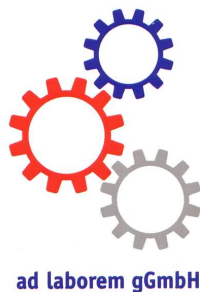




## RePro Case for Students

### Occupational Integration for People with Disabilities: The Paradox of Combining Welfare and Market Principles



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## 1. The beginning of “IFA Mannheim”, an integrating company for people with disabilities

In 1991, Mannheim’s welfare organization “Caritasverbund Mannheim e.V.“ founded IFA, the Integration Company for the Promotion of Jobs, whose main focus is to provide employment opportunities for socially deprived people in order to reintegrate them into the main workforce. While listed as an independent business enterprise, IFA, at least legally, remains a dependent subdivision of “Caritasverbund Mannheim e.V.”

IFA focuses primarily on creating long-term jobs for mentally disabled people. There are two main reasons causing the necessity of this kind of service. For one thing, the majority of companies located in the city of Mannheim used to belong to the “old” industries. In the course of globalisation, many of those companies were shifted to other countries. As a result, the unemployment rate of about 9% in Mannheim is substantially higher than the average rate of 5.4% in the federal state of Baden Wuerttemberg.

Moreover, it is very difficult particularly for mentally disabled people to find a job despite the ongoing commitment of Mannheim’s welfare organizations. In view of their low level of physical impairment, IFA aims at offering these people skilled jobs in order to qualify them for the professional, social and psychological requirements of a job in the first labour market. Consequently, IFA’s workforce is comprised of 25-50% of workers challenged with some form of handicap.

IFA Mannheim primarily employs mentally disabled people whose treatment of the symptoms of mental disease renders them capable to work in a regular job. Apart from that, IFA also offers employment to people who cannot find a job in the first labour market due to their reduced ability of work under stress or other psychological illnesses.

Prospective applicants among mentally disabled people are selected very carefully. Before being hired, these applicants are expected to meet the following mandatory employment criteria:

- Applicants are registered at the local employment labour office as job-seeking.
- Applicants need to be able to get to work by means of public transportation or with their own car.
- Applicants with vocational training (“craftsmen”) are preferred to unskilled workers, since the assignment of low-skilled jobs is restricted.

IFA meets its integrative objectives by ensuring the successful collaboration of workers with disabilities and workers with no disabilities.

In 1991, the number of employees amounted to 15 people assigned to different teams fulfilling different tasks.

## **1.1 Commercial activities**

IFA’s commercial activities can be divided into two divisions: a manufacturing company for the industrial sector and a service-orientated enterprise.

The manufacturing division consists of a metal and plastic processing facility. Part of the machinery is provided by companies whereas raw materials are delivered by companies and subsequently processed through punching, milling, cutting, edging, and drilling.

The service division offers the following range of services: tent construction, gardening service for parks and public places, transportation and removals. As opposed to the manufacturing division, IFA provides the staff and the equipment for the service division that carries out the assigned tasks on location.

## 1.2 Cost and income situation in 1991

### Expenses (in €)

Personnel costs	174,650
Rent	29,750
Insurances, contribution, taxes	480
Maintenance (machines)	10
Vehicles	7,660
Attracting and travel expenses (new clients)	340
Expenses for subcontracting	17,630
Various operational costs	14,940
Depreciation	16,390
Interest (short term)	160
Taxes	980
<b>Amount</b>	<b>262,990</b>

### Incomes (in €)

Sales	114,000
Donations, subsidies	174,190
Income from disinvestment	670
Earning on interest	25
<b>Amount</b>	<b>288,885</b>

### Profit (in €)

Expenses	262,990	Income	288,885
		<b>Profit</b>	<b>25,895</b>

As illustrated above, IFA Mannheim was able to close the financial year of 1991 with a profit of € 25,895. It should be noted that this positive result has to be mainly attributed to the immense amount of donations and subsidies IFA Mannheim received.

### **1.3 Business development**

After a change of management at Mannheim's welfare organization "Caritasverband", the new manager expressed his interest in seeking consultancy services for future operations of IRA.

