIES

THE CASE OF THE CHIP COMPANY

Assessment: The Chip Company

The origins of the Chip Company can be traced back to Gerry Sweeney's initial attempts to start his own business, when he was a schoolboy As he progressed through college and worked in his first job, he continued to be on the lookout for business opportunities He eventually spotted a gap in the computer peripherals industry which did not appear to be addressed namely that of a services provider to the repair and maintenance of computer peripheral equipment

It can be said that in many ways, Sweeney exhibits many of the traits which are commonly associated with that of the entrepreneur a quest for independence, a willingness to take a risk, the ability to spot a previously unexplored opportunity and a single-mindedness of focus in his attempts to bring the idea to fruition Prior to the development of this company, most computer companies tended to carry out the repair and maintenance function in - house The success of the venture rested on the ability of Sweeney to convince potential customers of that the benefits of contracting out this function would outweigh the associated costs

The initial level of success achieved by the Chip Company can be attributed in no small measure to the proliferation of computer companies in Ireland and Great Britain, allied to the high levels of growth which these companies were experiencing during the early to middle part of the 1980's Sweeney accurately assessed the opportunities, albeit in an intuitive manner, and without any formal attempt to gather information from potential customers about their predisposition to contract out In his defence, it can be argued that the initial Apple contract acted as a precursor as to what might be expected in the future

Following the initial order from Apple, subsequent business was generated on the basis of referrals Sweeney pointed to the potential dangers of growing the business too quickly and highlighted the fact that there was no need at this stage for a sales or promotion strategy This experience is common to many start - up enterprises, where enquiries arrive unsolicited from potential customers and where the company's initial successful attempts to meet orders lead to a strong "word of mouth" effect

Superficially it would appear that Sweeney's view of the lack of need for any formal sales / marketing supports some of the empirical evidence from the literature where it is argued that an aggressive adoption of marketing can be counterproductive in situations where rapid growth is experienced However such a line of argument is unduly narrow in its depiction of what constitutes "marketing" The fact that the Chip Company succeeded in meeting the requirements of Apple in areas such as quality, reliability, customer service and delivery dates, in itself suggests that it is implementing many functions of marketing Sweeney adopts the narrow interpretation of marketing associating it with sales and promotion activities The fact that he does address customer service issues suggests that he is an "implicit" marketer

Sweeney acknowledges that he had limitations when it came to understanding the nature of supplier - customer interactions and in particular in the area of the decision - making process in the business to business market His attempts to acquire an insight into these matters is interesting and worthy of comment

Firstly he contacted a colleague of his from university who acted as a mentor Specifically this individual - Pat Meehan, outlined his experiences of operating in an export sales capacity, with particular focus on the need to adapt the sales approach, depending on the category of individual and company which he came into contact His approach (outlined in the previous section) is comparable to the traditional models which reflect the industrial decision - making process, such as those outlined by Fisher and Wind

The influence of Meehan, and in particular his role as mentor highlights the potential benefits which can be accrue from the contribution of outside expertise, at no financial cost to the company concerned It must be said that Sweeney was perspicacious in acknowledging his lack of knowledge about the nuances of business to business relationships and the need to acquire some insight in order to create an environment whereby the company might expand in the medium term It is submitted that a conscious recognition of such limitations allied to a proactive approach towards redressing this imbalance, does not occur that often within enterprises at such an early stage in their evolution

Sweeney also demonstrates a certain versatility in terms of maintaining a parallel business which operates from within the same premises This stems from his early involvement in selling power / machine tools, when he was at university This venture, although run as a "part - time exercise, (the receptionist / telephonist handles the orders and queries) still managed to generate £85,000 worth of business in 1988 The *value of this activity should not be underestimated While it might be argued that it diverts Sweeney's attention away from the core business, it is equally clear that it does not demand much of his time, by way of overseeing its operations More importantly, it provides a valuable source of income which can be used in a number of different ways within the overall scheme of things It means that, working off a net margin of 15 per cent, roughly £10,000 can be re - directed to the core business, either by way of investment or as a means of smoothing out any cash flow difficulties which might emerge*

Sweeney moved quickly to address the management of quality within the company This meant that he pursued the ISO 9000 programme and achieved accreditation within the first three years of the company's existence The advice of his mentor played a large part in motivating Sweeney to go down this particular route It can be argued that a failure to do so would lead to a very poor response from the large computer companies

Assessment

This second discernible phase of growth witnessed a number of significant developments mainly in the planning and control areas The company succeeded in transferring the initial unsolicited enquires and tentative first orders into solid repeat business, with attention being paid to the management of the relationship between both supplier and customer

Sweeney has followed the path to growth and development which is common to many similar enterprises Firstly the management structure evolved in tandem with the pace of development experienced by the company as the ISO 9000 programme was pursued, a production and engineering manager were put in place, as the customer base widened and the size of individual contracts increased, a financial controller was also recruited The fact that there was no perceived need to proactively attract new customers meant that Sweeney did not employ marketing or sales expertise at this stage Secondly, a more rigorous and disciplined approach to implementing planning and monitoring procedures emerged Previously, Sweeney adhered to a twelve month time frame, but the arrival of the financial controller improved the quality of the monthly management accounts and the rigour with which they were evaluated Thus it can be argued that in this case strategy followed structure the input from functional specialists (most notably in the finance area) influenced the development of the planning process

The approach to the longer term or strategic aspect of the planning is more problematic however Sweeney asserts throughout the discussion that he has always pursued a three to five year time - frame However this exercise is not committed to any formal document or plan, which would be capable of being communicated subsequently to other members of the management team or indeed the employees While it can be argued that the absence of a formal statement of long term intent is not critical, it becomes difficult to operate in such a manner when a formal management team exists and where they in turn are expected to participate in the decision - making process If the owner manager / chief executive has an assertive, dominant personality, is capable of making decisions in an incisive manner and retains the confidence of his management team, then the lack of any formal document is less important However where this individual prefers to operate within a framework which is based on consensus and consultation, then the absence of a clearly articulated statement of intent is an undoubted weakness the rest of the management team may struggle to understand the inner workings of the mind of the owner manager This can lead to confusion, frustration and ultimately conflict

Sweeney exhibited a number of personality traits He is clearly someone who believes strongly in his product offering His technical background emerges strongly in discussion he is more relaxed when he is demonstrating the range of products and equipment within the factory He does not evince any clear evidence of a strong and forceful personality which would be capable of making unilateral long - term decisions While initial appearances can be deceptive, it must be stressed that discussions took place with Sweeney on a number of occasions both face to face and through the medium of the telephone interview In addition attention was paid to the body language during the discussions and a research colleague was also in attendance

It is therefore submitted that while Sweeney professes to follow a three to five year time frame, it is debatable as to whether this is effectively communicated and indeed implemented within the company This is evidenced in the preoccupation with addressing current considerations at the expense of decisions which could play an important role in shaping the company's future direction While it can be argued by Sweeney that there was no need for a marketing / sales specialist during this phase of development, this demonstrates the lack of focus or attention to the longer term The computer industry, world - wide, was beginning to show indications that the fast growth period of the 1980's was about to change This was most evident in the constant pressure on price (as the personal computer segment increasingly became a commodity product), and the consequent impact which this would have on the cost structure pertaining in these companies The fact that there was no anticipation of the likely changes in the environment and their consequences for a company like the Chip Company, casts considerable doubt on the efficacy of Sweeney's approach to the strategic issues Put simply, he addresses the present in an effective manner, but appears to ignore the future

This has serious implications for an enterprise such as the Chip Company It must be remembered that it is a small enterprise (employing 35 people during this stage of development), depending for its existence on a relatively small number of large, multinational corporations, who themselves are under increasing pressure to provide quality products at lower costs The potential loss of business therefore could and should have been foreseen by Sweeney However no formal attempt was made to explore new markets or opportunities at this stage

The Chip Company has experienced a number of potentially traumatic events during this period the chief one being the sharp downturn in the computer sector and the resultant loss of business from its established customer base A number of alterations to the existing strategy were made by Sweeney and these are the focus for subsequent discussion in this section

The point should be made at the outset that it is difficult to analyse the precise sequence of events which led to the change in direction and focus A number of internal and external changes were made to the existing strategy, largely in a reactive, as opposed to a proactive fashion However such an evaluation is perhaps unduly simplistic and may not do justice to the business acumen exhibited throughout by Gerry Sweeney The opening of a facility in Holland was something which he had considered on an on -going basis for a period prior to the eventual downturn in the computer industry To this end, he had been consulting with his business mentor, Pat Meehan and (through his contacts) a potential Dutch partner Eventually they acquired a premises which allowed them to start up operations in mainland Europe It is worth pointing out that this venture did not move the Chip Company into new product areas it was still offering the same product offering as had been in existence in Cork for a number of years However it did offer existing customers an alternative More importantly it opened up the possibility of acquiring and developing a broader customer base Quite how this decision was arrived at, when considered in relation to overall strategy development and implementation, is more difficult to assess Clearly *it does not form part of any pre - planned strategy framework To some extent it is opportunistic initial consultations with his colleague put him in touch with a Dutch businessman It also demonstrates that Sweeney was actively looking at possible activities which would offer a better option to customers, particularly those based on mainland Europe Above all it highlights the innate, intuitive manner with which Sweeney grasps the potential difficulties of remaining within the existing product / market framework His colleague presents him with a possible opportunity which he pursues in a quick and decisive fashion This also happens in the case of the relationship with the SICA company Once again there is no evidence of any so called "rational and pre planned" approach to these initiatives It appears as though Sweeney is mentally attuned to the developments in the market place and takes advantage of the opportunities which emerge The relatively "flat" and informal management structure which pertains in the Chip Company creates an environment whereby decisions can be made quickly and implemented without any time lag*

