

resented having to perform all the shorter production runs and began to retaliate with sabotage. They would sneak over during breaks and hide tools, dent materials, install something crooked, and in other small ways do something that would slow production for the Geek Team.

Dan felt good about his decision to form a separate crew of college students, but when he heard reports of sabotage and rivalry, he became very concerned. Because of complaints from the experienced workers, Dan equalized the production so that all of the crews had similar production runs. The rivalry, however, did not stop. The Geek Team continued to finish early and flaunt their performance in front of the other crews.

One day, the Geek Team suspected that one of their assemblies was going to be sabotaged during the lunch

break by one of the experienced crews. By skillful deception, they were able to substitute an assembly from the other experienced line for theirs. By the end of the lunch period, the Geek Team was laughing wildly because of their deception, while one experienced crew was very angry with the other one.

Dan Jensen decided that the situation had to be changed and announced that the job assignments between the different crews would be shuffled. The employees were told that when they appeared for work the next morning, the names of the workers assigned to each crew would be posted on the bulletin board. The announcement was not greeted with much enthusiasm, and Mark Allen decided to talk Dan out of his idea. Mark suspected that many of the college students would quit if their team was broken up.

### CASE 7: THE OUTSTANDING FACULTY AWARD

By David J. Cherrington, Brigham Young University; revised by Steven L. McShane, Interconnected Knowledge

I recently served on the Outstanding Faculty Award committee for the College of Business. This award is our college's highest honor for a faculty member, which is bestowed at a special reception ceremony. At the first meeting, our committee discussed the nomination process and decided to follow our traditional practice of inviting nominations from both the faculty and students. During the next month, we received six completed files with supporting documentation. Three of the nominations came from department chairs, two from faculty who recommended their colleagues, and one from a group of 16 graduate students.

At the second meeting, we agreed that we didn't know the six applicants well enough to make a decision that day, so we decided that we would read the applications on our own and rank them. There was no discussion about ranking criteria; I think we assumed that we shared a common definition of the word "outstanding."

During the third meeting, it quickly became apparent that each committee member had a different interpretation of what constitutes an "outstanding" faculty member. The discussion was polite, but we debated the extent to which this was an award for teaching, or research, or service to the college, or scholarly textbook writing, or consulting, or service to society, or some other factor. After three hours, we agreed on five criteria that we would apply to independently rate each candidate using a five-point scale.

When we reconvened the next day, our discussion was much more focused as we tried to achieve a consensus regarding how we judged each candidate on each criterion. After a lengthy discussion, we finally completed the task and averaged the ratings. The top three scores had an average rating (out of a maximum of 25) of 21, 19.5, and 18.75. I assumed the person with the highest total would receive the award. Instead, my

colleagues began debating over the relevance of the five criteria that we had agreed on the previous day. Some committee members felt, in hindsight, that the criteria were incorrectly weighted or that other criteria should be considered.

Although they did not actually say this, I sensed that at least two colleagues on the committee wanted the criteria or weights changed because their preferred candidate didn't get the highest score using the existing formula. When we changed the weights in various ways, a different candidate among the top three received the top score. The remaining three candidates received lower ratings every time. Dr. H always received the lowest score, usually around 12 on the 25-point range.

After almost two hours of discussion, the Associate Dean turned to one committee member and said, "Dolan, I sure would like to see Dr. H in your department receive this honor. He retires next year and this would be a great honor for him and no one has received this honor in your department recently."

Dolan agreed, "Yes, this is Dr. H's last year with us and it would be a great way for him to go out. I'm sure he would feel very honored by this award."

I sat there stunned at the suggestion, while Dolan retold how Dr. H had been active in public service, his only real strength on our criteria. I was even more stunned when another committee member, who I think was keen to finish the meeting, said, "Well, I so move," and Dolan seconded it.

The Associate Dean, who was conducting the meeting, said, "Well, if the rest of you think this is a good idea, all in favor say aye." A few members said "Aye," and, without calling for nays, the Associate Dean quickly proceeded to explain what we needed to do to advertise the winner and arrange the ceremony.

During my conversations with other committee members over the next two weeks, I learned that everyone—including the two who said "Aye"—were as shocked as I was at our committee's decision. I thought we made a terrible

decision, and I was embarrassed to be a member of the committee. A few weeks later, we were appropriately punished when Dr. H gave a 45-minute acceptance speech that started poorly and only got worse.