Therefore, a consulting team was formed, consisting of a leading manager from the industrial sector and two professors from the Business Administration Department of the University of Cooperative Education (BA), Mannheim. When looking into the situation, the team realized that it was indispensable for IFA to decrease the actually severe dependency on subsidies and to profitably extend the range of services.

As a first step, the consulting team has recommended to assign a group of students with the task to analyse the present situation of IFA. By applying their theoretical knowledge to this real business case, these students are expected to come up with their own proposals for possible new business strategies. Following an intensive selection process, the consulting team has now invited you to become an active part of this group!

For getting started with the business case, finding answers to the following questions initially may be helpful:

1. Do you know companies with a similar concept within your home country?
2. What are the special characteristics of human resource management at IFA Mannheim?
3. Would you recommend for IFA Mannheim to extend or rather reduce its range of services?
4. What do you think are the risks of being heavily dependent on donations and subsidies as IFA Mannheim is?

For further information, you may want to consult these websites:

Caritas Mannheim: [www.caritas-mannheim.de](http://www.caritas-mannheim.de) (just in German)

Caritas Internationalis: [www.caritas.org](http://www.caritas.org)

And now is your chance to be creative ...

## 2. Business challenges from 2003 to 2005

When reading this, you have probably taken the first hurdle and are now familiar with the RePro approach as well as IFA Mannheim.

During the early 1990s, IFA Mannheim focused primarily on gardening services, industrial relocation aid and the construction of tents. The following years brought many changes for the company from increasing its number of employees from 15 to 50 to reducing its range of services. In the years of 1998 and 1999, it became a component supplier of cable looms for DaimlerChrysler LLC in Mannheim and introduced an autonomous construction line. To complement these changes, the company changed its name and legal form to ad laborem gGmbH.<sup>1</sup>

In 2003, serious problems caused the ad laborem gGmbH to undergo a number of severe adjustments and transformations.

### 2.1 Change management

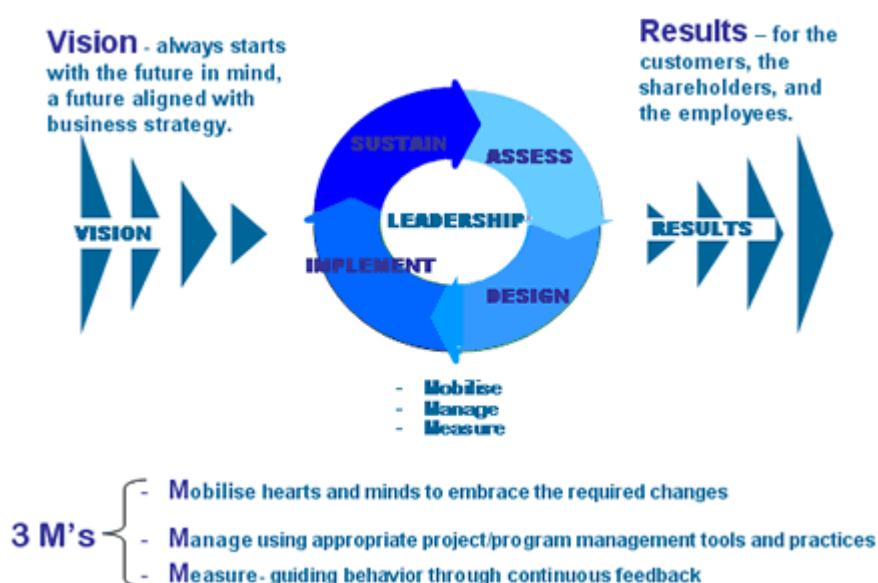
At the end of 2003, DaimlerChrysler LLC announced their decision to outsource the cable loom production. Accepting an offer from other companies in the global economy would save them 21 million EUR per year for the same service. With the most important part of their business taken away from them, the ad laborem gGmbH had suddenly become threatened in its existence.

To cope with this situation, the ad laborem gGmbH resorted to change management (CM), an approach for initiating changes to both the formal and the process-related structure of an organisation by following a planned and controlled process. It is an effective instrument to deal with unforeseen challenges similar to the ones the ad laborem gGmbH had been facing.