It must be stressed that these initiatives do not in themselves guarantee success much less a cushion against the decline of the core business The generation of added revenue however provides an indication that in the longer term, such activities will contribute to the development of the business in a positive manner

The influence of personal traits and characteristics should not be underestimated either Sweeney has demonstrated a facility for starting business ventures since he attended school and later, university The continuation of his original power tool sales operation, in tandem with the development of the Chip Company is an example of the flexible approach which he adheres to Thus he likely to embrace the notion of establishing a foreign facility as well as entering into a joint venture

It is submitted that the strategy formulation and development which can be ascribed to this phase of development is best described as a process of osmosis where Sweeney intuitively seizes upon opportunities which provide an alternative to the existing core business, which is in decline His willingness to listen to "third party" advice, combined with his ability to network effectively with subsequent contacts, ensures that these opportunities are developed and not left "on the back burner" It is clear that there has been no formal evidence of "pre - planning" in so far as the above mentioned developments form a part of any long term strategic plan

Thus Sweeney can be accused of making the fundamental mistake of becoming pre - occupied with the present, at the expense of the longer term issues The absence of *any formal strategic plan can also be pinpointed as a typical mistake which owner - managers make However he manages to put in train a series of decisions which have the net effect of redressing the likely loss of business from the downturn in the computer industry There is no guarantee that these measures will prove to be successful neither does it minimise the possibility that the company will continue to experience difficulties It is submitted that Sweeney's approach is indicative of the mental attunement and dexterity which can be found within the scope of operations of owner - managers It is also argued that the "flat", informal organisation structure facilitates this process This assessment is unsatisfactory because it is virtually impossible to identify any discernible link between "cause and effect" However the aspect of mental attunement should not be under -estimated for its role in the planning process It must be reiterated that these observations are made in relation to the longer term considerations there is a clearly identified formal planning process which addresses the short term*

The changing attitude of Sweeney to formulating a pricing policy is worthy of assessment The "cost - plus" method employed up until this point in time is one which is common to many companies, irrespective of size The subsequent move towards a more flexible approach represents a recognition that the company must <u>adapt to survive</u> It also represents a "maturing" of Sweeney's understanding of how business can be won and subsequently sustained This is demonstrated in the quotation where Sweeney recognises the benefits which can derive from pursuing a "loss leader" policy, but only if this is complemented with a strategy which strives to achieve added value from other market sectors or niches This shift in "mind - set" has occurred quickly and in an unobtrusive manner Once again this highlights the flexibility in decision - making which is prevalent in the smaller firm It becomes a more difficult and complex process in the large organisation where the champions of change have to contend with bureaucracy, conflict and functional divisions

THE CASE OF CONNAUGHT ELECTRONICS LTD (CEL)

Assessment

Connaught Electronics did not encounter the "quick growth syndrome" that many electronics companies experience during the first phase of development This was due, in the main, to the fact that Joe McBreen made the conscious decision to develop the company on an ***incremental, phased*** *basis This was motivated by a number of factors He is by nature, a cautious individual and was therefore unwilling to make a clean break from his involvement with the multinational company and take such a a high risk by committing all of his resources to the project The circumstances surrounding the phased pull out of the multinational company allowed Joe to develop the idea of manufacturing car alarms on a part - time basis It was also his view that such an arrangement, especially when coupled with the securing of the licensing arrangement, provided both Frank Clancy and himself with the necessary time to research the competitive offerings and design an alternative range of products*

Arguments can be put forward both for and against this approach to business formation It has the merit of reducing the level of risk involved with such a task It also means that the founder(s) can ease their way into the responsibilities associated with running a start - up venture On a more fundamental level, it allows the parties involved to retain a steady income at a time when there is a tendency for a full -time owner manager to struggle in the first year of operations, where there are major pressures being placed on the business from the lending institutions It also means that the business can be wound up more easily should the worst possible situation arise and the company is forced to close

By contrast, it can be contended that such an incremental approach can create delays and bottlenecks as the company attempts to exploit the perceived opportunity Clearly if a part - time mode is employed, it is more difficult to move as quickly within the area of product development Joe McBreen states that it took three years to arrive at a situation where it was possible to take product prototypes to potential customers It is argued that this arrangement would be inappropriate in a well established, highly competitive market However, this was not the position in this case The market was significantly under - developed and indeed, could be viewed as a long term market opportunity As a result, the long time lag between the formation of the enterprise and the arrival of the first proprietary product was not as potentially damaging as might be expected on a superficial examination of this case

Questions might also be raised about the level of commitment given by Joe McBreen and Frank Clancy to the establishment of the business Can an individual be seriously expected to hold down a responsible position with a multinational company which is itself undergoing major changes to its operations and at the same time be in a position to research and develop a business idea ? The evidence in this case suggests that Joe McBreen is by nature a cautious individual who is prepared to delay decisions until he has the requisite information or has adequately researched the proposal He refers to the fact that he had already examined fifteen other ideas prior to moving into this area It is submitted, therefore, that the approach adopted was congruent with the personality and attitude of the individual Although it might not subscribe to the conventional approaches to business formation, account must be taken of the personality of the parties involved in the process

This incremental approach ensured that Connaught Electronics was in a position to bring a product to the market place which was designed to overcome the variations in quality which was evident with the existing products The subsequent positive response from the distributors is indicative of the success of this approach orders were received quickly and the company was in a position to handle the transition from being a sub contractor to a manufacturer of proprietary products, due to the experience which the workforce gained from the licensing arrangement

*Joe McBreen's attitude to the prospect of attracting customers is revealing He links three tasks to this exercise company awareness, product awareness and ability to meet the requirements This involves Connaught Electronics in being proactive with regard to visiting the relevant distributors The word "**awareness** "features strongly McBreen sees lack of awareness as being the greatest stumbling block at such an early phase of a start - up enterprise which needs to be addressed The need to establish and build relationships is central to the implementation of this policy McBreen made extensive visits to the distributors and brought them back to visit the factory in Tuam This latter aspect had the merit of providing concrete evidence that CEL had the necessary facilities and workforce to manufacture and supply car alarms for the British market*

While this approach reflects a degree of logic and pragmatism, commentators could argue that it represents a typical "product - led" response to the identification of a possible business venture Both Joe McBreen and Frank Clancy would describe themselves as coming from a technical background and this is evidenced from the *amount of time which they spent on product design and development Their strategy could be interpreted as one of developing the product first and then bringing it to the market However, this would be a simplistic evaluation McBreen in particular assessed the competitive offerings and discovered wide variations in standards of quality He did not engage in any formal research with distributors, being content to develop a product which sought to overcome the perceived deficiencies in the existing car alarms Once convinced that they had developed a superior product, they worked on the principle that it was their job to make potential customers aware of their existence and more importantly, the product benefits However, criticisms could be levelled at the exclusion of any attempt to research the customer base with a reliance being placed exclusively on confidence in the product*

In this phase, Joe McBreen did not develop any formal plan The initial funding for the start up operations came from his own savings and his redundancy package He acquired an unused business unit from the IDA at a low rent

Assessment

The period from 1986 to 1989 could be compared to the analogy of "fitting the pieces to the jigsaw" Prior to the acquisition of orders from the distributors for sale in the after market, CEL operated in a "part time mode" in almost every respect Thus, a number of issues had to be addressed if the company was to make the transition to a professional organisation which would be able to supply quality product Many of the developments which were highlighted in the previous section therefore could be viewed as laying a foundation for the future

McBreen moved quickly to put in place a sales / distribution structure which would act in a twofold manner firstly to generate new orders but also serve as a support network for the distributors who, after all, were going to sell on to the ultimate consumer of the product His recruitment of the marketing graduate reflects the limited resources with which evolving companies have at their disposal Ideally he would have wished to recruit an experienced marketing person and clearly he took a risk with such an inexperienced individual However there are not many realistic alternatives In the course of the interview, McBreen put forward the concept of "group marketing" as an alternative strategy which might facilitate the small firm Under this approach a small number of companies would jointly fund the cost of locating a marketing representative who would act for them in a key export market It would have the benefit of reducing the financial commitment needed and at the same *time providing access to specialist expertise and advice It should be acknowledged that this was a concept which Coras Tractala (the Irish Export Board) used to some effect in the early part of the 1980's However, it receded in importance as their strategy altered more significantly funding for such a project was withdrawn*

Whatever the potential benefits which might have accrued to CEL from a group marketing exercise, it is submitted that the recruitment of the graduate worked effectively McBreen could have been unlucky with his choice of graduate, but in the absence of financial resources, both the graduate and McBreen made the best of the situation

