CASE: THE DIM LIGHTING CO.

The Dim Lighting Company is a subsidiary of a major producer of electrical products. Each subsidiary operates as a profit center and reports to regional, group, and product vice presidents at corporate headquarters. The Dim Lighting subsidiary produces electric lamps and employs about 2,000 workers. The general manager is Jim West, an MBA from Tri-State University, who has been running this subsidiary successfully for the past five years. See the organization chart in Figure 3.3. However, last year the division failed to realize its operating targets, and profit margins dropped by 15 percent. In developing next year's budget and profit plan, Jim West feels that he is under pressure to have a good year because two bad years in a row might hurt his long-term potential for advancement.

Mr. Spinks, Director of R&D

Robert Spinks, director of R&D, was hired by West three years ago, after resigning from a major competitor. Mr. Spinks has received a number of awards from scientific societies. The scientists and engineers in his group respect his technical competence and have a high level of morale.

Although Spinks is recognized as a talented scientist, other managers feel that he is often autocratic, strong-willed, and impatient. Spinks has said that he left his former company because the management lacked creativity and innovation in R&D.

The Proposal

Spinks has submitted a budget request for a major research project, the micro-miniaturization of lighting sources so as to greatly reduce energy requirements. He sees this as the Lamp of the Future, and if successful, it would be the successor to LED lights. The proposed budget would require $1.2 million per year for two years, plus another $500,000 to begin production. Jim West immediately contacted corporate headquarters, and although top management praised the idea, they were reluctant to spend on the proposed project. Spinks feels the project has a 70 percent chance of success. The first two years of production are projected to break even, and the third-year profits are anticipated to be $1 million. Profits should increase by 20 percent each year for the fourth through eighth years. Beginning in the ninth year, profits will likely hold steady at around $3 million and then decline as new competitive products enter the market.

The Budget Meeting

West called a meeting of his management group on Wednesday morning to discuss the proposed budget. Spinks presented a well-reasoned and high-powered sales pitch for his project. He suggested that the energy crunch had long-term implications, and if they failed to move into new technologies, the firm would be competitively obsolete.

Carol Preston, accountant, presented a financial analysis of the proposed project, noting the high risk, the uncertain results, and the length of time before it would contribute to operating profits. "We can't afford to wait for long-term results. Unfortunately, if we don't do something about the bottom line right now, we may not be here to enjoy it," she noted.

Bill Boswell, production manager, agreed with Preston: "We need new machinery for our current production line also, and that has a very direct and immediate payback."

Pete Newell, marketing, agreed with Spinks: "I don't feel we can put our heads in the sand. If we don't keep up competitively, how will our salespeople be able to keep selling obsolete lighting products? Besides, I'm not sure that Carol's figures are completely accurate in measuring the actual return on this low-energy project." A stormy debate followed, with heated arguments both for and against the project, until West called the meeting to a halt.

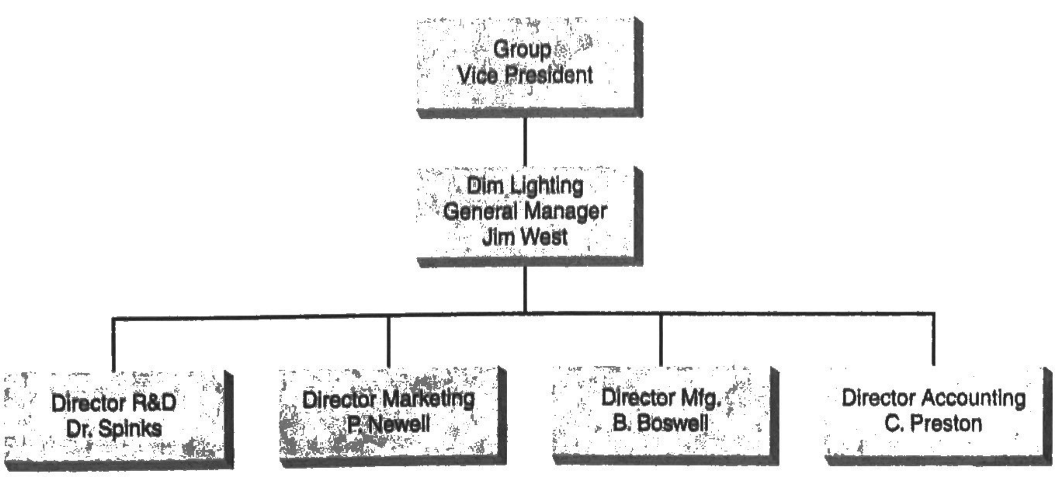

FIGURE 3.3 The Organization Chart

Later, thinking it over in his office, West considered the situation. Going ahead with the micro-miniaturization project was a big gamble. He realized that the long-term success for Dim Lighting required new product lines such as the micro-miniaturization project. But such projects would require capital from corporate headquarters, plus strain the needs of current products at Dim Lighting. West is in a quandary as to how much he should make a case for funding from headquarters. If he obtains funding and the project is not as successful as projected, what will this do to his career at Dim Lighting or even some other company? On the other hand, if he rejects the project, what chance does Dim Lighting have for turning around the decline experienced last year? Further, if he decides against it, it is quite possible that Spinks will resign, which will shatter the R&D department West had worked so hard to assemble. (Use the Case Analysis Form.)

THE DIM LIGHTING CO. CASE ANALYSIS FORM

Name: ______________________

I. Problems

A. Macro

1. ______________________

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2. ______________________

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B. Micro

1. ______________________

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2. ______________________

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II. Causes

1. ______________________

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2. ______________________

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3. ______________________

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III. Systems affected

1. ______________________

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2. ______________________

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3. ______________________

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IV. Alternatives

1. ______________________

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2. ______________________

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3. ______________________

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V. Recommendations

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