JOHNSON'S WAX (E.A.) LIMITED:

PROFITABILITY AND ORGANIZATIONAL PROBLEMS

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The Parent Company:

Johnson's Wax E. A. Limited is a subsidiary of one of the largest privately owned multi-national companies in the world, based in Racine, Wisconsin, U.S.A., and called Johnson Wax & Son, Inc.

Company History:

Johnson's Wax is the world's largest manufacturer of wax products. In U.S.A. the company was founded in 1886 - not as a wax company, but as a manufacturer of parquet flooring. The turn to wax came when a "Prepared Paste Wax" was developed in response to customers' demand for a product to care for their Johnson parquet floors. This business did so well that by 1919 the original business of parquet floor manufacturing was dropped in favour of the wax and other floor finish products business.

Company Growth:

From humble beginnings in rented space and only a few employees then, Johnson Wax has grown into a world-wide company. Today there are 48 Johnson Wax companies throughout the world. The products manufactured have expanded to household waxes and polishes for floor, wall and multi-surface cleaners, furniture appliances, insecticides, air-fresheners, laundry products, personal care products, shoe polishes and automotive products.

Founder's Philosophy:

Since its establishment, the company history has been marked by enterprise and growth, based on the philosophy of its founder, Samuel C. Johnson, that if you make something better than your competitor and properly tell others about it, people will insist on buying it. This philosophy has helped develop the company's business around the world to the extent that in 1981 the total turnover was approaching £2 billion.
R & D Facilities:

To back the business world-wide, the company has established Research and Development facilities in the U.S., U.K. and Holland. These are equipped with high calibre scientists and chemists and the most advanced facilities to work towards the needs of product development of all the subsidiaries. Any subsidiary can call upon these facilities to develop a product to suit the specific requirements of that market.

Regional Structure:

The worldwide business of Johnson Wax is divided into five regions namely, the U.S., + Canada; the Americas (consisting of the rest of the continents of North and South America; Europe; Africa, Middle and Near East; and Far East and the Pacific.

Each Region is controlled by a Regional Vice President who has a staff of experts in all fields of business management namely, Marketing, R & D Coordination, Personnel, Finance, and Engineering. They ensure that the Corporate Objectives and Policies are carried out and provide any assistance required by any subsidiary. They do this by keeping constantly in touch with their counterparts in each subsidiary.

It is also ensured that the business is carried out with highest business ethics.

In 1910 the first subsidiary of Johnson Wax was established in England. Then followed the development of other international subsidiaries all over the world.

Management Style:

Johnson Wax Worldwide has prospered mainly due to the unique style of management it has created over the years. All the workers working for Johnson Wax form the "Johnson Wax family". There is a system by which all the employees participate in a profit sharing
programme through which part of profits made by a subsidiary are shared with its employees. The amount of profit sharing received by an employee depends on his seniority and number of years of service with the company.

Employee Policies:

The company, world-wide, strongly discourages unionization of its employees. It believes that the management should be able to look after the interests of its people without interference from outsiders. The welfare of its workers should consist of benefits which are an essential part of the employee relationship philosophy. A sound benefit program, the company believes, will help to attract, retain and motivate employees by:

1. Minimizing the financial impact on employees or dependents resulting from injury, illness, retirement or death.

2. Providing opportunities for the personal growth and development of employees.

3. Providing other services important to the well being of the employees.

Employee Benefits:

The benefit program of each company has to be fully competitive with that of other companies which offer realistic employment opportunities for their employees.

The company believes that its fundamental strength lies in its people. It is the basic principle of the company to encourage and maintain a spirit of involvement, mutual respect and teamwork amongst all employees. This encourages employees to actively contribute to the success of the company and develops employee potential and creates a spirit of loyalty and commitment to the company. The managers are
aware of and sensitive to the concerns and needs of employees so that
the employees can freely express opinions and offer suggestions with
assurance that these will be fairly considered. Encouragement is given
to employees to contribute to managers' decision making.

The company encourages its employees to develop themselves by participating
in approved training, education or development programs outside the
company which are work related and which benefit the company and the
employee. The company bears all the reasonable expense of these
programs.

In cases of new job opportunities the company gives first preferences
to existing employees before considering outsiders.

Marketing Policy:

Johnson Wax participates in competitive businesses in which the user
has a choice of many products other than its own. It is the role of
advertising to inform the public about the company's products and
their benefits so that the consumer can make an intelligent, informed
buying decision.

The company's image and reputation with the general public is based
primarily on product performance but it recognises that it is also
influenced by the quality and effectiveness of its product advertising.
So all company advertising must follow the following guidelines:-

1. The product advertising will inform the potential users about
the company's products and their benefits so they can make an
intelligent, informed buying decision.

2. Advertising will be truthful. It will not over-promise or create
unrealistic expectations about the performance of the products.
Performance and other claims will be substantiated by appropriate
technical and consumer support.

3. All product advertising will be in good taste in keeping with the
company's image. It must not make embarrassing, unfair, misleading,
inaccurate or disparaging statements about competitors or their products.

4. Product advertising is a reflection of the company and it should not be placed in media which will offend generally accepted standards of decency.

Product Performance Policy:

The company will market products which provide user satisfaction and reinforces the company's reputation for quality and excellence.

