

Luana

Exercise 28

Eurotechnologies, Inc.

Introduction

This role-play brings three additional new features to your negotiating experience. First, the context of this negotiation is *inside* an organization. In this scenario, you will be asked to represent one of two groups: a **management team** or a group of scientists who are protesting against a major management decision. Second, this simulation is considerably less structured than others, in that there is a great deal more flexibility and opportunity for creative solutions. Finally, the negotiation occurs in an international context, which may provide a new experience for many of you. We hope you find this simulation an interesting negotiating opportunity.

Eurotechnologies, Inc., General Information

Eurotechnologies, Inc. (ETI), is a Munich-area firm that employs about 900 people. It is a high-technology division of Mentor, whose corporate offices are in Paris. ETI's primary product is an elaborate bioelectronic detection system developed and manufactured under contract with a consortium of European governments. This system is used for detecting various types of life forms through radarlike procedures. Because of the highly classified nature of the manufacturing process and the need for manufacturing to occur in a relatively pollution-free environment, ETI has chosen to separate its manufacturing facilities from its main offices.

The manufacturing facilities are located in a remote area near Wasserburg, Germany, approximately 64 kilometers from downtown Munich. ETI has purchased several hundred acres of land that provide the adequate security and air quality for manufacturing and full-scale test operations. While it is a picturesque area far away from the congestion of the Munich area, it is not without its faults. Access to the plant requires travel over 16 kilometers of a poor locally maintained road; manufacturing employees constantly complain of worn brakes, tire wear, and strain on their cars. The road is often rain-slicked, muddy, and treacherous in the winter. Most of the 630 workers (480 hourly, 140 staff, and 10 R&D personnel who run the test facility) employed in this plant commute from a 45 to 60 kilometer radius over this road into the plant; traffic congestion, particularly around the times of shift changes, makes travel and access a highly undesirable aspect of working for this plant.

The manufacturing facility itself is not air-conditioned and hence frequently hot in the summer and stuffy in the winter. The closest town, Wasserburg, is 16 kilometers away. The Wasserburg plant has a cafeteria, but the food is cooked elsewhere and reheated at the plant. The menu is limited and expensive.

Source: This role-play is developed by Robert Reinheimer, adapted from a scenario developed by Robert Reinheimer and Roy Lewicki. Used with permission. The case and role-play have been prepared for class discussion rather than to illustrate effective or ineffective handling of an administrative situation.

There are two groups of support personnel at Wasserburg. One group (approximately 110 employees) is directly connected with the manufacturing operations as supervisors, shipping and receiving, plant operation and maintenance, stock and inventory, clerical, and so on. The remainder (30 employees) are professional engineers responsible for providing technical support and quality maintenance for manufacturing. Facilities for this support staff are somewhat better than for hourly employees; office space and lighting are adequate and the building is air-conditioned. There is no separate cafeteria, and no place to entertain visitors; staff alternate between bringing their lunch, occasionally purchasing the cafeteria food and taking it back to their offices to eat, or carpooling for the 20-minute drive down to Wasserburg. Dissatisfaction and low morale among the professional staff are rampant.

The Downtown Location

The executive staff offices, the government liaison offices, and the research and development laboratory are located in suburban Munich, just north of the city center. Also, there are test facilities on a one-tenth scale for ongoing research and development programs. All administrative services are conducted from here: employment, payroll, security, data processing and system analysis, and research engineering and design. The buildings are spacious, clean, and air-conditioned and boast two cafeterias: one for hourly workers and one for research personnel and executive officers. Employees can also go out for lunch, and many good restaurants are nearby. Working hours are more flexible, and the environment is more relaxed with less visible pressure. While the normal starting time is 8:00 a.m., professional staff drift in as late as 9:30 and often leave early in the afternoon; working at home is frequent. On the other hand, when deadlines or schedules have to be met, it is not unusual to find them working 60 hours a week. The work environment is more informal and displays casualness similar to a university setting.

As the majority of the Munich-based employees are professional people, they consider themselves a cut above the manufacturing and technical service employees at Wasserburg. While they will acknowledge the value of the revenue generated by Wasserburg, they are convinced that it is really the Munich area group that carries the company. Without their high-level technical advances, ETI would not have the outside reputation it has for premium-quality products. Inside ETI, however, the rivalries between various engineering and scientific personnel led to the creation of "domains" or "kingdoms." The primary split is between Wasserburg and Munich, and over the years it has fostered extensive duplication of efforts. Each group (testing, maintenance, etc.) has been able to procure tools and equipment for itself that normally would be shared if the two locations were closer. The Munich technical divisions have even subcontracted certain testing and development operations to suppliers who are competitors of ETI, due to their basic lack of respect for in-house capabilities at Wasserburg and the red tape and expense of having to work through their own planning and scheduling staffs.

Additionally, the Munich R&D group has taken consulting contracts from other firms and has consistently failed to involve any Wasserburg personnel in those projects.