During this period, McBreen also recruited two engineering graduates who worked in the design and quality areas of the company During discussions with Joe McBreen, he stressed the long terms benefits of "growing people with the job, from within the organisation" These advantages should not be underestimated in the context of the evolving firm It means that such individuals can adapt more quickly and flexibly to changing circumstances because they already are familiar with the company, the customer and the business environment More importantly, they are comfortable with the "culture" which prevails in the organisation It is submitted that this is critical in such an early stage in an evolving firm's development, where there is typically an absence of systems and procedures Likewise the informality which tends to arise in the activities ensures that an individual who is recruited from outside the company, particularly someone who has come from a larger company, will find it difficult to adjust to the different demands and relationships in the evolving firm It is argued that the smooth transition from a part time company operating in the sub contract sector to a company which manufactured proprietary products, was helped in no small measure by the internal development of these two graduates over the three year period

McBreen's approach to planning during this phase can be described as a ***"bottom - up"*** *approach The main drivers of the data which is built into the plan are the distributors They put forward their best estimates of anticipated sales This is reviewed by McBreen and his sales colleagues Once agreement is reached with the individual distributors, it is fed into an overall sales plan for the coming year This annual sales plan is used in turn as a indicator of the likely funds which would be available for re - investment Budgets are then drawn up by McBreen, Clancy and the accountant and are balanced against the projected income Thus, the information for the annual plan emerges from the distributors who, after all, are closest to the trends* *and developments within the market place In many respects, the bottom - up approach reflects the manner in which the car alarm products are sold Third party, independent operators act as the conduit for generating sales to the ultimate consumer They are in a strong position to monitor the current developments and future trends Because of the close relationship which he has cultivated with the distributor base, Joe McBreen takes the view that this reduces the potential for the individual distributor to distort the sales projections Regular visits also provide an opportunity to assess the continued enthusiasm for CEL's product range*

This approach, therefore provides an accurate mechanism for feeding back market developments and "most likely" sales estimates McBreen adopts the view that the annual plan or budget acts as a useful discipline for both himself and his management colleagues This part of the planning exercise is structured around the conventional "standard costing" systems where the "actual" is measured against "target" and any deviations which occur provide a focus for examination Projected capital expenditure (such as machinery) is assessed in the light of the sales projections This reinforces the view held by McBreen that he "manages a tight ship" as all decisions are influenced heavily by sales performance

Criticisms could be levelled at this method because it might encourage decision - making which is based on past performance not on long term changes in the industry which may necessitate a major reappraisal of likely investment needs If this approach were followed by a company, it is clear that expenditure which may only impact on the company a number of years into the future, might be postponed In short, it encourages a myopic approach to planning This position might be surmised from an initial examination of McBreen's approach to planning only two components are formally documented, while the long term issues reside firmly in his mind and are not committed to print

However, it would be erroneous to assume that myopic planning has happened in the case of CEL The formal aspect of the planning process is contained in the annual budgetary plan and the assessment forms which are received from the distributors McBreen retains control over the long term decision and is content to delegate responsibility for the tactical decisions to his management team He takes a three to five year strategic view of the business He assumes full and unambiguous responsibility for such decisions He does not commit his thoughts to any formal document, being content to discuss the developments fully with his team during their regular monthly meetings This can be best described as an ***"informal"*** *approach to* *the long term It is submitted that McBreen should not be judged as being dismissive of a long term plan simply because he chooses not to formalise it What is important to the continued and future well being of the company is the effectiveness of the process employed and the outcome (judged in terms of extra sales, profitability and growth), not the adherence to a prescriptive approach which may look impressive but might not contribute significantly to anything*

Credit can be given to McBreen for identifying the gradual, although distinct shift away from the "after" market to the OEM sector If the projected lead time for changes to car design and ergonomics is of the order of three to five years then it becomes imperative for a firm such as CEL to be in a position where it can productively cultivate the automotive manufacturers Such a shift in direction cannot even be contemplated unless the company has made the necessary changes to its operations and processes The manner in which CEL tackled these issues is examined in he next section of this case study

Assessment

This three year period can be seen as playing a critical role in the future of CEL In many respects it can be argued that it is obliged to transform its operations in an attempt to meet the requirements of a totally different market sector It is not unreasonable to anticipate that by the end of the 1990's, 90 to 95 per cent of car security systems will be sold through the OEM channel, with the DIY, professional sector representing only a fraction of total sales This represents a change from the situation which pertained in 1989 where only 25 to 30 per cent of sales were channelled through the OEM's

Between 1990 and 1993, McBreen has instigated many of the necessary changes in procedure which would be deemed as being essential if business was to be generated from this sector While the accusation could be levelled that he has made such alterations in a reactive mode, it is submitted that this would be unfair He has constantly put forward the view that capturing the OEM market is a long term exercise, with a lead time of possibly two years from the time of initial contact to the placement of an order Therefore it could be equally argued that CEL has been investing in the necessary systems and procedures such as ISO 9000, surface mount technology, and CAD / CAM facilities so that it is in a position to generate such business Given that orders could not be expected until 1993 (due to the long lead time), it is suggested that the latter position is a more realistic assessment

It should also be stressed that by 1990, CEL had already established itself as the largest manufacturer of car security systems in Britain and Ireland and one of the few such companies in Europe The distinct difference in quality levels, depending on the market segment being addressed, have also positioned CEL as one of the most efficient suppliers of high quality systems in Europe Thus it can be observed that CEL was not undertaking this major shift in focus, from a position of weakness but rather from a position of strength

The logistics issue however cannot be entirely underestimated Much of the automotive manufacturing operates in a just in time environment McBreen argues that the forty eight hour lead time has worked sufficiently well to date However this may not be sufficient to placate the demands of a European based manufacturer working on a JIT basis CEL's main competitor is an Italian based operator It is submitted that McBreen will have to give serious consideration to the question of how he can seek a reduction in the lead time from receipt of order to delivery at the factory gate The Italian operator may be in a more advantageous position to meet delivery schedules McBreen would counteract this by arguing that CEL has a stronger reputation for quality, based on his focus on relationship management and the personal touch

The success or otherwise of this change in direction cannot be assessed at this stage in the case, as the company had only just arrived at a situation where orders could be expected McBreen's initial estimate of two orders from the OEM's was shown to be realistic, as the first contract had just been received from Mazda Another was expected by the end of the year

THE CASE OF WESTERN AUTOMATION

Assessment

This phase in the evolution of the company highlights many of the problems facing an owner - manager The lack of a manufacturing facility was a major weakness and could have finished the company due to the incompetence of the sub contractors The lack of any pre - defined strategy or plan meant that this situation was not foreseen in advance To the credit of Pat Ward, he acted quickly and climbed the "learning curve" associated with moving from being a design house only to an integrated design and manufacturing facility

The issue of being dependent on a single customer emerges very strongly during this phase Theorists would recommend that this situation should be avoided at all costs Pat Ward was cognisant of the dangers However the practical reality of being a small business cannot be under estimated Major debts had accrued He had signed over his house to the bank He owed money to various companies Could he afford to be choosy about who he should do business with? Given the lead time associated with attracting business from other companies, it is not unreasonable to agree with his view that he would be out of business before he even started!

The net effect of being locked into a single customer was predictable Margins were being squeezed Projected production runs became meaningless as the U K customer's sales took off In essence, Western Automation was working for this company - at a loss All activities within the company revolved around simply trying to keep up with the task of meeting production schedules and delivery dates This is a classic case of "fire fighting" management There is simply no time available to think about issues such as new products / new customers The determination and personal strength of Pat Ward cannot be underestimated A weaker, less assertive individual would have "thrown in the towel" at this stage

Assessment

This phase in the development of the company represents the first attempt on the part of the key decision maker (Pat Ward) to utilise some semblance of planning, in an attempt to gain more control over the destiny of the company His inherent "street wise" nature forced him to realise his own inadequacies His enrolment with the

Open University programme allowed him to simultaneously learn basic fundamentals and apply them to his company

This exercise also forced him to address a scenario which is common to all business enterprises which have a dependence on the founder what happens if he should die? This was an issue which both the bank and his key customer was raising with him Pat's conscious decision to divorce himself from the product management function meant that the manufacturing process would continue unhindered The strategy of training up employees would also, over time, significantly reduce the dependency factor

Pat Ward's attempt at planning during this phase of development focused exclusively on getting the financial base of the company on a more structured and secure basis It should not be construed as a detailed business plan, or indeed a driving force which could help to map out the company's future direction

It could be described as a plan which is rooted in the context of the specific situation being faced by the company at a particular point in time Theorists could argue that this approach is unduly narrow in its focus (as it ignores issues such as sales growth, market share position and competitive analysis) However it did address the one fundamental issue which had to be faced before any subsequent thought or effort could be directed to other issues It also was the only area where the sole decision maker had any expertise which would allow him to make such judgements It is submitted that the approach adopted by Pat Ward during this phase reflects a situation which is common to evolving companies namely the need to make a small number of critical decisions during specific phases If these decision areas are not addressed, or if the wrong option is taken, then the company could enter the "end game " position, where it ceases to exist The existence of a detailed business plan does not, of itself, guarantee that the company will make the correct decision Indeed the fact that such a text book approach may contain a "raft" of detail and data, may lead to a situation where the ability to make a clear decision becomes blurred by the level of analysis facing the decision maker