The new products introduced by the company will be recognised by the users as being superior to major competitive products.

All new products will have a product plus i.e. at least one feature which will be recognised as being superior to competition.

PART II:

JOHNSON WAX E.A. LIMITED:

Formation:

Johnson Wax decided to open a subsidiary in East Africa in 1968. This was to cover the expanding markets in Kenya, Uganda, Tanzania and the surrounding countries. A local partner, Comcraft Investments Limited, was found participating with a 40% share. A warehouse type factory was set up in Jiroro Road in Nairobi's Industrial Area.

To start with, Johnson Wax bought over the first aerosol unit that was set up in Kenya. This was a small company called East African Aerosols and was located in Nakuru, 98 miles North-West of Nairobi. This company started making a pyrethrum based insecticide and packing it into aerosol cans in 1957. For Kenya this was a new way of dispensing insecticide. Hitherto flit pumps were the commonest method for dispensing insecticides in the households. The aerosols quickly proved popular and East African Aerosol's Brand "IT" quickly became popular and created a market which became the dominating force for insecticides for household use in East Africa.
Johnson Wax paid Shs.800,000/= for the basic aerosol filling machinery to East African Aerosols and with it brought nine production workers and also acquired their insecticide brand "IT".

Management:

Initially the local partner of Johnson Wax, Comcraft Investments Ltd., who had a 40% share in the company Johnson Wax E. A. Ltd., were given the management. But in 1970 it was decided that Johnson Wax would send a manager to East Africa to establish the beginning of a Johnson type management. Mr. John Rauffi, an Iranian, was sent to Kenya as the first Johnson Wax General Manager. He recruited a Mr. Vasdev as his Production Manager and Chief Accountant. With the management team of these two and a staff of 15 workers, Johnson Wax E.A. Ltd. started business. By 1981 the staff had increased to 70 people.

Management History:

In the beginning Johnson Wax E.A. Ltd. worked a management system which worked on low overheads and so low risk. The General Manager was the central figure in the company and besides performing the functions of general management, was also responsible for marketing, sales and distribution and was also responsible for personnel matters. He reported to the Regional Director.

The Production Manager besides performing the production functions, and also did all the purchasing, was responsible for all the accounting matters. He also looked after the problems of the factory workers and was responsible for their development. His other responsibilities included maintenance of the machinery and the buildings, looking after the warehouse and the security of the factory.

With the most important functions being performed through just two people, the company expenses were tightly controlled and from the very first year of its operation, the company made profit. But with the developing of business, it was found necessary to recruit a Sales Manager in 1971 and a Chief Accountant in 1973. No other managerial post was created until 1979. In fact when in 1975, the Sales Manager resigned, this post was not replaced until late 1979. Between these
periods the General Manager again assumed the responsibility of sales.

Besides the General Manager and the Production Manager, there was nobody in the company who had any significant amount of power to take decisions. This state of affairs continued when the General Managers and also when new Production Managers arrived on the scene. But due to the fact that the company was prospering, the Regional Director was quite happy not to interfere unduly in the running and management of the company.

Problems of Labour:

With the company doing well and showing steady growth there was not sufficient emphasis put into the welfare of the junior staff and the factory workers. In fact, with expanding business, the managers responsible for personnel affairs had less and less time to devote to these. The company slowly began to lag behind other competitive companies in employee remunerations and benefits. The workers' unrest started to grow. The principles of Johnson Wax Worldwide employee relations programmes were not being followed just because the management at Johnson Wax E.A. Ltd. did not have enough time for implementing these.

In 1977 the factory workers joined the National Union of Chemical Workers. This was one thing which created shock waves in the International Manager of Johnson Wax. Johnson Wax East Africa became the focal point of attention of the International Personnel Managers. Strategies were drawn up to lure the workers out of the union. The following actions were taken to achieve this:

1. The wage structure of the workers was steadily uplifted from below the industry average to above the best paid companies in similar business.

2. A Personnel Manager was appointed to look full time into the affairs of the company personnel.

3. A Pension Scheme was introduced for the first time to cover all the company employees. The benefits of this scheme were in
accordance to the Johnson Wax Worldwide benefit programme.

4. When the company moved to its new factory premises, a canteen was built there and provided free lunches and tea to all the employees.

5. A cost of living adjustment in the salary was implemented once every year.

6. A merit pay increase system was introduced to be implemented once a year.

7. A medical scheme was introduced to cover the employees and their families.

8. Free transport was provided to the employees to and from their place of work.

9. A leave allowance was provided to pay towards the employee's transport expenses while going on leave.

All the above mentioned benefits were paid to the workers over and above the terms agreed with the union. Even with the implementation of the above benefits, some of the hardcore unionists refused to leave the union and at the same time prevented the moderates from leaving.

The next strategy applied by the company management was to restrict the additional pay awards only to the non-union workers while awarding only the negotiated awards to the union members. The union negotiated awards were much lower than the ones given to the non-unionised employees. This move had quick results. Union members soon started to resign from the union. By the end of 1979 there was no union member left in the company.