The Contract Bidding History

In recent years, ETI has put out numerous competitive bids for civilian and military contracts, but few projects have been forthcoming. Analysis of failures revealed that rejections have been due to excessive cost estimates rather than weak technical capabilities. ETI is considered to be one of the top 10 quality-based manufacturing firms of its kind on the continent. However, its overhead costs are prohibitive. The cost of operating two sites, duplication of effort, overstaffing, and a blurring of goals for corporate growth and expansion have caused the overhead rate to be 30 to 40 percent higher than that of competitors. For example, the United Kingdom had recently issued a request for bids on the development of a new bioelectronic system, similar to ETI's current product. The development contract alone was worth 12.25 million euros; and production of these units would be worth 73.35 million euros. ETI was positive it would get the contract. However, when the government evaluated the bids from five different companies, ETI came in first in the technical aspect of the bidding and fifth in the cost aspect; the company did not get the contract.

The Alternatives

Top management's reaction to this setback was to propose a 20 percent cost reduction plan. Many high-salaried technical and engineering personnel were destined to be laid off. The housecleaning was overdue; some deadwood and duplication of effort was eliminated. But after six months, it became a hard, cold fact that further reductions in overhead costs would be necessary in order to continue to be competitive.

ETI owned the Munich-area facility, and top management believed the most obvious way to achieve this reduction was to close it, move all of the Munich-area employees to the Wasserburg facility, and lease out the vacated buildings. The leases would be excellent tax shelters and an additional source of revenue. This consolidation was expected to reduce much of the duplication of effort, as well as provide better coordination on existing and future projects.

In thinking through how the proposed move might be accomplished, top management considered features designed to make it as palatable as possible. First, they proposed to spread the relocations over one full year. Each employee could either accept the move or reject it and accept termination from the company. ETI management would go as far as possible with those employees who rejected the relocation. They would offer a liberal time-off policy to those involved so the employee could seek other employment, provide a special bonus of one month's salary for relocation expenses, notify other companies in the Munich area of the names and résumés of terminating employees, and set up employment interviews with these companies. They also would notify all placement agencies in the area and pay all placement agency fees.

It was clear to management that even with the generous plan they had outlined, the move would be hugely painful for the organization and would represent some very real costs in terms of overall effectiveness. Yet they saw no alternative but to proceed with studying the proposed consolidation.

When the details of the proposal leaked, the plan was met with a massive reaction of hostility and despair. Almost all the Munich-area professional employees felt that a

transfer to Wasserburg would mean a sharp decline in status with their peers in similar industries. Most had their homes close to Munich, and the drive to Wasserburg would increase their commuting time and cause wear and tear on their automobiles. The company thus knew that a certain percentage of employees would terminate because of the relocation. It estimated that a "safe level" of termination was 22 percent; if it reached 35 percent in any occupational group, it could be considered a critical problem. Management informally surveyed employees and found that among the administrative staff, the termination rate was likely to be near 25 percent.

The strongest reaction came from the company's research and development staff. They had grown used to having their laboratory and test facilities in the Munich area and drew heavily on informal relationships with faculty at the area's most prestigious universities for ideas and information. Their view was that being forced to move to Wasserburg, in addition to being undesirable, would cripple their ability to function effectively because of their loss of contact with other professionals. Of the 11 members of the research and development staff, only two expressed a willingness to consider the move to Wasserburg. The others claimed they would avail themselves of the many other employment opportunities their specialties commanded. They formally expressed their resistance in a letter to the company president (Exhibit 1).

The letter was written by a committee of R&D personnel formed to represent the group's interests regarding the proposed move. In the letter, they outlined their concerns and volunteered to take 20 percent salary cuts to contribute to the reduction of overhead costs. This reduction would total approximately 183,375 euros.

The committee members consisted of the following six employees:

- Axle Pederson, age 52. Oldest member of the group, but only one year at ETI. Previously worked with several environmental engineering firms in the Munich area. Moved to ETI because of the quality of the other people in the research group and because of interest in the projects that were being considered.
- Thomas Hoffmann, age 49. Most senior member of the ETI group (24 years), and a likely candidate to be the next vice president of research and development. Lived near Munich all his life, and currently lives a block away from Pieter Jensen, the president.
- Manfred Berkowitz, age 42. Fifteen years with ETI, and the most professionally aggressive of the group. Most active in research with high professional visibility.
- Volker Schmidt, age 47. Twenty-two years with ETI. Also very professionally active, second to Berkowitz. Schmidt has spent a number of years developing professional contacts in the Munich area and has been the most articulate in defending the richness of the professional stimulation to be derived from the area.
- Pieter van der Velden, age 36. Five years with ETI. Worked for two years at Wasserburg before being assigned to the Munich group. A definite up and comer in this group.
- Michael Blank, age 32. Four years with ETI. Strong research orientation, a close collaborator with Berkowitz on several professional papers. Berkowitz also served as a mentor to Blank while Blank was completing his PhD at Heidelberg University.