### CASE 8: CONIFER CORP.

By Steven L. McShane, Interconnected Knowledge; and David Lebeter

Conifer Corp. is a sawmill operation in Oregon that is owned by a major forest products company but operates independently of the parent company. It was built 30 years ago and completely updated with new machinery five years ago. Conifer receives raw logs from the area for cutting and planning into building-grade lumber, mostly 2-by-4 and 2-by-6 pieces of standard lengths. Higher-grade logs leave Conifer's sawmill department in finished form and are sent directly to the packaging department. The remaining 40 percent of sawmill output are cuts from lower-grade logs, requiring further work by the planning department.

Conifer has one general manager, 16 supervisors and support staff, and 180 unionized employees. The unionized employees are paid an hourly rate specified in the collective agreement, whereas management and support staff are paid a monthly salary. The mill is divided into six operating departments: boom, sawmill, planer, packaging, shipping, and maintenance. The sawmill, boom, and packaging departments operate a morning shift starting at 6:00 a.m. and an afternoon shift starting at 2:00 p.m. Employees in these departments rotate shifts every two weeks. The planer and shipping departments operate only morning shifts. Maintenance employees work the night shift (starting at 10:00 p.m.).

Each department, except for packaging, has a supervisor on every work shift. The planer supervisor is responsible for the packaging department on the morning shift, and the sawmill supervisor is responsible for the packaging department on the afternoon shift. However, the packaging operation is housed in a separate building from the other departments, so supervisors seldom visit the packaging department. This is particularly true for the afternoon shift, because the sawmill supervisor is the furthest distance from the packaging building.

#### PACKAGING QUALITY

Ninety percent of Conifer's product is sold nationally and internationally through Westboard, Inc., a large marketing agency. Westboard represents all forest products mills owned by Conifer's parent company as well as several other clients in the region. The market for building-grade lumber is very price competitive, because there are numerous mills selling a relatively undifferentiated product. However, some differentiation does occur in product packaging and presentation. Buyers will look closely at the packaging when deciding whether to buy from Conifer or another mill.

To encourage its clients to package their products better, Westboard sponsors a monthly package quality award. The marketing agency samples and rates its clients' packages daily, and the sawmill with the highest score at the end of the month is awarded a framed certificate of excellence. Package quality is a combination of how the lumber is piled (e.g., defects turned in), where the bands and dunnage are placed, how neatly the stencil and seal are applied, the stencil's accuracy, and how neatly and tightly the plastic wrap is attached.

Conifer won Westboard's packaging quality award several times over the past five years, and received high ratings in the months that it didn't win. However, the mill's ratings have started to decline over the past year or two, and several clients have complained about the appearance of the finished product. A few large customers switched to competitors' lumber, saying that the decision was based on the substandard appearance of Conifer's packaging when it arrived in their lumber yard.

#### BOTTLENECK IN PACKAGING

The planning and sawmilling departments have significantly increased productivity over the past couple of years. The sawmill operation recently set a new productivity record on a single day. The planer operation has increased productivity to the point where last year it reduced operations to just one (rather than two) shifts per day. These productivity improvements are due to better operator training, fewer machine breakdowns, and better selection of raw logs. (Sawmill cuts from high-quality logs usually do not require planning work.)

Productivity levels in the boom, shipping, and maintenance departments have remained constant. However, the packaging department has recorded decreasing productivity over the past couple of years, with the result that a large backlog of finished product is typically stockpiled outside the packaging building. The morning shift of the packaging department is unable to keep up with the combined production of the sawmill and planer departments, so the unpackaged output is left for the afternoon shift. Unfortunately, the afternoon shift packages even less product than the morning shift, so the backlog continues to build. The backlog adds to Conifer's inventory costs and increases the risk of damaged stock.

Conifer has added Saturday overtime shifts as well as extra hours before and after the regular shifts for the packaging department employees to process this backlog. Last

month, the packaging department employed 10 percent of the workforce but accounted for 85 percent of the overtime. This is frustrating to Conifer's management, because time and motion studies recently confirmed that the packaging department is capable of processing all of the daily sawmill and planer production without overtime. With employees earning one and a half or two times their regular pay on overtime, Conifer's cost competitiveness suffers.

Employees and supervisors at Conifer are aware that people in the packaging department tend to extend lunch

by 10 minutes and coffee breaks by 5 minutes. They also typically leave work a few minutes before the end of their shift. This abuse has worsened recently, particularly on the afternoon shift. Employees who are temporarily assigned to the packaging department also seem to participate in this time loss pattern after a few days. Although they are punctual and productive in other departments, these temporary employees soon adopt the packaging crew's informal schedule when assigned to that department.