Management Structure:

As Johnson Wax E. A. Limited business was growing steadily, in 1979 the Regional Management decided that it was time to move from a small company structure, where a few people-controlled too much power, to a proper Management Team. This was to build the foundations of a solid company.
From 1979 to 1982 the following senior staff was recruited to form the management team in addition to the General Manager and the Production Manager.

1. **Technical Manager** whose function is to keep a strict check on the quality of the products produced in the company. He also coordinates with the Regional Technical Director in the development of new products required by the local market and at the same time keeps improving the existing products.

2. **Personnel Manager** whose function is to be responsible for all the personnel affairs of the company. He recommends implementations of policies in accordance with the company requirements.

3. **Marketing Manager** whose function is to ensure that the company's marketing objectives are met. He ensures that the company maintains its market share in existing products and at the same time introduces new products according to the requirements of the consumers.

4. **Sales Manager** whose job is to meet the sales and distributions targets of the company products.

5. **Purchasing Manager** who is responsible for buying the materials required to run the factory efficiently and ensuring that there is no shortage of the company's products due to the lack of materials to produce them. His functions also require him to ensure that excessive money is not tied up in inventory.

**Product History:**

Johnson Wax E. A. Ltd. opened for business in 1968 and started manufacture of 'II' insecticides. This was the brand purchased from East African Aerosols which was already in the market and gaining popularity. This gave the company a strong base to work from. Soon the company was looking at introduction of products which had gained a great deal of acceptance in the international markets.

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In 1970 airfresheners in aerosol form were manufactured for the first time in Kenya by Johnson Wax. These were manufacture under the brand name 'GLADE' and soon gained popularity.

In 1971 to compensate the growing aerosol Insecticide market, an aerosol Insect Repellent under the brand name "OFF" was introduced. This was to capture the 'outdoor adventure' market of game hunters and campers in Kenya. Together with the Insect Repellent, mosquito coils production was started. For this, the Production Manager had to spend two months in the Philippines where Johnson Wax had a mosquito coil operation. Johnson Wax was able to import the necessary machinery from Japan for this new product. Most of the raw material required for this venture was available locally.

In 1973 the company saw the opportunity of going into the Personal Care market in Kenya with the launch of its "US Antiperspirant". This product had already gained wide acceptance in the European and Far Eastern markets. Also introduced at the same time was a household product W.C. Jet Toilet Cleaner. This was rather unique, for the market was dominated by powders.

In 1974 "Pledge" furniture polish in aerosol form was introduced. This product had been the leading product for Johnson Wax in America and Europe.

In 1976 to compensate the US Antiperspirant market, US Deodorant was introduced. This soon became the leading deodorant brand to be manufactured in Kenya.

In 1978 it was discovered that the company, although leading in the household insecticide categories, was not in the crawling insect speciality market. To fill this vacuum, Raid Crawling Insect Killer was introduced.
Worldwide Johnson Wax companies operate their business in two broad categories i.e. the Consumer Products Division and the Industrial Products Division. The Industrial Products Division produces and markets products to sell directly to the customers. The products include floor cleaners and strippers, wall cleaners, floor polishes etc. in packings of around 20 litres. These are sold directly to hotels, big buildings and institutions etc. In 1979 it was found that there was sufficient market in Kenya to start production of Industrial Products. The products manufactured were:

1. A heavy duty general purpose cleaner called Emerel
2. A PVC floor polish called Encore
3. A PVC floor stripper called Prompt
4. A wood floor stripper named Solve and
5. A wood floor wax polish in liquid from called Traffic Wax.

Throughout the above period, in addition to the products manufactured locally by the company, a wide variety of finished goods were also imported. These included Carpet Cleaners, stainless steel care products, silver polishes and car polishes. It was only in 1981 when restrictions on imports of such products came into effect that the company stopped the stocking of these.

Sales:

In the very first year of its operation in 1968, Johnson Wax E. A. Ltd. achieved sales of Shs.3 million. This was achieved even though the company manufactured only one type of product i.e. IT insecticide. From this humble beginning, the company maintained an average sales growth of around 20% per year until 1977 when the sales reached Shs.11.8 million.

In 1978 the total sales of the company rose to Shs.15.5 million - an increase of 31% over the previous year. This dramatic increase was achieved just before the company decided to change its structure from being managed by two main people i.e. the General Manager and the Production Manager to the one consisting of a full Management Committee. This consisted of a great deal of investment in new Managers.
In 1979 the sales of the company increased to Shs. 16.4 million - an increase of a mere 5.8%; the smallest increase in the company's history. This was explained by the management to be due to change in the company's structure which put new inexperienced personnel into key positions while they were familiarising themselves with the company's business.

In 1980 the total sales of the company reached Shs. 20.3 million, an increase of 23.7%. This promised renewed growth in the company's future sales. The new structure of the company with its Management Committee seemed to be moving in the right direction as far as sales were concerned.

But during this time there was a change in the top management. A new General Manager joined the company while the previous one was transferred to the United States. The next year, 1981, showed a drop of sales to Shs. 13.0 million, a drop of 56%. A lot of the drop in sales was due to restaging of the company's main product II and recall of old stock from the trade. But the position looks much worse if it is realised that Shs. 2.5 million of this sale came from the Industrial Division, a much newer part of the business.