EXHIBIT 1

Mr. Pieter Jensen, President
Eurotechnologies, Inc.
300 Reinstrasse
Munich, Germany

Dear Mr. Jensen:

Our committee, representing your research and development personnel, wishes to express its serious concern about the recent events which have affected our company. We believe that ETI's survival depends on our retaining our technical excellence. We are dismayed that you and your management team seem to be contemplating actions that could cripple that capability.

We have all been shocked by our recent loss of contracts. However, it is critical for you to note that we have never been faulted for our technical expertise. It is our cost structure that prevents us from winning these bids. But an action which addresses the cost problem, while destroying our ability to compete technically, simply trades one problem for a more disastrous one. Closing the Munich facility and consolidating operations at Wasserburg creates just such a trade, and that is unacceptable.

Although no formal announcement of management's response to the current situation has been provided, it is clear that consolidation is in the wind. We believe that forcing R&D to move to the Wasserburg location will ruin the professional network that is our (and the company's) treasured asset. Some alternative must be found and, if it is not, the members of our department will seek individual solutions to their personal problems.

It is time that management emerges from behind closed doors and asks vital members of the company team to become involved in this decision. If management intends to launch this consolidation effort, we believe it will have disastrous results and that it is unlikely that research and development personnel will remain with the company.

Our interest is in the company's survival. If it were necessary, the members of the committee would be willing to agree to a 20 percent salary reduction in return for being able to remain in the Munich-area network. We request an opportunity to speak with management about this vital decision which massively affects all of us.

Sincerely,
(signed by all members of the committee)

After reading the statement sent by the committee, the president of Eurotechnologies, Pieter Jensen, conferred with the vice president for research and development (and the immediate superior of the scientists) and the vice president for human resources. The three discussed the statement that they had received and agreed that the situation was serious. It was clear that the Wasserburg move created unforeseen, legitimate problems for the vital R&D personnel and that management had erred in not seeking wider input in considering their cost reduction alternatives.

The management team debated the alternatives. They understood the frustrations of the research and development staff but were faced with having to cut almost 6,500,000 euros from annual costs in order for ETI to remain competitive. Consolidation still seemed the obvious answer, but the problems were mounting with this employee disclosure.

EXHIBIT 2

(addressed to all committee members)
Research and Development
Eurotechnologies, Inc.
300 Reinstrasse
Munich, Germany

Dear (names):

I have given my most serious consideration to the points you raised in your recent letter. We share your interest in doing what is best for ETI and welcome your interest in contributing to that goal.

It is clear that our technical expertise is one of our greatest assets and that your work in research and development is a vital contributor to that expertise. We have no wish to reduce our technical competitiveness. Nevertheless, our failure to produce cost-competitive contract bids is a problem that requires a painful solution, and we have only 18 months to produce an effective response.

We acknowledge that we have begun to examine the consolidation of our operations at the Wasserburg facility. Such a consolidation would reduce duplication of facilities, equipment, and personnel. These reductions would contribute significantly to an overall cost saving. Page two of this letter is an exhibit of the ongoing cost savings we believe would result from such a move.

At the same time, we believe that this action would be unwise if it truly has the crippling effect on your effectiveness that you forecast. Our dilemma, as the management team for ETI, is to address the need for major, fast cost reduction while providing for the continuation of our technical excellence. We also believe that any proposal must be fair to the many employees who are a part of the Eurotechnologies family.

In response to your letter, I have ordered that further evaluation of the Wasserburg alternative be halted for the time being. I ask that your committee send some of its members to a meeting with myself and other members of the management team to discuss the situation as it has evolved. We share an interest in ETI's survival if we can develop a plan that is mutually acceptable in achieving that goal. I look forward to meeting with you.

Sincerely,
(signed, Pieter Jensen)

Jensen wrote a letter to the committee acknowledging their concerns and inviting the members of that group to come to a meeting with the president, the VP of research and development, the VP of human resources, and other senior company officials. Jensen was careful to make no commitments or promises in the letter; he simply invited them to come to a meeting (Exhibit 2).

ETI Expense Statement (in thousands of euros)

Overhead	Wasserburg	Munich	Totals	
			Current	Consolidated
Manufacturing	18,035			18,035
Administrative	2,662	5,406		2,906
R&D	483	4,343		4,531
Total	21,180	9,749	30,929	25,472
R&D Expenses				
Utilities	82	204		173
Computer lease		1,019		1,019
Supplies	212	449		492
Consulting		749		663
Total	294	2,421	2,715	2,347
Salaries and Benefits				
Professional	1,630	2,282		3,912
Benefits	245	342		587
Hourly	8,137	305		8,325
Benefits	813	31		824
Relocation				750*
Total	10,825	2,960	13,785	14,398
				13,648†
Facilities				
Debt service	815	2,630		815
Insurance/ maintenance/taxes	408	1,070		408
Total	1,223	3,700	4,923	1,223
Grand total:				
Current versus consolidated			52,352	42,656†

*One-time expense

†Ongoing total