<sup>1</sup> gGmbH: is a business entity with limited liability. Unlike GmbH, gGmbH refers to a non-profit company with public interest.]

Before implementing change management, the top management had to forecast possible business scenarios and derive their vision for the company. Setting company targets and agreeing on strategies to meet those targets was prerequisite to propose any structural changes. Before the implementation of any changes, it was even more important for the management to take the internal shareholders into consideration. The management had to follow an open policy, considering the needs and physical restrictions of employees, informing the workforce about the business targets and providing motivation and support during the restructuring process.

For better understanding, the following diagram illustrates the concept of change management:



Refusing to become a victim of globalisation, the ad labore gGmbH decided to continue their business operations and initiated the change management process. As a result, the management began to figure out ways to reorganise their business activities.

After a period of negotiations, DaimlerChrysler LLC offered the ad labore gGmbH to hand over their spare part packaging business. Taking over this totally new field of operations, the ad labore gGmbH had to find a new production site, since the old location did not provide sufficient space and was otherwise inadequate for handling the new business.



After finding a suitable production site, the management began to reorganise the production process, focussing on increasing efficiency with the constraints of the space and workforce in mind.

## **2.2 Human resource management**

The business approach of the ad laborem gGmbH was to reconcile two conflicting objectives: integrating deprived people into the first labour market and achieving profitability. While being mindful of the economical necessities, the management had to weigh the physiological and psychological capabilities of their employees.

Irrespective of the company's economic situation at that time, the overall objective to provide social support did remain the same. It became even more important with Germany's economy under pressure. In view of the overall crisis of the labour market, the demand for un- and low-skilled labour was dwindling, a situation that was further aggravated by progressive automation and rationalization of work.

Ignoring the changing economic conditions was no option. The uncertain situation of the ad laborem gGmbH during the period of 2003 to 2005 necessitated cost reductions in all parts of the company. Therefore, the employee representative committee and the HR department negotiated an internal agreement at the end of 2004. This agreement stipulated the raise of weekly working hours from 38 to 40 hours, the introduction of flexible work time and a pay cutback for newly hired employees in the future. Because of the limited economic potential of the new packaging business, it was impossible to avert lay-offs. Thus, the number of employees decreased from 66 in 2003 to 41 in 2004 and 2005.

During the initial phase of the new business relationship with DaimlerChrysler LLC, the ad laborem gGmbH had difficulty accommodating the fluctuations in the daily orders. Since the workload was often inconsistent, the ad laborem gGmbH had to maintain a large workforce in order to guarantee DC the prompt fulfilment of their orders.

In 2005, the regular working day of employees was structured in the following way:

Schedule	Activity
07:30 am	Start of work
08:45 – 09:00 am	Break
10:30 – 10:40 am	1 <sup>st</sup> smoking break
12:30 – 01:00 pm	Lunch break
02:30 – 02:40 pm	2 <sup>nd</sup> smoking break
04:10 pm	End of work

The smoking breaks were introduced in 2005 with the result – as the management perceived – that “employees seem to be more content and working more effectively”. These breaks have been put down in employment contracts, along with the entitlement for paid holidays and the amount of their monthly salary. At the ad laborem gGmbH each employee is entitled to take days off from work without a reduction in pay. The exact number is determined by age: A full-time employee younger than 30 is entitled to 26 days per year, a full-time employee younger than 40 to 29, and employees older than 40 to 30.

Salaries range between 1,500 EUR and 2,300 EUR per month and are structured into six salary brackets: each salary bracket is assigned to a specific level of skills and qualification for a given job. In addition, employees with a good job performance are awarded with an extra allowance on their pay. Criteria for analyzing and evaluating the individual job performance comprise not only quantity and quality of work done but also an employee’s dedication to work.