This phase of the company's growth demonstrates how action research can be utilised to facilitate business development and expansion It has to be acknowledged at the outset that the manner in which Pat Ward utilised the skills which he learned from the Open University programme does not conform to the conventional definition of action research / action science Typically most articles on this methodology *highlight the dual roles which the independent consultant plays in the relationship with the client company acting as a management consultant and as an academic researcher at the same time Thus a synergy emerges between both parties which in theory should lead to a mutual learning and competency development In this way many researchers view action research as a useful mechanism for forging change in an organisation*

In the case of Western Automation, it is clear that Pat Ward is not an independent, outside consultant acting in an advisory capacity However he has managed to transfer the skills / competencies to the survival (initially) and subsequent development of the company It is submitted that this skills transfer was crucial to the company's future and that it provides a learning point for similar owner - managers who typically may be lacking in many of the fundamental skills which are necessary in such a situation

This stage of development can best be described as one where the seeds for potential success were sown

Assessment

This phase of development represents the first time that Pat can truly claim to be able to directly influence the pace and growth potential of the company He has achieved this position by adopting a pragmatic attitude to the notion of increasing the customer base In essence, he has eschewed the need for broadening the customer base, instead concentrating on exploring the business potential with existing customers

His attitude to marketing is captured in the above quotations from the transcript of the interview He is clearly subscribing to the notion of relationship marketing - although he uses much more pragmatic language such as "the comfort factor" and "bedding down" He also quickly recognised the need at the initial point of contact with a potential customer, to get to the key influencer in the company - the chief engineer By testing and evaluating existing products, making refinements to them and demonstrating to the engineer the likely benefits which would accrue from adoption, he succeeds in getting him on his side This means that when the engineer moves to the next level in the decision making process namely the commercial people, both the engineer and Western Automation are working as a team By making a "back *door" entry, thus by - passing the purchasing manager, the last thing that is discussed is price Therefore, the purchasing manager's position is weakened by this approach*

While this replicates what many industrial marketing theorists tell us about understanding the purchasing decision making process, Pat, through a combination of intuition, experience and "business nous" has quickly appraised the situation

The contextual nature of planning, once again, is demonstrated during this phase Financial issues still drive the day - to - day running of the business However, the focus on the long term development of the business has shifted to the issue of ***<u>strategic customer management.</u>*** *The fulcrum of the plan is based on the desire to grow the company through its existing customer base The premise for this approach rests on the assumption that it is easier, less costly and less time consuming to seek additional products and / or move the customer to a more sophisticated technological level, than it is to become involved in a long gestation period with a potential customer, before there is a prospect of any order*

This means, in effect, that the marketing activities do <u>not</u> involve advertising, attendance at trade exhibitions or sales promotions, during this phase of growth Instead, efforts are directed at quick response to the existing customer's requirements, meeting delivery dates on time, maintaining quality standards, becoming proactive in terms of identifying new improvement / developments which can be made to existing products, and communicating such knowledge to the customer

The application of such an approach is enhanced by the fact that Pat Ward has shed the day - to - day running of the business Instead, he concentrates on liaison with the customers and acting on the international standards committee This apparently harmless pursuit, in reality, allows Pat to identify changes which are going to take place in Europe In addition, if he does not agree with the pace of such changes or the direction in which they are going, he can influence the decision and bring the proposals back to his own technology and processes This is easier to implement in practice, because many of the people on committees such as SEMDEC and RSC are either retired, (and hence out of touch with the technological developments), or are simply happy to belong to the "club" By contrast, Pat acts on such committees purely from self interest

The key lesson from this phase of growth, and one which has been witnessed in the earlier phase is the <u>*contextual, fluid nature of the planning process*</u>

Within this stage of development, it is also clear that Pat Ward interprets the elements of the marketing function in a different manner to that of the theorists The focus is solely on the management of the existing customer base Whilst recognising that advertising, promotion, direct marketing and selling forms part of the overall definition, Pat explicitly rejects the need for such activities <u>***during this planned growth phase.***</u> *He does not discount the probability that his company will have to engage in such exercises during a later phase of growth This approach recognises the need for marketing activities to be utilised on a* <u>***flexible, transitory basis.***</u> *Under such a format, the owner - manager / chief executive recognises that what may work in one particular set of circumstances may not be as effective, or indeed as relevant, in another situation*

This latter observation has implications for those of us who act in a consultancy capacity to the growing firm, or who may be engaged in research in this area It is argued that one of the lessons from this case study to emerge is that it is dangerous to adopt the simplistic view that the utilisation of marketing functions within the company must somehow remain fixed and rigid in terms of their composition Words such as contextual and contingency appear more apt when assessing the manner in which Western Automation has approached the situations facing it

THE CASE OF WESTERN TELECOMMUNICATIONS

Assessment

This case provides a good example of the personality characteristics inherent in the entrepreneur and the subsequent motivation for establishing a business enterprise It will be recalled from chapter four, that many researchers in the area of entrepreneurship highlight the quest for independence and the subsequent frustration which can ensue when entrepreneurs are working in a large, bureaucratic organisation Gerry Griffin exhibits many of these characteristics He frequently refers to the frustration which he encountered from not being in a position to influence his own destiny This was exacerbated by his non - involvement in the strategic direction in which the Telectron company was moving towards

Gerry Griffin also exhibited the trait of risk - taking which is also highlighted in the literature He encountered a strongly negative response from the IDA and other lending institutions They advised him that there was little opportunity for supplying transformers as the market appeared to be over supplied As a consequence he gambled by investing his redundancy package and his life savings to pursue his ambitions The risk involved should not be underestimated The first transformer was produced by second hand machinery (costing £350), in the back garden shed of his Mother's house in Athlone Initial orders appeared to come from acquaintances However, Gerry's "gut feeling" that he could supply transformers at a competitive price appeared to be justified as they quickly outgrew the Dublin site and indeed the business unit which they had acquired in Athlone

The arrival of his two colleagues from Telectron - together with the welcome contribution of their redundancy contributions, undoubtedly provided initial financial stability to their operations

One of the main strengths of Gerry Griffin's approach during this initial phase was the manner in which he divided up the managerial responsibilities between his two colleagues and himself Firstly, he capitalised on the individual skills of both Mick Delay and Pat Doyle, giving responsibility to Mick for the sales function and allocating the production scheduling function to Pat Doyle He retained control over the long term direction and planning for the company himself It is submitted that this simple yet logical organisational structure, contributed significantly to the early *success experienced by Midland Telecommunications It is unusual to witness a situation where the longer term issues are balanced against the operational, day to day considerations In the early stage of development within evolving enterprises, it is more common to observe "fuzzy thinking", brought about by the uncontrollable variables which shape an enterprise's development and over which the owner - manager finds himself in a "reactive mode" Thus, the last thing which features within the mindset of the owner - manager is the question of where the company will be placed in two to three years time ? His thoughts are dominated by the worry about whether the company will be around in a month's time*

The organisational structure of Midland Telecommunications warrants further examination Gerry Griffin owns forty per cent of the company Each of the two partners, own twenty per cent, with the remaining twenty per cent owned by an external investor This structure has always applied from the inception of the company to the present day In essence, Gerry is the senior partner within this structure It would be wrong therefore to assume that Gerry has total control over the direction of the company The four partners have always met on a monthly basis to review performance and discuss longer term developments Gerry does not have "carte blanche" with regard to the latter decisions However he has successfully managed to carve out responsibility for taking ideas to the board and in his own words ***"when push comes to shove, I call the shots".***

This short quotation is revealing because it identifies the strong influence which he exerts over what, after all, are the "junior partners"

As in the case with previous companies in this study, there is evidence that Gerry Griffin and his partners applied a systematic approach to the development of a customer base Initially they relied on contacts, but quickly realised that they needed to stabilise their operations by acquiring a number of customers from which they could achieve repeat business They utilised an intuitive and logical approach for contacting potential customers, prioritising them and maximising their time management by only visiting those which had given them a warm response in the initial telephone conversation Although Gerry Griffin did not consciously articulate the view that he was attempting to provide solutions to problems, it is clear that the response of the visited companies indicates that he was in effect, bringing a product offering to the market which was meeting a gap

Gerry Griffin has no qualms about broadening the product portfolio He quickly recognised that there were other opportunities besides supplying transformers One of the strengths of being a small enterprise was the ability to react in a flexible and quick manner to customer demands In addition to the transformer end of the business, Midland Telecommunications manufactured wire coils, telephone filters and post coil modulation The rationale for this approach was that it prevented Midland Telecommunications from becoming locked into any one niche sector This conscious strategy is not that common among evolving firms, particularly at such an early phase of growth Typically such companies seek an under exploited or unexplored sector of the market They then build up a range of competencies in this area which they hope will allow them to sustain a competitive advantage By contrast, Gerry Griffin argues that a broad product portfolio offers a small company a degree of protection from becoming over dependent on a particular sector Provided the company has the technical capability allied to the factory capacity, then this "spreading of resources" becomes a valid strategy In a recessionary climate, an over-dependence on one niche sector could also lead to cash flow problems and subsequent extinction

This approach would appear to be justified However, it should be remembered that Midland Telecommunications is operating in the "low - tech" sector of the electronics industry Thus it is relatively easy to move around among a range of products which do not demand the same level of sophistication and attendant entry barriers which might be experienced in the "mid" to "high tech" sectors of the industry