PART III:

PROBLEMS AND CAUSES:
Profit and Loss:
Johnson Wax E. A. Ltd. started off in 1968 in a small way but it made respectable profits of around 13% per annum (operating). But from these steady results there was a dramatic turn about in 1979.

In 1977, the company had recorded the highest profits in its history of Shs.2.0 million. This was followed in 1978 by a profit of Shs.1.8 million. A lot of the contribution of these profits was due to a lucrative contract that was won by the company to manufacture 2 million cans of insecticide for Caltex Oil Company. But even without this income, the company was achieving new heights of profitability.

In 1978, the General Manager, left to start his own business and a new General Manager joined the company. The style of management changed to the one of large corporations. In this, the company lost its flexibility of taking decisions and introducing new product lines. So, 1979 saw a net loss of Shs.1 million.

In 1980 the profit position of the company recovered a little resulting in a net loss of Shs.614,000/=. Things seemed to be moving in the right direction except at this time there was another change in the General Manager's position. The year 1981 saw a huge loss of Shs.3.36m.

The prospects of year 1982 seem to be no better, with the country's economy suffering through a credit squeeze and business slow down as a result. The net loss expected is Shs.3.0 million.
Causes of Loss Situations:

The main causes of the declining situation can be analysed in the following headings:

1. Frequent top management changes
2. Lack of control over cost increases
3. Too much dependence on one major product
4. Declining market share not properly defended
5. Too slow to introduce new products
6. Competition
7. Lack of export effort.

1. Frequent Top Management Changes

As explained earlier, there were three changes in General Managers within two years from 1978 to 1980. In 1978 Mr. Arain who had been the General Manager since 1975 left the company to go into business for himself. During Mr. Arain's time the company had recorded the highest profits in its history. In 1977 and 1978 he had won a lucrative contract with Caltex Oil Company to manufacture insecticide for their Uganda market. In fact from this contract the company was able to build a brand new modern factory. The sales during this time never failed to meet the budget. He handled all the marketing and key sales himself and had developed excellent relations with the company's top customers and obtained their full support. He reacted very fast to the competitors' challenges through organized strategy and brilliant marketing.

Mr. Deen who replaced Mr. Arain as the General Manager in 1978 came from a background of newspaper advertising management. His strong points were personnel development and management organization. According to the Johnson Wax Regional Management, he was the type of man required to take the company from "owner" type of management to an organised Management Team type of situation. He succeeded in doing this very successfully. New positions of Marketing Manager, Sales Manager, Personnel Manager, Industrial Sales Manager, Financial Manager and Technical Manager were set up. Unfortunately, while Mr. Deen

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did an excellent job in setting up the Management Team, uplifting the workers morale (including succeeding in getting them out of the Union), the profitability of the company was a low priority for him. Although the company sales were not too bad during his time, the personnel costs went up dramatically. These were justified by him as being investments for the future. There was a loss of Shs. 1.0 million during his first year at the office. Although the position improved during his second year in the office when there was a loss of Shs. 0.6 million, he was transferred to U.S.A. before he could improve on this performance.

In 1980, Mr. Nylander was brought to manage the company from the smaller subsidiary in Ghana. He had been the General Manager of Ghana Johnson for ten years and came with a reputation of keeping a very tight control on expenses. This was what was needed in the company at the time. Mr. Nylander set up control systems the company badly needed. Unfortunately a great deal of effort was required for restaging the company's main products before a great deal could be done as far as sales were concerned. This resulted in a record loss during his first year in the office. His second year is not showing too much of an improvement either.

The last two General Managers had suffered from over optimism in an economy which tends to have wide fluctuations and has been going through a period of recession. The conditions called for caution rather than over commitments in the form of investments in personnel and marketing and other investments.

The key annual performance targets for profit centres or divisions is now more likely to be set in terms of return on investment rather than nominal net income or other variables that were more common in the past.

2. Cost Increases:

From 1978 until 1981 there was a huge increase direct and functional expenses incurred by the company. If expense increases are not
justified by additional income in any organisation, the end result is bound to lead towards economic disaster. The first test of any business is not the maximisation of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss. The gross profit was satisfactory during the above period as increased costs of sales were adjusted with price increases.

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<tr>
<td>YEAR</td>
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<td>SALES FORCE (SHS. THOUSANDS)</td>
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*Graph showing financial and marketing administration expenses.*
From the above diagram it can be seen that Functional Expenses rose steeply during the period 1978 to 1981. During this same period the sales units were actually declining although their shilling value increased due to the price increases of the products.

Sales Force Expenses:

From 1977 to 1980 the sales force expenses increased from Shs.722,000 to Shs.2,476,000 - an increase of 243%. The sales during the same period went up from Shs.11,823,000 to Shs.20,370,000 - an increase of 72%. In 1981 there was a reduction in sales force expenses due to a slight drop in their numbers to Shs.1,932,000. The sales in 1981 were down to 17,168,000. From this it can be seen that the sales force expenses increased from 6.5% of the sales in 1977 to 13.0% of sales in 1980 to 15% in 1981. This situation should have been arrested long before it got out of hand.

