

■ Case for Critical Analysis

Waterway Industries

Waterway Industries was founded in the late 1960s as a small manufacturer of high-quality canoes. Based in Lake Placid, New York, the company quickly gained a solid reputation throughout the Northeast and began building a small customer base in the Pacific Northwest as well. By the late 1980s, Waterway was comfortably ensconced in the canoe market. Although earnings growth was fairly steady, CEO Cyrus Maher was persuaded by a friend to venture into kayaks. After Waterway began selling its own line of compact, inexpensive kayaks in 1998, Maher quickly learned that the decision was a good one. Most of Waterway's existing canoe customers placed sizable kayak orders, and a number of private-label companies also began contacting Maher about making kayaks for their companies. When Lee Carter was hired to establish a formal marketing department at Waterway, things really took off. Carter began bringing in so many large orders that the company had to contract with other manufacturers to keep up.

Managers began to envision the day when Waterway would be a major player in water sports equipment. They developed a long-range strategic plan that called for aggressive growth, new product designs, and nationwide marketing and distribution by 2003. Maher believes most employees are adjusting well to the faster pace at the company. Many of the shop-floor employees are outdoor enthusiasts who like making quality products that they and their friends use. Waterway has always had a relaxed, informal working atmosphere, where employees get along well, enjoy their jobs, and get their work completed on time. However, the greater work load means people have less time for horsing around, and they can no longer leave by 3 PM to enjoy canoeing or kayaking when the weather is good.

Maher thinks workers have been given adequate raises to compensate for the faster work pace, but he has recently been hearing complaints from the shop floor about inadequate pay. He recently turned down a request from the plant supervisor for additional hourly wage increases for top performers, insisting that wages were in line with what other local manufacturers were paying. Unfortunately, a new automotive parts plant offering a slightly higher wage recently lured away three of his best workers.

Several managers have also approached Maher about salary adjustments. Waterway's two designers suggested that they

would be interested in equity (part ownership) in the company, whereby they would receive a share of the profits if their designs did well. Maher's response was to give the senior designer a modest pay raise and extra vacation and to increase the bonuses for both designers. Both seemed satisfied with the new arrangement. Waterway's CFO, on the other hand, recently left the company to take a position with a power boat manufacturer after Maher twice refused his request for a redesigned compensation package to include equity. Now, on a trip to the cafeteria to get a cup of coffee, Maher has just overheard Lee Carter discussing a possible job opportunity with another company. He is well aware of the lucrative packages being offered to sales and marketing managers in the sporting goods industry, and he doesn't want to lose Carter. He would like to find a way to recognize her hard work and keep her at Waterway for at least a few more years.

Maher has asked you, the company's sole human resource manager, for advice about changing the company's compensation system. In the past, he has handled things informally, giving employees annual salary increases and bonuses, and dealing with employees one-on-one (as he did with the designers) when they have concerns about their current compensation. Now, Maher is wondering if his company has grown to the point where he needs to establish some kind of formal compensation system that can recognize employees who make outstanding contributions to the company's success.

Questions

1. Does Waterway's current compensation system seem to fit the company's strategy of aggressive growth and product innovation? How might it be changed to achieve a better fit?
2. How would you gather the data and design a competitive compensation system for Waterway? Would your approach be different for hourly workers versus managers?
3. How can nonfinancial incentives play a role in helping Waterway retain hourly shop workers? Aggressive and ambitious managers like Lee Carter?

SOURCE: Based on Robert D. Nicoson, "Growing Pains," *Harvard Business Review* (July–August 1996), 20–36.