Assessment

This phase of growth represents a period of success for Midland Telecommunication The reasons for this can be traced to a number of factors It is submitted that the main influence has been brought about by the conscious decision of Gerry Griffin to take responsibility for plotting the long term direction of the company In addition, he plotted improvements in the operational aspects of running the company, mainly in the quality area

It is unusual to see such a clearly defined strategic role in an enterprise at an early stage in its development This move was made by Gerry Griffin during the earliest days of the company's development (see assessment - phase one). The benefits of this carry on during phase two

This stage also represents the first conscious attempt to develop a business plan for the company The motivations for this are twofold while he sees the benefits of a formal plan in terms of providing guidance and direction, he also prepares this document with the ulterior motive of attracting employment grants, without which no funding will be forthcoming from the state agencies This raises the question of how serious Gerry Griffin is about the design and subsequent utilisation of such a plan within the company The evidence appears to be somewhat contradictory

While a three year plan is developed, it is clear that Gerry Griffin places great emphasis on the operational part of the plan the one year document which is subsequently broken down into the monthly accounts These are used as one of the main platforms for discussion at the monthly board meeting The focus of the plan is on the <u>financial aspects of the company's operations,</u> with a subsequent appraisal of sales targets vis - a - vis sales achieved in any given month The person responsible for constructing this document is the accountant who was recruited into the company for this purpose Gerry Griffin takes the role of the "dispassionate observer" as the information contained in these monthly accounts is placed before him - he plays no role in terms of developing the information However, he views the document as a useful discipline for both his fellow partners and himself More importantly, it allows him to keep a firm control over the day - to - day operations of the business The monthly analysis identifies problems and issues which the company needs to address

The reference which Gerry Griffin makes to the three year plan, containing the turnover targets and so on, is more ambiguous He appears to use the document as a justification for the development of his own thoughts and ideas as to the future direction of the company Thus, the document provides the opportunity for Gerry to communicate and make tangible to his fellow board members, the long term ambitions of the company, from <u>his</u> point of view The planning document therefore serves a number of purposes firstly, as something which will meet the requirements of external agents, i e state agencies and lending authorities, secondly as a reference point for fellow partners and thirdly, (and as a follow on from the previous point), as a "legitimisation" / justification for Gerry Griffin's decisions

It can be argued, therefore, that Midland Telecommunications does not adopt a contextual approach to planning (where the approach is designed to suit the circumstances of the company at a particular point in time) Rather, the company on a superficial level, appears to follow the "text book" approach to planning - a three year business plan which is driven by the more detailed one year operational plan

However, further investigation reveals that there are a number of motives for adhering to this approach, some of which are ulterior in nature

It is further submitted that only certain aspects of the plan are implemented within the organisation This primarily refers to the financial aspect of the plan and in particular, the monthly management accounts A differentiation has to be made therefore between the documentation surrounding the plan and the process through which it is utilised This in turn reveals a discrepancy between the content of the plan and the manner in which it is presented both internally, within the company and externally, both to funding agencies and lending institutions, and the selective way in which certain elements of the plan are implemented in practice Thus, the broad three year objectives and aims are included to meet with external requirements, whereas the financial aspects are referred to in a systematic and rigorous way This is not to suggest that the long term issues are ignored On the contrary, they are very firmly under the control of Gerry Griffin, whose overall role is to take responsibility for precisely these decisions His fellow partners are content to retain a span of control over areas of responsibility with which they are proficient and comfortable The clear demarcation lines which Gerry Griffin has drawn up, in terms of responsibility, has ensured that decisions are made quickly and flexibly

There are potential difficulties with such an approach What would happen in the case where Gerry Griffin proposes a radical change of direction for the company and one or a number of his partners disagree fundamentally with him ? While Gerry owns a greater percentage of the company, (40% 20% 20% 20%) such a disagreement would in all likelihood create conflict and disharmony at board level It has worked however in a very successful manner since the inception of the company over ten years earlier

During this phase of development, the question of more effective management of the quality function was tackled by Gerry Griffin The ISO 9000 exercise, apart from providing an opportunity to attain a competitive edge, ensured that the company moved away from the "unproceduralised" stage, to a position where systems were in operation Apart from ensuring a more professional approach to manufacturing, book - keeping, order processing and so on, the acquisition of this quality standard imposes a discipline which runs throughout the company This is a development which should not be under - estimated In an effort to build on these benefits, Gerry Griffin commissioned EOLAS to carry out a technological audit of the company's operations

It is submitted that this type of exercise is invaluable for a company which is at a relatively early stage in its evolution There is a strong need for such enterprises to move from a haphazard, ad hoc, reactive approach to a stage which can be best described as systematised If the company can move to this stage quickly and in a disciplined manner then the benefits far outweigh the difficulties associated with adapting to the necessary changes

In summary, this stage of development has led to a situation where the company has acquired a level of structure and systematisation in its procedures that has allowed it to grow and expand its product portfolio

Assessment

This stage of development takes the reader up to the time when the company visit was made by the researcher In many ways this stage represents a "cementing and solidifying of systems and procedures which were introduced during phase two In the case of its approach to quality management, further refinements and improvements have been sought The recurring theme which appears to emerge is that the company was placed on a sound footing in the earlier phases and this has created an environment whereby changes to the organisational structure and the development of export markets has proceeded smoothly This also applies to the company's ability to absorb reductions in margin, brought about by the recession (which applied at the time of the company visit)

It is believed that this case demonstrates the benefits associated with getting the basics in place before any growth / development is sought The ownership structure has created a situation whereby Gerry Griffin has been able to concentrate his time on critical events management Thus, he has overseen the total quality management programme and has continued to seek improvements to it

THE CASE OF EUROPLEX TECHNOLOGY

Assessment

The structure of the company during this phase of growth warrants some comment The desire to keep the company within the confines of the immediate family led to the appointment of extra family members - father and sister, to management positions This approach would appear to have the merit of retaining control of the firm, and can work up to a certain point in the development an enterprise However, the resting of control within the hands of family members lead to a state of friction and conflict This was evident even at the gestation of the company, where David was constantly being pressurised by Paul to make improvements to the existing product Indeed, if one wanted to be cynical, it could be argued that the emergence of the "ground breaking" product was as a direct result of recurrent hassle, rather than any conscious desire to significantly upgrade the existing product offering

In addition, the utilisation of a family controlled operation is bound by definition, to have its limitations once a company goes beyond a certain level of activity In particular as such a firm expands its operations beyond the domestic market and has to rely on joint ventures and distributors to promote the product within market sectors where the original family members have no direct knowledge, it becomes of paramount importance to recruit outside, professional expertise

The arrival of such help should lead to a situation where rudimentary systems and procedures are put in place This is clearly a necessary pre condition for further management of growth The culture change which has to occur in this situation cannot be underestimated Whereas previously family members can retain control, it now can be perceived as more ephemeral in nature, with the ever present danger that an "outsider" may drive changes which fundamentally alter the structure and operations of the company

In the case of Europlex Technology, it became clear that Paul was becoming increasingly restless and uncomfortable The desire to leave the company irked other family members - particularly David The outside personnel were also putting pressure on him to drive the necessary changes It became clear at this stage of the company's development, that an impasse had been reached

In the interview with Malcolm Lewis, he referred to the theory of evolution and revolution espoused by Larry Greiner, in a seminal article in the late 1960's He argued that the evolving firm goes through periods of evolution and revolution, the latter referring to a phase which will play a major role in shaping the future destiny of the firm the end result being catastrophe or a period of further sustained growth In the case of Europlex Technology such a period had been reached

Assessment

This phase of evolution occurred over the period of eighteen months or so and concerns itself predominantly with the juxtaposition of influence between the family members of the executive and the external personnel - ranging from the IDA, the corporate finance company and the production manager and accountant The actual operations of the company continued on regardless, with little change being made to the established methods of doing business

However, despite this apparent lack of change or re - orientation, it is submitted that the long term viability of the company was shaped during this phase of revolution The waning influence of the family members - most notably reflected in the "walk - out" of the managing director - Paul, is coupled with the increasing power wielded by the external influencers Through a combination of reasoned logic, stealth and cajoling, they succeeded in establishing a non - executive chairman Moreover, they acquired someone with whom the IDA had direct (positive) experience This could prove to be useful at a later stage of development

The arrival of Malcolm Lewis reinforces benefits which can accrue from bringing in an outside, objective person Concomitantly it identifies the weaknesses of a family controlled firm which suffers from inward focus The critical decision which had to be faced during this period of growth was the recruitment of a chairman / chief executive The weakening influence of family members juxtaposed with the increasing influence of the external investors ensured that this happened relatively smoothly

Assessment

This phase identifies many of the practical problems associated with managing change Specifically it focuses on the hostility which can ensue from executives who find it difficult to change their "mind - set' Locked into a traditional way of "doing things", many people find it difficult to accept the need for change in the first place

This problem was compounded by the fact that Europlex was able to survive (if not exactly prosper) because of the original uniqueness of its product It was also exacerbated by the family owned nature of the business This latter factor meant that the company developed a certain element of complacency and tended to be inward, rather than outward looking, in nature