## CASE 9: VERBERG KANSEN N.V.

By Steven L. McShane, Interconnected Knowledge, based on an earlier case by Steven Palesy and David A. Nadler

Verberg Kansen N.V. (Verkan) is one of the leading European food manufacturers. Headquartered in Amsterdam, the Netherlands, the company manufactures or imports a full range of grocery foods, such as cereals, dairy products, baby foods, and canned foods. Verkan's products are widely respected for their quality, although the product lines are not considered as innovative as from other large competitors and small start-up boutique-style food manufacturers in the region. The company owns production operations within Europe but also imports a small percentage of its products from outside Europe. It has a well-developed distribution network and warehousing facilities, providing direct delivery of products from the warehouses to food retailers, restaurants, institutions, and other client groups across Europe.

Verkan's baby foods division is a relatively small part of the overall business but, until recently, has provided steady revenue growth with good profit margins. Its baby foods brand is well-known to consumers, and is premium-priced with an overall market share across Europe of approximately 25 percent in a fragmented market of almost a dozen brands. Within the past decade, Verkan expanded sales of several food products, including its full range of baby foods, into Asia. Asian sales of Verkan's baby foods enjoy approximately 15 percent growth per year, compared to 3 or 4 percent growth in recent years for its baby foods in Europe.

The baby foods division was formed more than two decades ago and grew rapidly as it introduced a broad range of foods for the infant market, including strained vegetables, fruits, meats, and combined variations of these foods. Baby food sales growth ranged from 10 and 20 percent per year during the first decade, then growth slowed about 10 years ago. During those early years, the number of different types of infant food products increased tremendously to keep up with increasing demand for a greater number of foods and a greater variety of products. The product line includes foods that are pureed or strained (for babies about 5 months and older) as well as partially strained or chopped (for infants about 10 months and older).

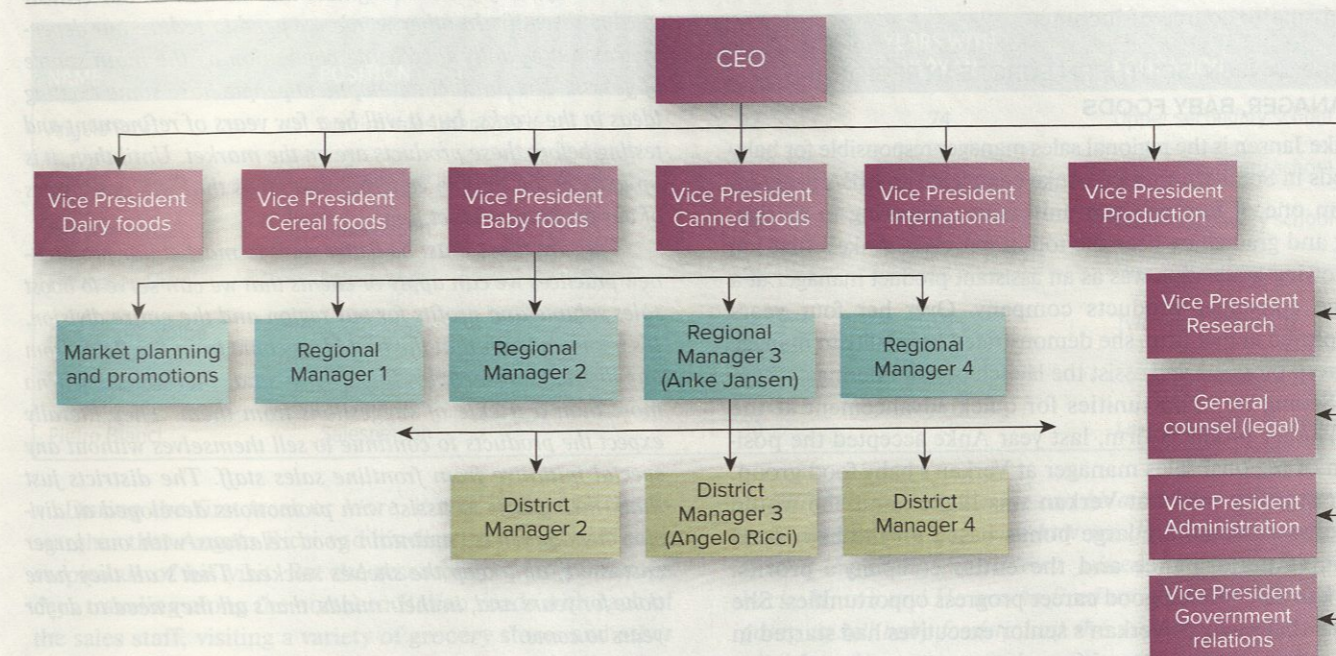
The European market for baby foods has changed considerably in recent years. The growth rate in sales for this market has slowed considerably, which is partly due to decreasing birth rates throughout many European countries. The industry also faces increasing scrutiny from consumers and government regulators regarding product content and food additives, such as food dyes and preservatives. Some online influencers even urge parents to make their own baby food rather than buy products from food manufacturers. Competition in the baby food industry has also increased, particularly from start-up boutique brands with premium pricing as well as from grocery store private label brands competing on the basis of price. Verkan faces similar competition and consumer challenges in several product groups beyond its baby foods division.

