

Case 8

Hyten Corporation

On June 5, 1998, a meeting was held at Hyten Corporation, between Bill Knapp, director of sales, and John Rich, director of engineering. The purpose of the meeting was to discuss the development of a new product for a special customer application. The requirements included a very difficult, tight-time schedule. The key to the success of the project would depend on timely completion of individual tasks by various departments.

Bill Knapp: The Business Development Department was established to provide coordination between departments, but they have not really helped. They just stick their nose in when things are going good and mess everything up. They have been out to see several customers, giving them information and delivery dates that we can't possibly meet.

John Rich: I have several engineers who have MBA degrees and are pushing hard for better positions within engineering or management. They keep talking that formal project management is what we should have at Hyten. The informal approach we use just doesn't work all the time. But I'm not sure that just any type of project management will work in our division.

Knapp: Well, I wonder who Business Development will tap to coordinate this project? It would be better to get the manager from inside the organization instead of hiring someone from outside.

Company Background

Hyten Company was founded in 1982 as a manufacturer of automotive components. During the Gulf War, the company began manufacturing electronic components for the military. After the war, Hyten continued to prosper.

Hyten became one of the major component suppliers for the Space Program, but did not allow itself to become specialized. When the Space Program declined, Hyten developed other

product lines, including energy management, building products, and machine tools, to complement their automotive components and electronics fields.

Hyten has been a leader in the development of new products and processes. Annual sales are in excess of \$600 million. The Automotive Components Division is one of Hyten's rapidly expanding business areas (see the organizational chart in Exhibit I).

The Automotive Components Division

The management of both the Automotive Components Division and the Corporation itself is young and involved. Hyten has enjoyed a period of continuous growth over the past 15 years as a result of careful planning and having the right people in the right positions at the right time. This is emphasized by the fact that within five years of joining Hyten, every major manager and division head has been promoted to more responsibility within the corporation. The management staff of the Automotive Components Division has an average age of 40 and no one is over 50. Most of the middle managers have MBA degrees and a few have Ph.D.s. Currently, the Automotive Components Division has three manufacturing plants at various locations throughout the country. Central offices and most of the nonproduction functions are located at the main plant. There has been some effort by past presidents to give each separate plant some minimal level of purchasing, quality, manufacturing engineering and personnel functions.

Informal Project Management at Hyten Corporation

The Automotive Components Division of Hyten Corporation has an informal system of project management. It revolves around each department handling their own functional area of a given product development or project. Projects have been frequent enough that a sequence of operations has been developed to take a new product from concept to market. Each department knows its responsibilities and what it must contribute to a project.

A manager within the Business Development Department assumes informal project coordination responsibility and calls periodic meetings of the department heads involved. These meetings keep everyone advised of work status, changes to the project, and any problem areas. Budgeting of the project is based on the cost analysis developed after the initial design, while funding is allocated to each functional department based on the degree of its involvement. Funding for the initial design phase is controlled through business development. The customer has very little control over the funding, manpower, or work to be done. The customer, however, dictates when the new product design must be available for integration into the vehicle design, and when the product must be available in production quantities.

The Business Development Department

The Business Development Department, separate from Marketing/Sales, functions as a steering group for deciding which new products or customer requests are to be pursued and which are to be dropped. Factors which they consider in making these decisions are: (1) the company's long- and short-term business plans, (2) current sales forecasts, (3) economic and industry indicators, (4) profit potential, (5) internal capabilities (both volume and technology), and (6) what the customer is willing to pay versus estimated cost.

The duties of Business Development also include the coordination of a project or new product from initial design through market availability. In this capacity, they have no formal authority over either functional managers or functional employees. They act strictly on an informal basis to keep the project moving, give status reports, and report on potential problems. They are also responsible for the selection of the plant that will be used to manufacture the product.

The functions of Business Development were formerly handled as a joint staff function where all the directors would periodically meet to formulate short-range plans and solve

ning cycle of the project. That way we they will remain aware of how they affect the function of other departments and prevent overlapping of work. We should be able to stay on schedule and get better cooperation.

Harrel: Good, I'll be looking forward to the departure from the usual method of handling a new project. Hopefully, it will work much better and result in fewer problems.

Donley: How do you feel, George, about improving the coordination of work among various departments through a formal project manager?