It is submitted that while Lewis established brainstorming sessions and a steering committee to develop and implement a strategic plan, much of the impetus came solely from his direct contribution to such an exercise It became clear from interviewing him that he was reluctant to openly criticise the rest of the executives during this phase However, he realised very quickly that the present management structure, whilst capable of accepting a strategic plan (mainly developed by Lewis), would not be up to the task of implementing it This is an issue which will be addressed in the next section

By far the biggest task facing Lewis was the issue of instigating operating procedures and systems which would improve product quality and reliability He describes it in the following manner -

"It's been very tough trying to get procedures working in an....essentially non - proceduralised company"

This captures the essence of the difficulty associated with <u>implementing change</u> in a small, evolving firm Many theorists and writers blithely assume that apparently rational, logically developed recommendations, once set in place (in the form of a plan) will be subsumed into the operations of an organisation It is precisely because many companies operate in a haphazard, "fuzzy state", that many plans never move beyond the "documentation and circulation" stage

A strong feature of Lewis's approach during this phase was the delineation which he made between the strategic, long term plan and the operational aspects of running the business While the move towards ISO 9000 and the systematisation of manufacturing procedures directly addressed immediate problems, they also integrate with the longer term task of systematising new product development within the company It is submitted that Lewis achieved an effective balance between both areas

His knowledge of the IDA and more importantly their confidence in him, ensured that the company received the necessary investment package which allowed them to move to a larger, more modern facility While this move did not necessarily have any immediate impact for the company, it allowed Lewis to have the necessary infrastructure in place when the company would move into the next phase of development

Assessment

This phase of development witnessed a small number of critical decisions which had to be made by Malcolm Lewis The recognition that the existing management personnel in the areas of production management and quality control were not capable of implementing the proposed changes led to Malcolm Lewis taking over both roles This has certain merits in its favour His own background meant that he was fully conversant with the techniques and concepts of manufacturing Thus it is reasonable to assume that some of these ideas would be implemented very swiftly It also meant that he retains the maximum amount of control over the operational decisions This should create an environment where the longer term, strategic issues can be integrated with the day to day running of the business

This latter course however, poses a number of potentially serious problems In an attempt to retain the maximum level of control over the decision - making process, Lewis could be accused of committing an elementary error of judgement Is it possible to spread managerial time evenly between operational and strategic decision making? In the quotation from the transcript of the interview presented in an earlier paragraph, it is clear that Lewis is well aware of this problem He recognises the amount of time which is wasted on day to day issues, when he should be spending more time shaping the long term direction of the company

However, it is submitted that it was necessary for Lewis to take such a proactive approach to all aspects of decision making, due to the need to convince fellow executives and employees of the necessity to change from the previous, more informal approach to doing business This is an example of the "management by doing" syndrome - where the key decision maker adopts a highly visible profile in all aspects of the company's operations In essence, the need for this proactive approach stems from the difficulties which are associated with trying to get procedures working in a "non - proceduralised" company There is little point in putting forward grandiose long term visionary plans, if the organisational structure is not in tune with the tasks necessary to achieve such objectives

This identifies a learning point from the case study which has relevance for many evolving companies The need to attune the organisational structure and capabilities of the personnel to the necessary changes in operational aspects is a necessary prerequisite to the implementation of longer term objectives

Despite allocating his time across a number of cross - functional activities, Lewis succeeded in driving change in a number of crucial areas establishment of an ISO 9000 programme, a successful acquisition, a strategic move away from their traditional position in the market to the broader, more volume oriented "professional domestic" segment The willingness of the board to effectively give him a "free reign" has undoubtedly helped in this regard

Lewis views the marketing function as being important to the future success of his business - given the necessity for the company to monitor and understand the changes taking place in the market place However he does not view marketing as being the primary business function Rather he perceives it as being the integrating force which impacts on financial, research and development and production related decisions Although there is an executive with the title of marketing director, it is clear from the interview that his responsibility covers the co - ordination of the sales effort both in Ireland and throughout Europe Thus, the remit is focused on sales and promotion issues not on the strategic elements of marketing such as decisions affecting the positioning of both the company and its product range As stated earlier, it was Lewis who instigated the change from a complete dependence on the prestige end of the market to a broadening of the product portfolio (via the acquisition) to the "professional, domestic segment"

Lewis has overseen the move from what was essentially a family - owned firm to an organisational structure which is dominated by external owners Europlex was one of the first companies to have sold equity to the IDA His experience of dealing with this organisation, allied to the trust which he has built up with them, smoothed out the difficulties Lewis alludes to the culture change demanded of IDA in this regard Specifically, they have been more comfortable when dealing with large, multi - national corporations In his view, their attitude to the indigenous sector has been poor His big task in convincing them to invest in his company was to point out that Europlex is a company employing 130 people, with a £10 million turnover and sourcing a substantial proportion of their materials from fellow indigenous companies - thereby creating and sustaining employment There are many multi -

nationals (in Lewis's view) which have been showered with inducements / incentives, and are contributing substantially less to the Irish economy This was a difficult obstacle to overcome He was not helped by the suspicious attitude of the board to the IDA This meant that Lewis had to change "stereotypical thinking" within both camps

THE CASE OF E. I. ELECTRONICS

Assessment

In many respects the groundwork for the subsequent rebirth of E I Electronics was laid by Michael Guinee before the company came to fruition in February of 1988 Due to the good relationship he had established with senior management, Guinee received ample time to put in place a proposal for the management buy - out He was also helped in this regard by the strong reputation which the company had developed over the preceding years, although this did not encourage many lending institutions to rush to their aid A basic three year business plan was used in presentations to the banks This had been put together with the advice of the Shannon Development Authority It was mainly based on sales forecasts, cash flow projections and capital investment requirements

Under the ownership of General Electric, Guinee was obliged to work to a five year plan, as part of its overall global operations This involved preparing detailed sales forecasts and production schedules and was made easier by the fact that 80 per cent of the business came from General electric in the first place However Michael Guinee stressed that it was used primarily for the cosmetic exercise of attracting finance His experience of preparing such plans when the company was part of General Electric, has made him cynical about the real value of the exercise, particularly in an unpredictable market such as that exhibited by the smoke alarm product This is a theme which will be referred to in greater detail later in this case analysis and evaluation

During this period of uncertainty it must be remembered that the company continued to trade under the existing arrangement Therefore Guinee, as managing director, was in a strong position to communicate to the workforce what the management buy out would demand of them in terms of a change in the working environment and conditions He was undoubtedly helped in this regard by the generous redundancy package which were offered to the employees by General Electric

He was also helped by the continued placement of orders with the new company by General Electric This ensured that in that initial and crucial six month period, guaranteed contracts existed which smoothed any potential cash flow difficulties which might arise in a similar kind of business venture

The delayering of management meant that the three individuals who participated in the management buy out were able to make decisions quickly and in a flexible manner

The company also had an established (albeit limited) range of smoke alarm products and had also been engaged in contract manufacturing for a number of years previous to the management buy out While an extension of the product range would be an urgent priority, a "buffer" existed which allowed Guinee to seek out new customers without having to worry about the immediate consequences of not acquiring orders

Guinee also quickly recognised the need to acquire ISO 90000 certification This was achieved during the first year of trading This was deemed to be a pre requisite for attracting new business - particularly from the large DIY operators such as Texas Homecare, who were beginning to make major inroads in the UK market Without such certification, it would be impossible to market E I 's product range Again he was helped in this regard by the fact that a well trained workforce was retained in the new company and investment in the factory and technology already existed and was transferred over to the new legal entity

In summary, this initial stage was managed smoothly by Guinee However it has to be acknowledged that an "artificial air" surrounds this phase of development It clearly does not represent a company which is commencing operations from a "greenfield site" In reality Guinee set himself the challenge of managing the transfer of assets from a paternalistic form of ownership to an enterprise which had to aggressively chase new customers, orders and markets He was helped by "inheriting" a company which was on a sound footing However he still was required to manage the cultural changes demanded of the workforce Likewise the "delayering of the management structure" demanded tough decisions

Assessment

This phase of development represents a significant re - direction of E I 's business strategy It has been shaped by Mick Guinee who has remained in total control of the long term decisions, although the organisational structure has been re - shaped

As in the case of many evolving companies, a small number of critical decisions had to be made The decision to place a limit on the amount of sub - contract work was *taken at an early stage in the company's re - birth The consequences arising from the decision to develop products for the retail DIY sector in Britain forced Guinee to "beef up" the design and engineering section, by recruiting new personnel His own background in sales and marketing was utilised when he sought out business from the large DIY operators*

He also used a logical, incremental approach in his perception as to how E I should develop and expand its business operations This effectively could be described as a "step by step" procedure, as the company remained in the smoke alarm sector (thus sticking to its core business) but at the same time being in a position to exploit developments in the semi - professional and professional segments of the market

That he has retained such control over the key decisions can be attributed in no small measure to the fact that he was the main driving force in the management buy out and became the major partner under the revised legal entity His two colleagues, who also participated in the buy out have minor shares in the company and have taken responsibility for design and engineering and production areas within which they have already built up expertise in the original company

