

3. Spring Furnishings Ltd faces difficult times

Spring Furnishings Ltd is a medium-sized manufacturer of sofas and easy chairs for the luxury end of the UK market. The downturn in the UK economy is starting to have a negative impact upon sales. The Managing Director, Stephen Spring, has just received the cash flow forecast for the next six months from the Finance Department and the situation is not looking good. Its raw material suppliers have notified the firm that prices are likely to rise sharply in the coming months and this is in addition to the significant anticipated increase in electricity and fuel costs. To make matters worse, one of the firm's longstanding customers, Relax Retail Ltd, has not paid outstanding invoices of many thousands of pounds; Stephen Spring urgently wants to know why this is the case.

Having called a board meeting to discuss the very worrying shortage of cash that has been forecast for the next six months, Stephen Spring hears more bad news. The newly appointed Human Resources Manager, Jenny Spalding, has recently met with the trade union representatives. She has been told that the one hundred and twenty members of the workforce will soon be putting in a claim for a 6% pay rise at the start of the next round of wage negotiations. She also pointed out that a recent shop-floor survey carried out by her staff indicated that motivation was very poor and that both poor working conditions and boredom were at the heart of the dissatisfaction.

Stephen Spring reacted to these revelations in his typically **autocratic management style**. "You must be joking", he shouted. "There is no chance of them getting a pay rise in the current economic climate. They should count themselves lucky that they have a job and stop moaning all the time. Perhaps, we would then get some improved **productivity** around here."

Jenny responded calmly. "In my opinion it's this company's *them and us attitude* that is the cause of many of the problems that we have with our staff. We place far too much emphasis here on levels of pay; there are more effective ways in which we can improve motivation in this organisation."

Table 1: Cash flow forecast for Spring Furnishings Ltd (Six months - July to December 2009)

Bank Overdraft Limit: £150 000

	£000s	£000s	£000s	£000s	£000s	£000s
	July	Aug	Sept	Oct	Nov	Dec
Total Sales Receipts	1 400	1 300	1 150	1 150	1 200	1 220
Raw materials	700	760	755	755	762	768
Wages	200	200	200	200	200	200
Fuel	20	22	24	27	30	33
VAT			674			625
Loan repayments	30	30	30	30		
Electricity	26			32		
Administration	16	16	16	16	16	16
Insurance premiums						40
Advertising	20	20	20	20	20	20
Total Payments	1 012	1 048	1 719	1 080	1 028	1 702
Net Cash Flow	388	252	(569)	70	172	(482)
Opening Balance	25	413	665	96	166	338
Closing Balance	413	665	96	166	338	(144)

- (a) Assume that from 01 December that the:
- wages are increased by 6%;
 - insurance premiums rise by 10%.
- (i) Recalculate the closing balance in December for Spring Furnishings Ltd's cash flow forecast. (Clearly show all your workings.) [5]
- (ii) Suggest **three** ways in which Spring Furnishings Ltd could attempt to improve its cash flow situation and evaluate **each** of your suggestions. [9]
- (b) What is an *autocratic management style*? [4]
- (c) Explain how a manufacturing firm, such as Spring Furnishings Ltd, might improve its productivity. [8]
- (d) With reference to some of the motivation theorists you have studied, evaluate Jenny's view that there are more effective ways, other than increasing wages, of improving motivation. [12]