George Hub: Frankly, if it improves communication between departments, I'm all in favor of the change. Under our present system, I am asked to make estimates of cost and lead times to implement a new product. When the project begins, the Product Design group starts making changes that require new cost figures and lead times. These changes result in cost overruns and in not meeting schedule dates. Typically, these changes continue right up to the production start date. Manufacturing appears to be the bad guy for not meeting the scheduled start date. We need someone to coordinate the work of various departments to prevent this continuous redoing of various jobs. We will at least have a chance at meeting the schedule, reducing cost, and improving the attitude of my people.

Personnel Department's View of Project Management

After the seminar on project management, a discussion was held between Sue Lyons, director of personnel, and Jason Finney, assistant director of personnel. The discussion was about changing the organization structure from informal project management to formal project management.

Sue Lyons: Changing over would not be an easy road. There are several matters to be taken under consideration.

Jason Finney: I think we should stop going to outside sources for competent people to manage new projects that are established within Business Development. There are several competent people at Hyten who have MBA's in Systems/Project Management. With that background and their familiarity with company operations, it would be to the company's advantage if we selected personnel from within our organization.

Lyons: Problems will develop whether we choose someone from inside the company or from an outside source.

Finney: However, if the company continues to hire outsiders into Business Development to head new projects, competent people at Hyten are going to start filtering to places of new employment.

Lyons: You are right about the filtration. Whoever is chosen to be a project manager must have qualifications that will get the job done. He or she should not only know the technical aspect behind the project, but should also be able to work with people and understand their needs. Project managers have to show concern for team members and provide them with work challenge. Project managers must work in a dynamic environment. This often requires the implementation of change. Project managers must be able to live with change and provide necessary leadership to implement the change. It is the project manager's responsibility to develop an atmosphere to allow people to adapt to the changing work environment.

In our department alone, the changes to be made will be very crucial to the happiness of the employees and the success of projects. They must feel they are being given a square deal, especially in the evaluation procedure. Who will do the evaluation? Will the functional manager be solely responsible for the evaluation when, in fact, he or she might never see the functional employee for the duration of a project? A functional manager cannot possibly keep tabs on all the functional employees who are working on different projects.

Finney: Then the functional manager will have to ask the project managers for evaluation information.

Lyons: I can see how that could result in many unwanted situations. To begin with, say the project manager and the functional manager don't see eye to eye on things. Granted, both should be at the same grade level and neither one has authority over the other, but let's say there is a situation where the two of them disagree as to either direction or quality of work. That puts the functional employee in an awkward position. Any employee will have the tendency of bending toward the individual who signs his or her promotion and evaluation form. This can influence the project manager into recommending an evaluation below par regardless of how the functional employee performs. There is also the situation where the employee is on the project for only a couple of weeks, and spends most of his or her time working alone, never getting a chance to know the project manager. The project manager will probably give the functional employee an average rating, even though the employee has done an excellent job. This results from very little contact. Then what do you do when the project manager allows personal feelings to influence his or her evaluation of a functional employee? A project manager who knows the functional employee personally might be tempted to give a strong or weak recommendation, regardless of performance.

Finney: You seem to be aware of many difficulties that project management might bring.

Lyons: Not really, but I've been doing a lot of homework since I attended that seminar on project management. It was a good seminar, and since there is not much written on the topic, I've been making a few phone calls to other colleagues for their opinions on project management.

Finney: What have you learned from these phone calls?

Lyons: That there are more personnel problems involved. What do you do in this situation? The project manager makes an excellent recommendation to the functional manager. The functional employee is aware of the appraisal and feels he or she should be given an above average pay increase to match the excellent job appraisal, but the functional manager fails to do so. One personnel manager from another company incorporating project management ran into problems when the project manager gave an employee of one grade level responsibilities of a higher grade level. The employee did an outstanding job taking on the responsibilities of a higher grade level and expected a large salary increase or a promotion.

Finney: Well, that's fair, isn't it?

Lyons: Yes, it seems fair enough, but that's not what happened. The functional manager gave an average evaluation and argued that the project manager had no business giving the functional employee added responsibility without first checking with him. So, then what you have is a disgruntled employee ready to seek employment elsewhere. Also, there are some functional managers who will only give above-average pay increases to those employees who stay in the functional department and make that manager look good.

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Project Management as Seen by the Various Departments

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Lyons: Right now I can see several changes that would need to take place. The first major change would have to be attitudes toward formal project management and hiring procedures. We do have project management here at Hyten but on an informal basis. If we could administer it formally, I feel we could do the company a great service. If we seek project managers from within, we could save on time and money. I could devote more time and effort on wage and salary grades and job descriptions. We would need to revise our evaluation forms—presently they are not adequate. Maybe we should develop more than one evaluation form: one for the project manager to fill out and give to the functional manager, and a second form to be completed by the functional manager for submission to Personnel.