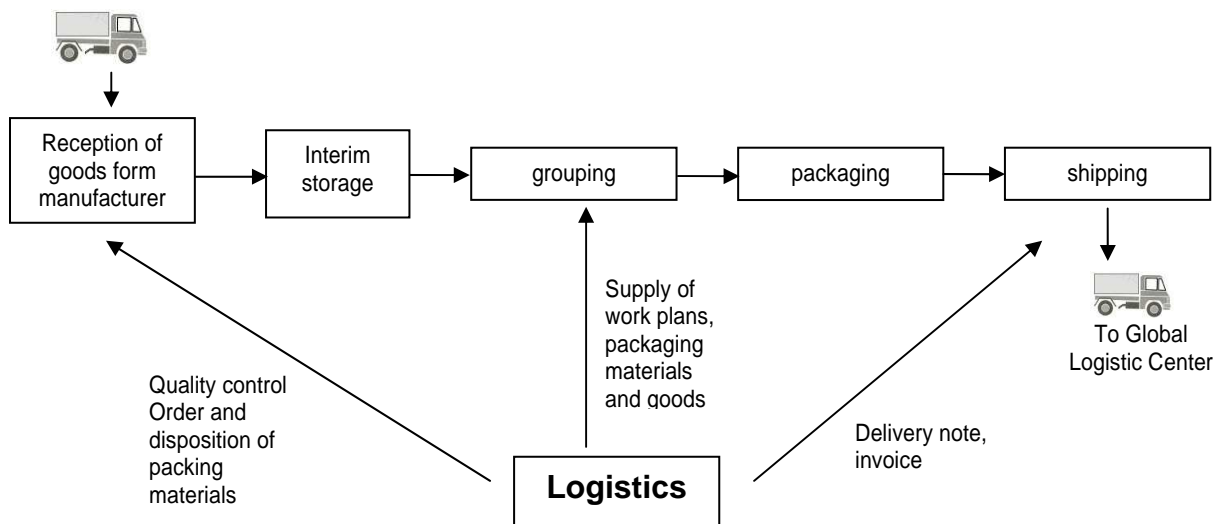
During these years, the ad laborem gGmbH never forgot its social conscience, as proved by the following examples. In 2003, it supported a craftsman to achieve total debt clearance following two years of financial guidance. In another example, an employee who is provided with social welfare benefits is still working for the company, fulfilling his tasks in the packaging process as everybody else does.

In an attempt to maintain an ordinary working environment and to keep the differences to other companies marginal, the management does not grant this employee a special status.

## 2.3 Logistics

As the first logistic challenge for their new business operations, the ad laborem gGmbH had to find a new production location in Mannheim with connectivity to the road network and public transportation system. Following some time of searching, the ad laborem gGmbH found a suitable location and moved its production there.

Afterwards they had to determine the inventory of machinery and production assets required for their new business operations and conceive plans to structure the various processes. DaimlerChrysler LLC provided support by sending machinery and an advisor. Eventually, the management of the ad laborem gGmbH installed a flow production process, using KAIZEN as a principle for organization.<sup>2</sup> The logistics process now consisted of the following steps, as shown in the diagram below:



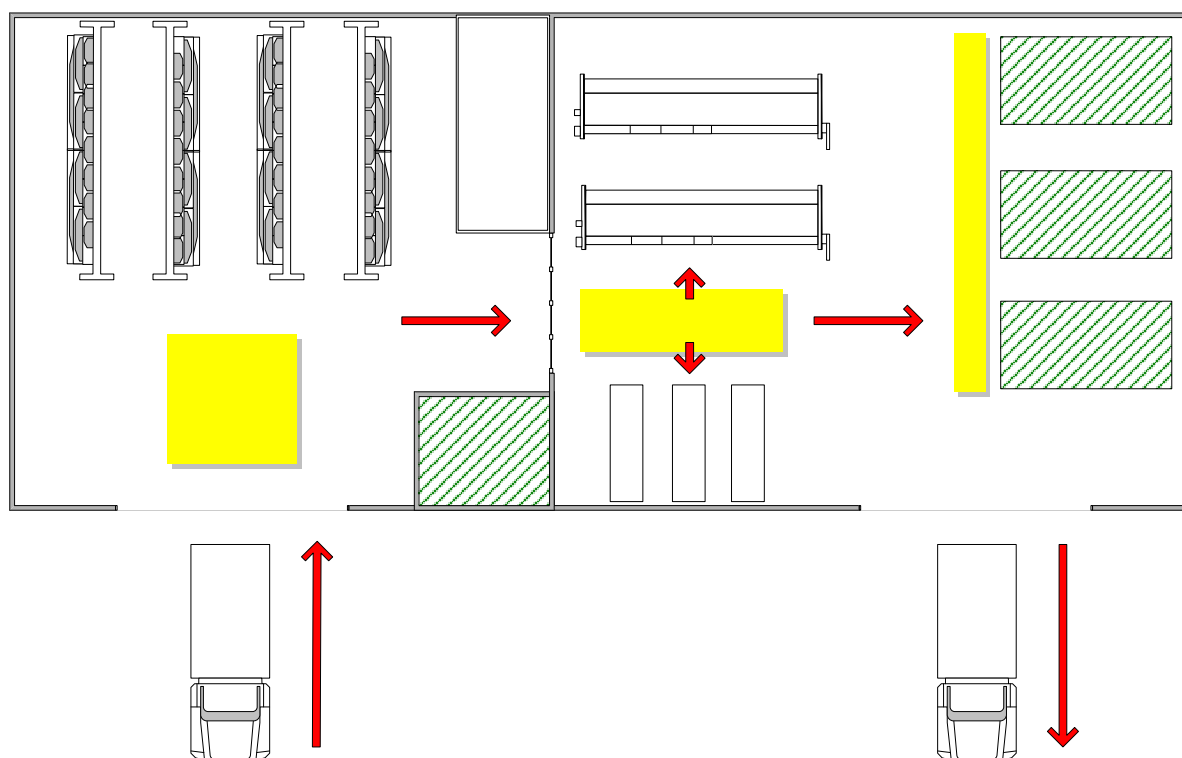
The process flow starts off with receiving spare parts directly from the spare part manufacturers.

<sup>2</sup> Japanese concept of continuous incremental improvements.

The preliminary quality control requires an employee to check if the delivered materials conform to what is stated on the delivery note. If this is not the case, the employee is not allowed to accept the delivery, and accordingly, ought to put a note in the computer system within 4 days. Otherwise, the ad laborem gGmbH may incur a regression fee from the customer if a defective part holds up production.

Alternatively, an employee may be informed that certain materials have PRIORITY and thus need to be processed first. After booking the receipt of the materials, the employee enters another computer system directly linked to Daimler Chrysler in order to retrieve relevant work instructions by putting in the material number. According to the process flow, the spare parts are grouped with the stipulated packaging material and then carried together with the work instructions to either the work stations where employees pack the small parts or to the machines where the bulk parts get packaged. Subsequently, the packaged spare parts are grouped for the respective Global Logistic Centres, then picked up and delivered accordingly.

For a detailed illustration of the process flow, see the diagram below:



The problems the ad labore GmbH had to deal with were tremendous. First of all, they had no way of determining the exact number of truck loads they received per day and the quantity of materials to be delivered. Thus, their everyday workload varied significantly, which rendered planning quite complicated. In spite of everything and in the interest of saving costs, the ad labore GmbH aimed to only send out full truck loads to the different Global Logistic Centres.

All in all, despite the advantages of flow production, not knowing what was going through this process per day was unacceptable and had possibly incurred higher costs.