Verkan's senior executive team has been highly concerned about these threats to the company's infant products and, ultimately, the company's financial health. Baby food sales growth barely reached 3 percent in the most recent year, which has resulted in less efficient production and unused warehouse capacity. Verkan's executives have made it a priority to seek out new revenue streams, including innovative alternative markets for the company's products as well as the development of new products.

### VERBERG KANSEN'S ORGANIZATIONAL STRUCTURE

Verkan is organized into six divisions, each of which is led by a vice president who reports to the chief executive officer (Exhibit 1). Four divisions represent product groups, specifically dairy, cereals, baby, and canned foods. These food groups have somewhat or very distinct customers and marketing practices. A fifth division is responsible for international (mostly Asian) marketing and sales. The sixth division oversees the company's European production operations and warehouse facilities. Also reporting to the CEO are the heads of product research, legal, government relations, and administration.

EXHIBIT 1 Partial Organizational Structure of Verberg Kansen (Verkan) N.V.



Each product group is primarily a marketing and sales organization, so most direct reports to the vice president are sales managers for each of the four European regions. The vice president's office is responsible for overall market planning, sales promotion, advertising, and sales within that food group, as well as liaison with the company's centralized product research center.

Exhibit 1 also shows the baby foods group structure beneath the top reporting level. Europe is divided into four regions, so each food group has four regional sales managers. Regions are further divided into several districts. Each district may represent part of a country, or one very large metropolitan area. A food group district manager leads the Verkan sales teams in one district. The food group's sales team is responsible for selling Verkan products to retailers, negotiating shelf space with those customers, addressing delivery issues, and managing promotions developed by the food group's market planning and promotion team.

District managers report to the regional sales manager responsible for that group in a specific area of Europe. The regional sales manager position has been an entry position for graduates of well-regarded MBA programs, who subsequently are promoted to high-level positions within the company. Verkan's current CEO, the vice presidents of three out of the four food groups, and a few marketing specialists, began their careers at Verkan as regional sales managers.

### VERBERG KANSEN'S YEARLY SALES PLAN

Verkan's regional managers focus much of their attention on the yearly sales plan, which includes projections of sales, expenses, and profit. The yearly sales plan consists of the

key goals against which regional manager's performance is measured. The annual sales plan is developed through a multistage process.

In the first stage, the technical market planning team within a food group projects sales for the coming year for that division. Concurrently, regional managers develop sales projections for that food group in their area. These sales manager estimates are typically extrapolations of the previous year's sales figures, adjusting for any expected market changes. The regional managers' projections are submitted to the divisional vice president and market planning team.

Invariably, the market planning team's projections are higher than the regional manager projections. So, in the second stage, the product group's regional managers negotiate with that food group's market planning team to resolve those differences and agree on a sales plan. Along with stating projected sales volume for the division and each region, the sales plan identifies the division's promotion and advertising budgets, other expenditures, and expected profits.

Next, Verkan's vice president for each product group communicates formal sales targets to each regional manager. These targets are then cascaded down to the district managers and their sales teams. This information includes both each district's formal sales targets and expense budget for the next financial year.

Each district manager receives a relatively low base salary and a large yearly bonus calculated by his or her sales team's performance against the sales plan. The district manager also receives a pool of bonus money, the amount of which varies with the district's success compared to the sales plan. The district manager distributes