

## CASE FOR ANALYSIS Covington Corrugated Parts & Services<sup>87</sup>

Larisa Harrison grimaced as she tossed her company's latest quarterly earnings onto the desk. When sales at Virginia-based Covington Corrugated Parts & Services surged past the \$10 million mark some time back, Larisa was certain the company was well positioned for steady growth. Today Covington, which provides precision machine parts and service to the domestic corrugated box and paperboard industry, still enjoys a dominant market share, but sales and profits are showing clear signs of stagnation.

More than two decades ago, Larisa's grandfather loaned her the money to start the business and then handed over the barn on what had been the family's Shenandoah Valley farm to serve as her first factory. He had been a progressive thinker compared to many of his contemporaries who scoffed at the idea of a woman running a machine parts plant, and he saw no reason why a smart, ambitious 27-year-old woman couldn't run anything she wanted to. His old-fashioned friends no longer scoffed when Larisa became one of the major employers in the local area. Today, Covington operates from a 50,000 square-foot factory located near I-81 just a few miles from that old family barn. The business allowed Larisa to realize what had once seemed an almost impossible goal: She was making a good living without having to leave her close-knit extended family and rural roots. She also felt a sense of satisfaction at employing about 150 people, many of them neighbors. They were among the most hard-working, loyal workers you'd find anywhere. However, many of her original employees were now nearing retirement. Replacing those skilled workers was going to be difficult, she realized from experience. The area's brightest and best young people were much more likely to move away in search of employment than their parents had been. Those who remained behind just didn't seem to have the work ethic Larisa had come to expect in her employees.

Other problems were looming as well. Covington's market share, once at a formidable 70 percent, was slipping fast, brought about not only by the emergence of new direct competitors but also by changes in the industry. The box and paperboard industry had never been particularly recession resistant, with demand fluctuating with manufacturing output. The rocky economy had hurt the whole industry, including Covington's largest customers. Added to that, alternative shipping products, such as flexible plastic films and reusable plastic containers, were becoming more prevalent. It remained to be seen how much of a dent they'd make in the demand for boxes and paperboard. Even more worrying, consolidation in the industry had wiped out hundreds of the smaller U.S. plants that Covington once served, with many of the survivors either opening overseas facilities or entering into joint ventures abroad. The surviving manufacturers were investing in higher quality machines from Germany that broke down less frequently, thus requiring fewer of Covington's parts.

Covington was clearly at a crossroads, and its managers were arguing about which direction the company should take. If Covington wanted to grow, business as usual wasn't going to work. But no one could seem to agree on the best way to achieve growth. The marketing manager was pushing for moving into new products and services, perhaps even serving other industries, while the director of finance believed the plant needed to become more efficient, even lay off employees, and offer customers the lowest cost. Larisa cringed as she heard that statement because her focus was always on what was best for her employees. The finance director added that efficiency and profitability should be the key criteria by which Covington measured its performance, whereas the marketing manager vehemently argued that the company would be effective only if it focused on new customers and customer satisfaction in the changing industry environment, which would mean taking some financial risks. "I know 'corrugated' is in our name," he said, "but we've already moved beyond that to servicing other types of paperboard-making equipment. Why not become the all-around provider, serving any manufacturer that makes containers and packing materials, whether it's paper, plastic, or whatever?" It was truly an ambitious idea, but he was so fired up about it that he had investigated possible acquisitions and partnership opportunities. The finance director was livid. "If anyone is looking into mergers and acquisitions, it should be me, not the marketing manager," she had shouted at the most recent managers' meeting. Meanwhile, the vice president of manufacturing presented a plan for expanding market share by exporting parts globally, which set both the marketing manager and the finance director off. "Why haven't we even heard about this before now?" the marketing manager asked. "I'm not saying I disagree with it, but communication in this place is atrocious. I never even got a copy of the last finance report." The director of finance quickly shot back with a charge that the marketing manager didn't seem to care about profit and loss anyway so why should he need a copy of the report.

As Larisa considered the chaos into which the most recent meeting had degenerated, she thought back to her days in graduate school and realized that organization design was part of the problem. Covington had succeeded for two decades with a loose, even haphazard structure, because everyone seemed focused on building the business. People simply did what needed to be done. However, the company had never been under threat before. "Perhaps we just aren't as well organized as we need to be to handle the challenges Covington is facing," she thought. As she watched the last shift workers walk to their cars, Larisa pulled out a report that a consultant friend had developed for her a few months ago. The report emphasized:

- Covington rated very high on employee morale.
- Covington was rated low on innovation and change.
- The Covington culture emphasized production efficiency.

## Chapter 2: Strategy, Organization Design, and Effectiveness

- The Covington culture was not intensely focused on developing new customers.
- Each department did its job well, but collaboration across departments was rated low to medium.
- Price competition would probably intensify as the customer base grew smaller.
- The industry would continue to change toward fewer paperboard machines and toward higher quality imported machines.

Larisa scribbled a few notes on a pad:

*How should we decide what strategy to pursue?*

*Who should have authority and responsibility for what?*

*How do we improve communications?*

*What criteria should we use to measure performance and ensure accountability?*

Larisa knew that as soon as she or her team could determine some answers, she would sleep at least a little better.