Case 12-3

Worthington Industries

In 1999 Worthington Industries enjoyed sales revenues of $1.8 billion in steel processing and metals-related businesses. The company, headquartered in Columbus, Ohio, operated 53 plants in 11 countries and boasted 7,500 employees. John H. McConnell founded the company in 1955. His son John P. McConnell became chairman and CEO in 1996. The financial performance of the company for the past five years is given in Exhibit 1. The company consistently outperformed its industry. *Fortune* magazine selected Worthington as one of the "100 Best Places to Work" in 1998 and 1999.

The company was organized into three business units: Worthington Steel, Worthington Cylinders, and Dietrich Industries.

Worthington Steel

The Worthington Steel Company, founded in 1955, essentially invented the steel processing industry as it exists today. An established leader with more than 1,000 customers, Worthington Steel served a broad range of markets, including automotive, lawn and garden, construction, hardware, furniture and office equipment, electrical controls, leisure and recreation, appliances, and farm implements. The company offered the widest range of services in the industry, from slitting and blanking to hydrogen annealing, hot-dipped galvanizing, and nickel plating.

Worthington earned its leadership position as a custom processor of flat-rolled steel by providing superior quality and service. It provided value-added services that bridged the capabilities of major steel producers and the specialized expectations of steel end-users.

Worthington Cylinders

Worthington Cylinders offered the most complete line of pressure cylinder vessels in its industry:

- LPG (liquefied petroleum gas) cylinders were used to hold fuel for everything from gas barbecue grills and camping equipment to residential heating systems and industrial forklift trucks. Outside North America, LPG

EXHIBIT 1 Financial Performance: 1995–99 (Dollars in Millions)

	1995	1996	1997	1998	1999
Net sales	$1,126	$1,127	$1,428	$1,624	$1,763
Gross margin	$ 183	$ 178	$ 207	$ 253	$ 294
Gross margin as percentage of net sales	16%	16%	15%	16%	17%
Operating income	$ 115	$ 99	$ 111	$ 136	$ 146
Operating income as percentage of stockholders' equity	19%	15%	16%	18%	21%

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cylinders were used to hold fuel for commercial and residential cooking needs, such as gas burners and stoves.

- Refrigerant cylinders were used to service commercial and residential air conditioning and refrigeration systems as well as automotive air conditioning systems.
- Industrial and specialty high-pressure, acetylene, and composite cylinders were used to hold gases for various applications, such as cutting and welding metals, breathing (medical, diving, firefighting), semiconductor production and beverage delivery, and compressed natural gas.

Dietrich Industries

America's largest manufacturer of steel framing materials, Dietrich Industries was an important segment of the Worthington Industries family of value added, metals-related businesses. Acquired in 1996, the Pittsburgh-based subsidiary produced steel studs, floor joists, roof trusses, and other metal accessories for wholesale distributors and commercial and residential building contractors.

Dietrich unveiled an interactive CD to make it easier than ever to choose steel framing. This design tool allowed developers, architects, contractors, and builders to develop building specifications by accessing the industry's broadest line of metal framing products. It could be used by a novice to finish a basement or by an expert designing a major office building.

Administrative Systems[1]

The administrative systems of Worthington are considered under the following sections: values, organization structure, human resource policies, and reward systems.

Values

John H. McConnell developed the company's values and, over the years, they remained constant (see Box 1). At their core was the golden rule: to treat others the way one wanted to be treated. While the values clearly stated that the firm's first duty was to shareholders, they also underwrote a culture in which customers, suppliers, and especially employees were treasured assets. In fact, all employees were encouraged to become shareholders by participating in the profit-sharing plan.

Worthington expected employees to work hard and help it succeed, but it treated them well, believing people would be fair and honest if they were treated fairly and honestly. Employees were praised for good work and urged to develop their skills. The company offered a tuition reimbursement program to help them continue their education. Managers kept their office doors open to signal their accessibility. They encouraged open communication and tried to keep company discussions free of politics. These and other measures enabled Worthington to enjoy a high level of trust between its workers and managers.

[1]This section is based on work by Joseph A. Maciariello in *Lasting Value* (New York: John Wiley & Sons, 2000), chap. 11.

Box 1
Worthington Industries' Philosophy

Earnings: The first corporate goal for Worthington Industries is to earn money for its shareholders and increase the value of their investment. We believe that the best measurement of the accomplishment of our goal is consistent growth in earnings per share.

Our Golden Rule: We treat our customers, employees, investors, and suppliers, as we would like to be treated.

People: We are dedicated to the belief that people are our most important asset. We believe people respond to recognition, opportunity to grow, and fair compensation. We believe that compensation should be directly related to job performance and therefore use incentives, profit sharing or otherwise, in every possible situation. From employees we expect an honest day's work for an honest day's pay. We believe in the philosophy of continued employment for all Worthington people. In filling job openings, every effort is expended to find candidates within Worthington, its divisions or subsidiaries. When employees are requested to relocate from one operation to another, it is accomplished without financial loss to the individual.