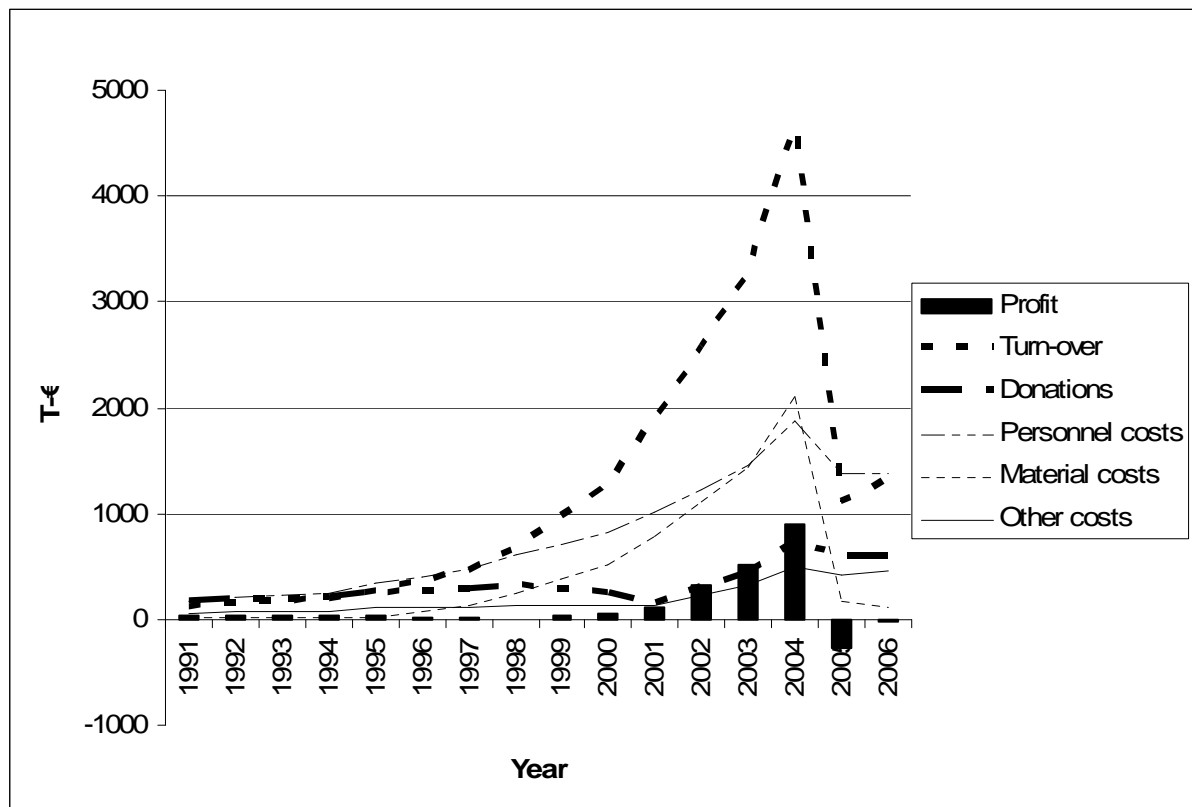
## 2.4 Accounting

When the company was first set up in 1991, the management primarily focused on implementing the processes while attending to the requirements of its employees. In the beginning the ad labore GmbH relied heavily on donations and the support of its mother organization "Caritasverband Mannheim e.V." Without these donations, the company would have generated an operating loss of 130,000 EUR in the first year. While turnover increased in the following years, so did costs. Thus, donations and subsidies remained crucial for the continuity of the business.

In fact, thanks to rising turnover, the company would have been less reliant on subsidies and donations in the years after 2001. However, the increased profit (~900,000 EUR in 2004) was primarily used to build up a reserve. A year later, the foresight of the management paid off, as Daimler Chrysler LLC shut down its cable loom construction in Mannheim. Even though turnover tumbled, the company was able to prevent massive lay-offs.

In recent years, while the cable loom production was gradually discontinued and the spare part packaging business was emphasized, turnover had rebounded slowly. Nevertheless, even with donations, break-even had not been achieved in 2006.

	1991	1995	1998	2001	2004	2005	2006
<b>Turn-over</b>	112	259	659	1.900	4.649	1.101	1311
<b>Subsidies &amp; Donations</b>	170	239	328	152	732	597	587
<b>Personnel costs</b>	171	339	610	1.018	1.877	1.377	1369
<b>Material costs</b>	18	25	245	774	2.106	164	112
<b>Other costs</b>	52	103	135	140	492	427	447
<b>Profit</b>	42	32	-4	120	906	-270	-30
<b>Company portfolio</b>	Auxiliary work	Electronic waste	Cable loom systems	Cable loom systems	Cable loom systems	Spare part packaging	Spare part packaging



## 2.5 Outlook

To sum it up, the ad laborem gGmbH faced several ups and downs in the least 17 years. It will be interesting to follow the development of this integrating company in the future.

Will globalisation still be a threat or promise new opportunities instead? How can the ad laborem gGmbH prepare itself for future challenges?

And now is another chance to be creative ...



Education and Culture

## Leonardo da Vinci

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