Marketing Administration Expenses:

The cost of Marketing Administration went up from Shs.148,000 in 1977 to Shs.625,000 in 1982, and increase of 322%. The increase should have been justified with progress in new products and increase in sales. But so far this has not been so. The Marketing Manager should have gauged the market environment for the company and taken action to ensure the sales were achieved to justify investments. Marketing should result in customers who are ready to buy. All that should be needed is to make the products available.

Financial Management Expenses:

Another grossly unjustifiable increase in costs. In 1977 this expense was just Shs.238,000. This rose to Shs.1,186,000 in 1981; an increase of nearly 400%. It is estimated that a professional firm of accountants would be prepared to do this work efficiently for less than Shs.500,000. The increases on these expenses were mainly due to staff increases and increases in staff benefits. These should have been related to staff productivity. But as the volume of work did not go up greatly, there should have been
a strict control on their numbers. A lot of staff benefit increases could have come from lesser staff number due to resignations and increased productivity.

Administrative Management Expenses:

This area of functional expenses shows huge increases. In 1977 the administrative management expenses were Shs.616,000. In 1978 there was a big leap in these expenses to Shs.1,036,000 and then a gradual rise to Shs.1,359,000 in 1980 followed by another huge increase to Shs.1,855,000 in 1981. The increase between 1977 to 1981 was over 200%. In 1982 these expenses will top Shs.2,000,000.

All the above functional expense increases were authorised in anticipation of increased sales which did not materialise. Somewhere along the way it should have been realised that the sales goals, from which these expenses were going to be met, were not being achieved. Adjustments should have been made to keep these expense increases to a level which could be justified.

3. Too Much Dependence on One Major Product:

From the very beginning, Johnson Wax E. A. Ltd. has been a 'one product' company. It has had the insecticide "IT" as its main product supplying around 70% of the total sales. The rest of the products which number around twenty, supply 30% of the sales between them. This shows a great weakness in the company's vulnerability, should a competitor come in a big way with a new insecticide. This did happen around 1978 when a rival product, Doom, attacked the IT market so vigorously that it took a big slice away. The company with newly restructured top management, did not take adequate retaliatory measures to overcome this challenge. This left the company in rather a helpless position from which it did not recover.

4. Declining Market Shares not Properly Defended:

Apart from the insecticide market, Johnson Wax E. A. Ltd. up to 1978 was the market leader in aerosol deodorants and antiperspirants and
the market was expanding rapidly. Competitors came in with better formulated products such as Body Mist, Elora and Yolanda sprays. While Johnson Wax had numerous products which it could have introduced in this market and also improved the company's "US" brand, it did not take any effective measures towards this. In fact the marketing section of the company just watched the Personal Care sales dwindle down to a negligible level. In fact up to 1982 the Marketing Department had not established the market trend. The company had a healthy shampoo market, which without marketing support could not survive and this product had to be discontinued in 1980.

The vacuum left by loss of above sales should have been filled by a similar new product by the company, but it failed to do so.

Another range of products which came under competitor's attack was the air freshener market which Johnson Wax led with its Glade range of airfresheners. Most of the competition in this area came from small manufactures who did not have very many technological resources available to them. Johnson Wax Worldwide is the world's market leader in the air freshener technology. Besides aerosols, the company had developed continuous type airfresheners in gel form marketed under name "Solid Glade", impregnated paper type airfresheners, toilet flush fresheners etc. Except for the aerosol type airfresheners, which are basically low technology type, the company did not introduce any other type of airfreshener. The policy, with the arrival of small competitors, should have been to introduce high technology products in this category and develop a long lead. So far this has not been done.

5. Too Slow to Introduce New Products:

Johnson Wax E. A. Ltd. has not introduced a new product in the local market since 1977. This is the main reason for the company not performing far better than it did in sales and hence profits over the last few years. Virtually all the competitive companies in the
same sphere of business had put numerous new products in the market. This has led to a great deal of weakening of the company's position as competitors have started to attack its markets without expecting any retaliations. This weakness has been fully exploited by the competitors who introduced products in all Johnson Wax categories.

6. **Competition:**

Over the last five years, Johnson Wax E. A. Ltd. has faced active competition from new and old competitors. The ones affecting the company most have been in the insecticide market. In this field there has been a great deal of activity by Coopers through their product, Doom. They attacked the company where it was the weakest, in the rural market of the country. Here they took the lead through superior distribution which was not matched by Johnson Wax. They also took a great deal of the urban market through better advertising campaigns. New competition was faced through products such as Killtox, Xpel, Target, Baygon and Trig. All these also took a slice of the market.

Johnson Wax had a Personal Care deodorant and antiperspirant market which once had a share as large as 75%. From 1978 onwards competition came in a big way through multi-national companies such as Gillette (their products Right Guard and Elora), Beecham's Body Mist, Henkel's Princess Patra, Boot's Lady Gay Deodorant, and Ariman International's Yolanda. In 1982 Johnson Wax has only about 11% of this market left.

The ex-general manager of Johnson Wax E. A. Ltd., Mr. Arain started his own company in 1979 manufacturing similar products. His knowledge of the market and the products allowed him to be a formidable competitor to Johnson Wax. He introduced competitive products e.g. Xpel Insecticide in competition to IT, No-Bite insect repellent in competition to OFF, Tropic airfresheners in competition to Glade and Yolanda Body Perfume in competition to US.
During the same period small manufacturers such as Anfi Ltd., United Chemical Industries Ltd., Shanti Perfumary Works and Nightrose Cosmetics Ltd. were very active putting products in the market in competition to Johnson Wax.