There is a clear dichotomy in the decision making process Guinee's fellow directors take charge of the day to day decisions as they impact on the company (after close discussions with him) Guinee engages in regular informal meetings with his management team, but ultimately takes responsibility for the key decisions in the areas of finance, marketing, positioning and product development Serious questions can be raised about whether his management team will continue to remain detached from influencing the long term strategy of the company Guinee has <u>broadened</u> rather than <u>narrowed</u> his span of responsibility as the company has evolved during this period The following quotation captures his philosophy -

" I wear a number of hats and eh maybe it's not all that good..... but it's the way we have evolved.... We run it eh we run it tight"

"We will probably beef up the management a little bit but so far running tight is the objective I'm a believer in running a tight ship "

It would appear that Guinee has great difficulty in delegating responsibility to other members of his team He would also apparently to have gone against the accepted practice that an owner - manager / chief executive reduces his span of control and *begins to delegate responsibility as the company expands its operations However a closer examination of his approach does not support this view*

Guinee retains control over the critical decision areas, irrespective of business function During this phase of development, E I has been forced to re - think its strategy with respect to whether it should develop its own products or cultivate the sub - contract sector This has involved decision making in a number of distinct areas, once the strategic decision to limit the sub contract business to between 15 and 20 per cent had been made finance, marketing, human resources and research and development A coherent new product policy was instigated by Guinee, this in turn demanded that consideration be given to the amount of investment in both human and technical terms, that such a policy would require

This dichotomy therefore ensures that he does not become embroiled in the day to day decisions which can be made by his fellow directors or middle management It also means that his activities are focused in one area strategy formulation and implementation In essence this can be equated to a policy of ***selective delegation*** *This means that Guinee discriminates between those issues which are likely to have a significant impact on the future direction of the company and those which are still significant, but are more likely to* ***support and sustain*** *corporate policy, rather than determine it*

It is noticeable that the term "strategy formulation and implementation" is used here in a generic context It ***embraces and integrates*** *the business functions it does not* ***isolate*** *them into discrete functional activities This is a common theme which appears to emerge from the case studies in this study It also has implications for the approach to planning which is adopted by Guinee*

The original planning document prepared in conjunction with the Shannon Development Authorities contains the typical details which one would expect sales projections, cash flow projections, anticipated levels of investment and projected new product developments However Guinee applies a ***selective*** *approach to the manner in which he uses the document It has been stated earlier that the plan was originally used for attracting external investors When the company re - commenced trading under the new legal entity, Guinee focused on certain aspects of this document mainly in the area of projected new product statements However he is more reluctant to adhere to specific sales targets which the original plan contained His approach is summed up in the following extract from the interview -*

" I see growth as a result of doing something well rather than as an end in itself.......that's my philosophy.....I would never stick down (sic) and say we're going to do £13 million this year But if as a result of doing the thing that by positioning ourselves, if we do £13 million, fine"

This statement reflects Guinee's view that growth can only be achieved through the process employed, rather than setting predetermined targets which may prove to be irrelevant in the context of variables over which E I may have no control over In no way therefore can the success of the company be put down to the planning procedures employed Rather the focus is placed on making sure that the company is positioned correctly in the first place, to take advantage of potential opportunities which might arise

It is submitted that this approach reflects a pragmatic view of how growth can be achieved The absence of a formal, detailed planning document should not be interpreted as evidence of a haphazard, ad hoc style of management a view which is often expressed in the literature On the contrary, Guinee ensures that the basic "pillars" are in place, such as ISO 9000, a clearly articulated positioning policy, a motivated workforce and a stated new product development programme Guinee operates on the principle that if the "basics are right", then growth, while not necessarily assured, can be expected to occur In order for these basics to be put in place, it is essential that someone in the organisation acts as a champion of the cause In the case of E I Electronics, that person was Mick Guinee The fact that he was also the managing director and chief shareholder in the company ensured that the critical decisions were made in an incisive manner and were implemented smoothly and without much rancour

This incisiveness in decision making was demonstrated clearly when Guinee steered the company away from the "safer" option of becoming a contract manufacturer, to the more risky development of proprietary products for the retail DIY sector As of 1990, the company employed approximately 200 people This is in contrast to the position which would have emerged if E I had remained solely in the contract business Guinee estimates that if this latter option were pursued the company "would have employed 30 to 40 people, with little risk This is in contrast to many similar evolving indigenous companies, who have taken the easy option and become contract manufacturers This strategy can generate limited employment in the short to mid - term However there is no onus on the company to engage in product development or *to expand their operations dramatically In short, they achieve limited success, which is still dependent on a very limited number of contracts, and which could be terminated at very short notice Without significant investment in developing proprietary products for the large volume markets, there is little or no likelihood of moving from being a small company to a medium to large company, thus being in a position to generate significant levels of employment*

It is accepted that in the case of E I Electronics, the company was able to capitalise on an established reputation and retained a number of contracts from its former parent, General Electric This in turn provided a steady income stream in the first year of trading and more importantly allowed Guinee to develop links and eventually orders from the large DIY operators in Britain It is further argued that the company has always operated within a sheltered environment and with a large (by Irish standards) workforce Thus while the corporate culture had to change, the company avoided the trauma of growing from a micro organisation to one which employs 200 people

Assessment

A number of potentially worrying issues emerge from an assessment of this phase of development Firstly it is clear that while Guinee may have quality systems and technological resources in place to allow for further expansion into the semi - professional and professional segments of the smoke alarm market and the European and North American markets, it is debatable as to whether he has the marketing capabilities fine - tuned to the same extent While he has recruited a couple of international marketing graduates, it is unreasonable to expect that the responsibility would rest with them to develop customers Guinee tacitly recognises this and indicates that he sees a role for himself in this area He has been successful in building up business in Britain, in the retail sector This, coupled with the strong reputation which E I has cultivated for customer service and reliability will help to gain access to potential customers He will have to consider the need however to build up a reliable distributor network as this sector cannot be served directly, as is the case with the large retail multiples This in turn will demand a different set of skills, particularly in the area of negotiation There is no evidence to suggest that this is beyond the capabilities of Guinee at the same time he will be venturing into new areas

It is also apparent that there is an over - dependency on the Texas Homecare organisation Seventy per cent of the business goes through the UK market Approximately 50 per cent of this is channelled through Texas Guinee has been sanguine about this position it allows him access to the key channel in a large and growing market and he has improved the quality of the relationship by meeting the standards imposed by Texas This has had the added effect of upgrading standards throughout E I in terms of quality and information technology However the fact remains that the company is not in a position to dictate terms to Texas There is also the danger that at some point in the future, this company could terminate the arrangement should they find an alternative supplier which might yield them higher margins This may be an unlikely scenario, but the cyclical nature of the domestic smoke alarm market allied to the short notice of the order placement, indicates that power resides firmly with Texas Homecare

THE CASE OF ASHLING ELECTRONICS

Assessment

This initial stage of Ashling Electronics' development highlights many of the common obstacles which similar enterprises face within the Irish environment Indeed it could be argued that the project almost "died at birth" It is accepted that the project involved high level of capital investment, given the nature of the business environment within which it was proposing to operate However the problems associated with acquiring such funding in Ireland are amply demonstrated in this case The founders identified an opportunity, they researched it adequately and refined the idea through their participation on a course which was run by an organisation with specific responsibility for attracting such projects into the region Thus by the end of the Entrepreneurship and High Technology course, in the spring of 1983, the four founders had taken their idea through a number of distinct stages, in conjunction with the expertise and advice provided by representatives of the Shannon Development Authority It can be strongly argued therefore that this project was not a "pie in the sky" concept generated by enthusiasts with little prior research or investigation into the area On the contrary it was the direct antithesis of such an approach - right down to the formulation of a business plan

They then encountered the conflicting requirements from a number of potential lending and funding institutions n this respect the classic "catch 22" scenario emerged where one source of funding was conditional on the company being financed and which provided for guarantees against bank borrowing, but finance could not be acquired unless guarantees were provided The four individuals involved, handled the situation in an adroit manner and eventually received the necessary funding However this exercise took the best part of a year Such funding was an essential pre requisite if the company was to move from a piecemeal operation to a company which would be capable of addressing the opportunities in the international area

It is submitted that there is an inherent inconsistency and a lack of common agreement about the most effective manner of nurturing business projects This is particularly pertinent to the situation in Ireland, where there has been a major focus throughout the last twenty years, on the attraction of multinational corporations into the country During the early 1980's when Ashling Electronics was beginning to emerge, the focus shifted to the development of an indigenous high technology base of companies This strategy was designed on the basis that it would be possible to encourage individuals with some entrepreneurial and marketing flair, and who had worked within the multinational environment, to bring their ideas to fruition The lack of a consistent, clearly defined route to finance is a weakness, in the context of industrial development in this country Analysis, in an earlier chapter suggests that things have not improved dramatically over the intervening decade While the founders of Ashling Electronics circumvented the obstacles placed in their way, it is a matter of conjecture as to the number of potentially successful ideas which have failed, due to lack of financial encouragement and support It is difficult enough to encourage highly trained individuals working within the confines of a large organisation, to "break out" and become embroiled in the problems associated with the development of a project