Customer: Without the customer and his need for our products and services we have nothing. We will exert every effort to see that the customer's quality and service requirements are met. Once a commitment is made to a customer, every effort is made to fulfill that obligation.

Suppliers: We cannot operate profitably without those who supply the quality raw materials we need for our products. From a pricing standpoint, we ask only that suppliers be competitive in the marketplace and treat us as they do their other customers. We are loyal to suppliers who meet our quality and service requirements through all market situations.

Organization: We believe in a divisionalized organizational structure with responsibility for performance resting with the head of each operation. All managers are given the operating latitude and authority to accomplish their responsibilities within our corporate goals and objectives. In keeping with this philosophy, we do not create corporate procedures. If procedures are necessary within a particular company operation, that manager creates them. We believe in a small corporate staff and support group to service the needs of our shareholders and operating units as requested.

Communication: We communicate through every possible channel with our customers, employees, shareholders and operating units as requested.

Citizenship: Worthington Industries practices good citizenship at all levels. We conduct our business in a professional and ethical manner when dealing with customers, neighbors, and the general public worldwide. We encourage all our people to actively participate in community affairs. We support worthwhile community causes.

Source: Joseph A. Maciariello, *Lasting Value* (New York: John Wiley & Sons, 2000), p. 182.

This climate of mutual respect ultimately benefited Worthington's customers. Employees knew their work was valued and took pride in doing their jobs well. The profit-sharing plan acted as an additional incentive for them to help the company succeed. As a result, Worthington was very customer focused. Workers produced high-quality products and gave attentive service.

Worthington's salespeople worked not just to meet, but to exceed, customers' needs.

The company treated its suppliers equally well and prized their loyalty as well as that of its customers.

Organization Structure

Worthington considered its organization structure to be flat. Its profit-sharing plan, for example, recognized only four basic levels: production, administrative, professional, and executive. This and the fact that the company favored smaller plants—fewer than 150 employees—made it easier for employees to communicate with each other. It also helped them to identify with, and commit to, Worthington.

Plant managers enjoyed considerable autonomy, operating their facilities as individual profit centers. Some functions, such as purchasing, were centralized because it was more economical for the company to do so. Similarly, human resource services were shared because this allowed Worthington to provide the same services companywide—a move that especially benefited new acquisitions. Otherwise, Worthington essentially was decentralized.

Human Resource Policies

At Worthington, managers weren't the only key decision-makers. Production workers on the employee councils also participated in various managerial decisions. Workers were appointed to the councils at most plants. They met at least once a month to talk about critical issues, such as plant safety, and conveyed this information to their fellow employees every quarter.

One of their primary responsibilities was to decide whether new employees should become permanent. New workers were required to complete a 90-day probationary period before they were eligible for permanent status. During this time, council members discussed the individual's job performance with his or her co-workers. If the comments were favorable, the council approved a permanent hire by majority vote. Once approved, the new employee drew a salary, rather than an hourly wage, and became eligible for the profit-sharing plan. Managers could make recommendations or, if circumstances warranted it, fire the employee. But, generally, they acknowledged that workers on the production line were better positioned to evaluate how well other employees performed.

Relationships between councils and managers were cordial. Managers appreciated the unique perspective that production workers brought to problems. They enjoyed working with them as team members. Employees, in turn, responded with trust and openness.

Workers who wanted to move up the ladder had plenty of opportunity at Worthington. The company filled 95 percent of its job openings with internal candidates. Getting promoted depended largely upon merit. Promotion-minded employees were encouraged to further their personal and professional development by taking courses and assuming other jobs throughout the company. People with common sense, who could lead and work well with people were considered management material; these skills outweighed product knowledge. The company offered numerous success stories, among them that of Donald Malenick. He started out on the production floor and retired, in [illegible] as president of the company.

Reward Systems

Employees were rewarded for good performance through competitive salaries and Worthington's profit-sharing plan. Salaries were in the top quartile for comparable jobs in each plant's location.

Profit sharing, distributed quarterly, was equally generous. Employees were vested in the plan according to their status as production workers, administrators, professionals, or executives. As an individual rose through the ranks, shares made up a greater portion of his or her compensation. Executives' shares, for example, were calculated according to a set formula and made up as much as 60 percent of their total compensation. By comparison, profit shares made up 20 to 25 percent of production workers' total compensation. The size of the pool they shared with administrators and professionals hinged on both the company's performance and that of individual plants. Employees recognized that the better Worthington and its plants did, the more money they made.

This point was reinforced by Worthington's sales force training program. It was designed to increase profitability through increased customer satisfaction. Every salesperson spent six months working in a plant that made the products they sold, filling orders alongside production workers, learning plant capability, and gaining expertise in technical areas. They also acquired a greater understanding of order profitability. At Worthington, if an order was not profitable, it was not taken. Employees understood that neither they nor the company could afford it.

Question

Evaluate the management systems at Worthington Industries from the standpoint of how they help the company to outperform its competitors.