7. Lack of Export Effort:

Before 1978 Johnson Wax E.A. Ltd. did sizeable business in export to neighbouring countries. This disappeared due to political situations in countries like Uganda and Tanzania. Other countries such as Ethiopia, Somalia, Sudan and Zambia had economic problems and could not afford importation. No effort was made to find markets in other countries such as Rwanda, Burundi, Zaire and the Congo.

PART IV:

Organizational Changes and Effects:

As seen earlier, the organizational changes brought about in Johnson Wax E. A. Ltd. from 1979 onwards brought about dramatic effects on the performance of the company. Although with new structures in the company, systems were set up where everything was done correctly, according to the book, sales and profitability suffered greatly.

Initially, the company functioned as an organization with a very simple management structure with a high degree of integration amongst the groups. The structure was as below:-

```
  GENERAL MANAGER
   |
  /  \
PRODUCTION MANAGER  CHIEF ACCOUNTANT
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....../24
The General Manager was also responsible for the marketing, sales and distribution, regional coordination and personnel functions. The Production Manager was also in charge of purchasing, maintenance, warehousing, safety and security. The Chief Accountant was also responsible for financial planning, collections and financing of new developments. With these three key personnel controlling all the major functions, there was a high degree of integration. This was due to the requirements of interdependence amongst the functions. The amount of differentiation was low.

Organizational Differentiation and Integration:

From the findings of Paul R. Lawrence and Jay W. Lorsch\(^1\) it was confirmed that the states of differentiation and integration in effective organisations will differ, depending on the demands of the particular environment. Their research on three different environments clearly showed the following:

1. In a more diverse and dynamic field, such as the plastics industry, effective organisations have to be highly differentiated and highly integrated.

2. In a more stable and less diverse environment, like the container industry, effective organisations have to be less differentiated, but they must still achieve a high degree of integration.

From these findings, we get a partial answer to the question of what organisational characteristics fit different environmental conditions. These differences in states of differentiation and integration are, however, only in part of the answer because these two states are antagonistic. The more differentiated an organisation, the more difficult it is to resolve conflicting points of view and achieve collaboration. This suggests that organisations in plastics industry would have more integration than those in container organisations.

Differentiation and Integration in Johnson Wax E. A. Limited:

The main business carried out by Johnson Wax East Africa Ltd. consists of processing and packaging of chemical products which have been researched and developed in the laboratories of the parent company in
other parts of the world. These products are marketed in this country but the strategies are controlled by the parent company to ensure that its basic guidelines are followed. As far as the local company is concerned, there is very little innovation. If the business is to grow, the products have got to be right and these must be well distributed. With the advertising support given by the parent company in the form of material production, the products need very little effort to be successful. The degree of uncertainty in this business is low compared with other diverse and dynamic businesses an example of which would be the parent company where high degree of research and innovation is necessary.

According to Lawrence and Lorsch, their research showed that for high performance, Johnson Wax E. A. Ltd. type of organisation does not need a high degree of differentiation although a certain amount is necessary as failure to realise this probably recudes the ability of each unit to deal with its own part of the environment. However, it was noted that organisations with high degree of integration performed much better than those with low degree of integration.

The organisational changes which took place in Johnson Wax E. A. Ltd. between 1979 and 1982 transformed the structure of the company from a highly integrated and low differentiated one to a highly differentiated and low integrated one. This was totally opposite to the requirements of high performers in similar business. In fact big business inefficiencies crept in this small organisation.
Big Business Inefficiencies:

It is impossible for man to run a complex corporation as efficiently as a small one. The big corporation, with each man controlling a number of subordinates becomes an elaborate chain of command in which there are wheels within wheels, and the decision-making process is continually slowed or even paralysed - by the fact that no decision can be made without consultations, permissions and agreements. As a result, authority is fragmented and responsibility dissipated; speed of decision and action is lost; and of necessity the big firm becomes grounded in red tape and inertia.

Big businesses are often able to afford such inefficiencies mainly because of their size and resources. Johnson Wax E.A. Ltd. has neither of these and cannot carry on with the big business drawbacks.

Benefits of Low Differentiation and High Integration in Johnson Wax E.A. LTD.

1. **Speed of New Product Launches:** It can be seen from the Product history of the company that previous to 1979, there were regular new product introductions. The opportunity of the new product was normally noted by the General Manager whose functions also included marketing and sales. The Production Manager and the Chief Accountant rapidly worked out the material and finance requirements. It was often possible to launch a product within two months of its conception. When the company changed to a system with high differentiation and low integration one, due to the formalities a product launch had to go through, the time period had increased to two years. Often the company was surprised by competitors who launched similar products much quicker.

2. **Interdepartmental Conflicts:** With low differentiation and high integration, interdepartmental conflicts were minimal and major portion of managerial energy was used constructively towards achieving the common company goals. When the system changed, the departmental managers became more defensive and this wasted a lot of energy which could have been used constructively. Integration became very difficult. Interdepartmental conflicts became numerous due to these factors.
Interdepartmental Conflict Resolving:

In the research carried out by Lawrence and Lorsch it was found that in container manufacturing organisation (equivalent in complexity to Johnson Wax E. A. Ltd.), the high performers, all conflict resolution was carried out through the managerial hierarchy. No special departments, teams or roles, other than a scheduling clerk, had been established to facilitate the process of conflict resolution. In this sense this company approached the prototype of the classical organisational model, where all decisions should be made through the formal hierarchy. This particular model fitted the requirements of this relatively stable and homogeneous environment.

Johnson Wax E.A. Ltd. followed a different approach for conflict resolution. The Personnel Manager was normally involved in this function. The only problem was that he lacked the required qualification for this and generally tended to follow a policy of avoidance. Normally the problems got worse before dying a natural death.

PART V
RECOMMENDATIONS

To improve the company's performance, certain measures are recommended. These must be looked into very carefully or the company's very existence will be in doubt. It must be realised that most companies in similar business are doing fairly well so there is no reason, with the right actions, Johnson Wax E. A. should not show recovery.

The three main areas where main emphasis must be placed are:-

1. Cost Control
2. Strengthening of existing products and introduction of new products
3. Effective personnel deployment
4. Improved distribution of products.

Cost Control:

As can be seen that the main problem of adverse profits began when the company costs started getting out of hand without corresponding increases in revenue. The company had been incurring expenses as investments for future
profitability. But as seen earlier, it was much easier to increase expenses than increase revenue. So time has come for the company to expect revenue for earlier investments before incurring additional new expenses. A few of the areas where savings can be made are the following:-

1. **Freeze in Benefits of Senior Staff**

   This is one area where immediate action must be taken. The compensation paid to senior staff in Johnson Wax is more than competitive in the market. For this, the company has a right to expect management and personnel which would be skilful enough to ensure continuous prosperity of the company. On the other hand, the management must be responsible enough to control its costs and the costs of other senior staff until costs already incurred can be justified with revenue. This would also create incentives for senior personnel to be more productive.

   Another area where costs can be cut is travelling. The senior executives of the company have been making far too many overseas trips without adequate justification. With high cost of air travel and expensive accommodation abroad only the most essential travel should be permitted.

   The senior managers in the company enjoy an entertainment allowance which can easily be cut by half without affecting the business. In this way only the most essential entertainment should be allowed. This would result in a saving of about Shs.120,000/= per year.

   Purchasing of company's raw material is another area where, through proper planning substantial savings can be made. A number of items purchased from overseas are shipped by air, which has become very expensive. By sea, the same items would cut a lot of the freight. At least Shs.300,000/= can be saved per year in this area. Adequate stock of overseas items essential for the company's production must always be at hand to ensure that production is not stopped due to lack of these. The company lost sales of Shs.800,000/= between December 1981 and April 1982 due to lack of valves for Glade air fresheners which as a result could not be produced. This sort of situation becomes very costly.
2. **Existing and New Products:**

The company's first priority must be to strengthen its existing products franchise to give it a strong base from which to launch new products. The following actions are recommended:

a) **Insecticide Category**

Market research must be carried out to look into the strengths and weaknesses of the company's main product, IT, and following actions taken:

i) It must be ensured that the product is better than the competitive products available in the market in terms of strength, performance, safety and customer satisfaction. In necessary, with the help of Regional R & D, it must be reformulated to meet the above requirements. Adequate marketing support must also be given to the product to ensure the customers have a thorough knowledge of it.

ii) As 'IT' is a very well established brand, advantage must be taken to extend the same into into insecticide categories to increase the product range e.g:

- **Introduction of an 'IT Cockroach Killer'.** This would be a line extension for the control of cockroaches. It is estimated that this product has a market potential of Shs.5,000,000 per year.

- **Introduction of 'IT Insecticide Control Powder'.** There are two insecticide powders already on the market, namely Doom and Baygon. The introduction of IT in this category would put Johnson Wax on the offensive for a change. This product is very popular in the rural markets and should help the company's rural penetration efforts.

- The company must enter the market with a liquid insecticide. As the cost of material used in the production of aerosols is increasing fairly rapidly, a consumer resistance may be expected in not too distant a future. When this happens, the company will already have a back-up product. The liquid insecticide will be able to be used with a hand pump or a trigger action pump.
Another product which the company can introduce is IT Electric, an insect repellent which uses an electric supply to discharge insecticide. Johnson Wax has a big market in this category in Italy and this could easily be introduced here.

b) Personal Care Category

The company's market in the Personal Care products has been going down steadily over the last five years. It is time that there was a vigorous re-entry made into this category. The brand name 'US' with which the company led the field for a long time seems to have gone down completely. It should be replaced with a new range of personal care products which should include

i) A body perfume
ii) A range of hair care products
iii) A body lotion.

The market for the above products is estimated at Shs.45,000,000 a year. Johnson Wax has an excellent range of similar products world-wide. With the right marketing strategy there is no reason why the company cannot take at least 30% of this growing market. This should give it a revenue of Shs.13,500,000 per year.

c) Air Fresheners