Assessment

The four year period from 1985 to 1989 witnessed a number of significant developments, both internal and external, to Ashling Because it operates in a specialised and sophisticated industry the first initial task facing the company was to establish a presence within the main market sectors By definition, this meant that they had to penetrate Britain and Europe very quickly indeed This meant that the company established a number of distributors in the key markets, who would act as representatives for Ashling, in terms of acquiring customers Healy recognised the need to provide a technical support presence in a central location such as Germany This was put in place within six months of trading when a centre was opened in Munich The support team provided tangible evidence to both the distributors and ultimate customers that Ashling was in the industry for "the long haul" More importantly, it provided essential back up, and would help to inspire confidence and trust

The selection of the distributors to handle Ashling's products was critical to subsequent success or failure Only a tiny percentage of Ashling's business was likely to come from the Irish market The vast majority of the potential customer base was to be found in Britain, Europe and the United States There was no question that Ashling could pursue a policy of incremental internationalisation of its activities, as is more common with evolving enterprises Healy took responsibility for the selection of distributors to represent Ashling He applied the standard criteria to select the most appropriate distributor for a particular region size, product range, reputation, desire for the business, back up activities and finally, the initial impression which Healy *formed of the company While this exercise was time consuming, it reflected the strategic importance which Ashling placed on channel management issues*

One of the significant features of this company's early development was the very visible emphasis which was placed on creating an infrastructure within the company which addressed issues such as structure and planning While this in itself is not unique, the fact that they were considered at the beginning of the company's development, rather than as a reaction to external trends or factors which are outside the control of the company, is unusual It is further submitted that Healy took a proactive stance in this area and put in place a number of systems and procedures <u>before</u> rather than <u>during</u> or <u>after</u> sales were generated This was evident from the simple organisational structure which he has put in place It is not to say that such an approach implies a level of rigidity or inflexibility During the four year period for instance, it became clear to Healy that it would be more effective if some of the "execution" aspects of marketing were handled by manufacturing Thus, sales promotion activities such as mail shots are sent by the manufacturing division to the existing customer base This is based on he belief that they are ore closely associated with the individual problems and issues which emerge from interaction with the final customer Such problems inevitably have to be solved by the manufacturing team, as a consequence they are in more regular contact with the key people in the customer's company A mail shot or new product development information may therefore be more positively received if it comes from the person with whom they are in regular contact with The responsibility for the design of the campaign and the management of the data base however remains within marketing's bailiwick

A formal / semi - formal approach to meetings and communications is assiduously pursued within the organisational structure It is evident that Ashling does not actively encourage lines of demarcation, where each department is allowed to build up a number of competencies and capabilities which are firmly controlled within that division On the contrary, the focus is on interactive, integrated management teams which are put together to work on an individual project Thus product ideas may emanate from research and design or marketing or indeed manufacturing Each project is processed through a number of distinct, formal stages of evaluation the involvement of representatives from separate divisions ensures that no one department can either "hijack" or unduly influence the progress of the project idea Likewise the various inputs from different business functions creates a more healthy environment for assessing progress It also provides for a more "rounded" view of the likely success of the project

A focused approach to structure is also evident within the management of the sales subsidiaries In this case, many of the administrative procedures such as payrolls, VAT management, billing and invoice collection are handled centrally at the Limerick office This reduces the level of bureaucracy at the sales subsidiaries and leaves them to perform the tasks for which they were initially established, namely selling and customer development

Ashling is also proactive in the approach to planning to an extent which is not common to firms at such an early stage of development While many of the latter are obliged to prepare a business plan in order to justify a request for funding, very few, upon receipt of such monies, actually adhere strongly to the claims and assertions contained in such documents In the most cynical of companies, they are simply ignored some companies pay lip service to them very few consciously pursue the targets in the initial stages Typically as the company expands and develops its operations, it drifts towards a position of "uneasy acceptance" of the need for formality and adherence to detail Even when a formal planning document is in place, there is a tendency to pay a "healthy disregard" to it By contrast, Ashling has instigated a planning mechanism which it followed closely, from the very earliest stages of its development What could the possible explanation for this be ?

Firstly it must be said that Ashling Electronic's antecedents were grounded within an intensive programme of training for "would be" business owners - ***Entrepreneurship and High Technology*** *This period allowed the two founders to operate in a supportive , focused environment Moreover the programme encouraged them to interact with individuals who were from a similar background in the high technology, multinational environment Thus it could be argued that such a programme was bound to at worst, progress an idea, and at best, stimulate and refine the idea into something which could be turned into a commercial proposition In the case of Sottle and Joyce, it also helped them to discover other individuals who could bring specialist skills to the idea Thus a level of* ***synergy*** *was created It can be argued that very few enterprises, at such a formative stage in their evolution, benefit from a such focused programme which is built around the transfer of knowledge and business skills The more common experience is one where the entrepreneur is dependent on his own knowledge and largely operates on the principle of "trial and error"*

Secondly, this programme exposed the participants to planning concepts and techniques Thus, individuals such as Healy and Sottle were in a position to assess the relevance of planning and apply it to the development of their project This is reflected in the clear delineation of the different levels of planning ranging from what effectively is a mission statement, through to the detailed annual budget which acts as the main source of guidance for running the business In addition, Ashling has adopted a formal mechanism for handling the development of new project concepts This consists of a phased approach which takes the project from conception to fruition, with the possibility of termination occurring at each review stage of the process New product development lies at the heart of the core objectives which are contained in Ashling's three year business plan Management of each project concept therefore forms a major platform within the overall business plan Projected revenues and costs from each project are balanced against overall business performance, which is monitored in the annual budget element of the plan

It is also argued that the nature of the industry has an influence on the adoption of such formal planning mechanisms In such a dynamic business environment, the onus is on small, specialist companies such as Ashling, to put in place a structure which manages the new product development process in a professional and proactive manner The sophisticated nature of the industry highlights the importance of placing new product development at the fulcrum of a company's activities It is not acceptable to manage such an activity in an ad hoc fashion Quite simply that approach would not work in this industry

Assessment

Ashling Electronics has attempted to build on the structures, systems and procedures which it instigated during the previous period of development This has involved two main areas internal staff development and relationship management

The need for efficient technical marketing personnel has been highlighted by Healy In his view the success which has been achieved by Ashling has been built around effective marketing His views are summarised in the following quotation from the interview

"If you invent a better mousetrap, you have achieved nothing, and are going nowhere It costs you money. You must tell the world about it. More importantly

they must be aware of why your mousetrap is better than anybody else's If they are not made aware, then money is wasted (on product development)".

This reflects a critical dimension of managing an electronics company in the high technology sector of the market place namely achieving a balanced approach between new product development and marketing Much of the focus within the high technology, indigenous based sector has been on new product development skills Healy argues that the same level of emphasis has not been placed on marketing, without which, a successful product cannot expect to make an impact

It is submitted that this is an issue which is not being addressed to any significant extent within the various state support agencies It is also debatable whether enough focus is given to marketing within engineering courses, in the university system A composite range of skills are demanded of marketers who work in the high technology environment selling skills, technical knowledge, an understanding of the buying process, relationship management skills and language capabilities

Healy has attempted to infuse his management team, both marketing and non - marketing, with a customer focus He highlights the fact that the relatively flat structure of the organisation means that a customer with a problem or a query, can find himself conversing directly with the person that designed the system He is therefore getting the best possible advice without delay In larger companies, this would not happen to the same extent, due to extra layers of management and the resulting delays because of the longer communication channels

This customer focus is also reflected in the direct presence of Ashling staff in the main export markets, through its sales subsidiaries and technical support office Where it is not economically viable to have a permanent presence, members of the marketing team periodically make joint visits to customers with the relevant distributors, thus maintaining a visible Ashling presence "in the field"

The lack of suitably qualified technical marketing people is compounded by a similar paucity of graduates that can speak a foreign language Ashling have overcome this problem in a number of different ways Two of the founders have a technical background and a fluency in German They have also recruited two recent graduates with a background in sales and engineering, and a language capability This has *allowed Ashling to establish itself in key markets such as Germany, more quickly and smoothly than other companies in a similar situation*

In summary, this present period of development has focused on the management team developing closer links with its distributor and customer base It also reflects a stage where much effort has been placed on improving the internal operating structures with "customer focus" being the motivating factor

APPENDIX F

SYNOPSIS OF KEY ISSUES

Issues	The Chip Company	Europlex Technology	Ashling Electronics	EI Electronics	Midland Telecommunications	Western Automation	CEL
Proactively Developing the Customer Base			✓	✓	✓	✓	✓
Contacts/ Networking	✓	✓		✓		✓	
Contextual Planning	✓				✓	✓	✓
Planning for External Purposes				✓	✓		
Action Research		✓	√			✓	
Dichotomy between Strategic & Operational Decisions	✓	✓	✓	✓	✓	✓	✓
Finance Oriented Focus	✓				✓	✓	✓
Internal Development		✓	✓		✓	✓	✓
Planning by Doing	✓	✓		✓	✓	✓	✓
Management of Critical Events	✓	✓	✓	✓	✓	✓	✓
Retention of Responsibility for Strategic Decisions	✓	✓		✓	✓	✓	✓
Relationship Management			✓	✓	✓	✓	✓
Customer Service	✓		✓	✓	✓	✓	✓
Informal Nature of Long-Term Planning							
"Emergent" Structure	✓	✓		✓	✓	✓	
"Emergent" Planning	✓	✓				✓	