Johnson Wax E. A. Ltd. is the market leader in this category with a share of over 55%. To further strengthen this business, solid Glade should be introduced. This is the continuous slow release air freshener which is not yet in this market. This would give the company a big lead in this business and an additional estimated revenue of Shs.1,000,000.

d) Toilet Care Market

Johnson Wax E. A. Ltd. has an excellent product in this market, under the brand name, W.C. Jet Cleaner. This product has never been marketed and has a market share of less than 5% in a market led by Harpic. With the right market support, its market share can be increased to at least 40%. This should bring in an estimated revenue of Shs.2,000,000 per year.
e) Furniture Care

Johnson Wax E. A. Ltd. leads the market in the furniture care business with its 'Pledge'. This is facing strong competition from a rival product 'Mr Sheen'. To strengthen its share of the market, the company should increase this product range into another larger size and from two to three fragrances.

Besides the above recommendations for the strengthening of the company's business in its existing products, it is of paramount importance that completely new products are introduced. One or two new products of high volume must be put in the market to relieve the burden on the company's insecticide category. The following products should be critically looked into to fulfil this role:-

i) Shoe Polish

This product has a Kenya market of Shs. 30,000,000 and a great export potential. Johnson Wax is very strong in the shoe polish market in Mexico and in Spain. So all the necessary product and market information is available and there is no reason that the company cannot have a share of 25% within two years.

ii) Washing-Up Liquid Detergent

This can be a high volume product. A similar product introduced in Spain in 1980 became the market leader within one year due to its high performance. This product has already been tested in Kenya and has overwhelming acceptance.

iii) Floor Waxes

There is an ideal opportunity for the company to enter this high volume market. It already has similar products
in the Industrial Market where the products are sold in 5 litres and 20 litres direct to the user. To enter into the consumer market, it will only need to be packed into one litre units and back it with appropriate marketing.

f) **Effective Personnel Deployment:**

The company's problems call for a high degree of flexibility in personnel deployment. With the position of low sales, a great deal of slack has been created amongst the production, purchasing and warehousing staff. Suitable personnel from these should be transferred temporarily, to sales to put more effort there.

Most of the managers can also be made more productive with additional responsibilities. Below are a few examples where effective utilisation of managers can be made:

i) Personnel Manager can very easily double up salesman in charge of certain large retail outlets in Nairobi. His background as a salesman would assist in this function.

ii) Technical Manager can also help in the sales of Industrial Products. He is in an excellent position to achieve this through his knowledge of the products.

iii) Operations Manager can help the company by doing the Public Relations Officer's job as well. There is a vacuum in this area of the company's operations. Recently, the company had seriously been considering employing a firm of Public Relations.

iv) General Manager can look into the company's export business which has been slack.

v) Marketing Manager and Purchasing Manager can easily help in the sales effort of the company with large new accounts.
Rural Distribution:

Kenya is a country where nearly 75% of the total population of 16 million people live in the rural areas. So these form a very important segment of the country's market. Any consumer goods producing country intending to establish itself as a major force in Kenya cannot afford to ignore this.

In order to make any sort of revival, Johnson Wax E. A. Ltd. must concentrate on rural distribution of its products. It is in this segment of the market that Johnson's rival to its insecticide 'IT', Cooper's 'Doom' dominates the insecticide market. Their products can be seen in shops all over the countryside while Johnson Wax products are scarce. This is opposite to the urban market which is still dominated by Johnson Wax.

Rural Market Penetration:

For any company to be able to penetrate into the rural market of Kenya, it must have or develop the right products for this market. This market is dominated by the population who are in the C to D group i.e. whose monthly incomes are below Shs.1200/= per month.

Johnson Wax E. A. Ltd. has up to this time only one product. This is 'IT' insecticide in the smallest pack i.e. 6 oz. size. To be able to go into the rural market a company requires a number of products or the exercise in a competitive market is liable to become very expensive. So Johnson Wax needs additional products form this market and a few candidates can be as follows:

1. **Raid Cockroach Killer in small pack** - This product should go very well with the small pack of 'IT' flying insect killer. In the larger sizes this pair of products are doing quite well in the urban market. At the moment the company does not have a cockroach killer for the rural market.

2. **Raid Insect Powder** - This product has a proven rural market which is
being dominated by Doom and Baygon. Johnson Wax E. A. Ltd. can easily develop a far superior product to these at a competitive price and should prove to be a winner.

3. Bar Soap - This is a very common product used in the rural market. Johnson Wax can easily get it contract manufactured and it would add to the list of its rural market products and increase its sales volume.

4. Petroleum Jelly - A very common product in use in the rural markets and very easy to manufacture. This should also add volume to Johnson Wax rural distribution.

Appointment of Distributors:

Having got the right products for the rural market is only the first step towards the penetration of this market. Ensuring that these products actually get to their destinations is the next most important function of good rural distribution.

The appointment of right rural distributors can go a long way towards the success of a company's products in this market. A good distributor must fulfill the following conditions:

1. He should have a good client reputation to attract retail traders to his outlet. This he should do through good service and reliability.

2. He must be able to take products to retailers who find it difficult or expensive to come to him. He should have a fleet of van salesmen to assist him towards this.

Johnson Wax must also ensure rural distribution by also assisting the distributors through its own retail salesforce who would do the product uplifting from these distributors. They should have sales call targets to ensure thorough distribution.
PART VI

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