Finney: That might cause new problems. Should the project manager fill out his or her evaluation during or after project completion?

Lyons: It would have to go after project completion. That way an employee who felt unfairly evaluated would not feel tempted to screw up the project. If an employee felt the work wasn't justly evaluated, that employee might decide not to show up for a few days—these few days of absence could be most crucial for timely project completion.

Finney: How will you handle evaluation of employees who work on several projects at the same time? This could be a problem if employees are really enthusiastic about one project over another. They could do a terrific job on the project they are interested in and slack off on other projects. You could also have functional people working on departmental jobs but charging their time to the project overhead. Don't we have exempt and nonexempt people charging to projects?

Lyons: See what I mean? We can't just jump into project management and expect a bed of roses. There will have to be changes. We can't put the cart before the horse.

Finney: I realize that, Sue, but we do have several MBA people working here at Hyten who have been exposed to project management. I think that if we start putting our heads together and take a systematic approach to this matter, we will be able to pull this project together nicely.

Lyons: Well, Jason, I'm glad to see that you are for formal project management. We will have to approach top management on the topic. I would like you to help coordinate an equitable way of evaluating our people and to help develop the appropriate evaluation forms.

Project Management as Seen by the Various Departments

The general manager arranged through the personnel department to interview various managers on a confidential basis. The purpose of the interview was to evaluate the overall acceptance of the concept of formal project management. The answers to the question, "How will project management affect your department?" were as follows:

Frank Harrel, quality and reliability manager

Project management is the actual coordination of the resources of functional departments to achieve the time, cost, and performance goals of the project. As a consequence, personnel interfacing is an important component toward the success of the project. In terms of quality control, it means less of the attitude of the structured workplace where quality is viewed as having the function of finding defects and, as a result, is looked upon as a hindrance to production. It means that the attitude toward quality control will change to one of interacting with other departments to minimize manufacturing problems. Project management reduces suboptimization among functional areas and induces cooperation. Both company and department goals can be achieved. It puts an end to the "can't see the forest for the trees" syndrome.

Harold Grimes, plant manager

I think that formal project management will give us more work than long-term benefits. History indicates that we hire more outside people for new positions than we promote from within. Who will be hired into these new project management jobs? We are experiencing a lot of backlash from people who are required to teach new people the ropes. In my opinion, we should assign inside MBA graduates with project management training to head up projects and not hire an outsider as a formal project manager. Our present system would work fine if inside people were made the new managers in the Business Development Department.

Herman Hall, director of MIS

I have no objections to the implementation of formal project management in our company. I do not believe, however, that it will be possible to provide the reports needed by this management structure for several years. This is due to the fact that most of my staff are deeply involved in current projects. We are currently working on the installation of minicomputers and on-line terminals throughout the plant. These projects have been delayed by the late arrival of new equipment, employee sabotage, and various start-up problems. As a result of these problems, one group admits to being six months behind schedule and the other group, although on schedule, is 18 months from their scheduled completion date. The rest of the staff currently assigned to maintenance projects consists of two systems analysts who are nearing retirement and two relatively inexperienced programmers. So, as you can readily see, unless we break up the current project teams and let those projects fall further behind schedule, it will be difficult at this time to put together another project team.

The second problem is that even if I could put together a staff for the project, it might take up to two years to complete an adequate information system. Problems arise from the fact that it will take time to design a system that will draw data from all the functional areas. This design work will have to be done before the actual programming and testing could be accomplished. Finally, there would be a debugging period when we receive feedback from the user on any flaws in the system or enhancements that might be needed. We could not provide computer support to an "overnight" change to project management.

Bob Gustwell, scheduling manager

I am happy with the idea of formal project management, but I do see some problems implementing it. Some people around here like the way we do things now. It is a natural reaction for employees to fight against any changes in management style.

But don't worry about the scheduling department. My people will like the change to formal project management. I see this form of management as a way to minimize, or not eliminate, schedule changes. Better planning on the part of both department and project managers will be required, and the priorities will be set at corporate level. You can count on our support because I'm tired of being caught between production and sales.

John Rich, director of engineering

It seems to me that project management will only mess things up. We now have a good flowing chain of command in our organization. This new matrix will only create problems. The engineering department, being very technical, just can't take direction from anyone outside the department. The project office will start to skimp on specifications just to save time and dollars. Our products are too technical to allow schedules and project costs to affect engineering results.

Bringing in someone from the outside to be the project manager will make things worse. I feel that formal project management should not be implemented at Hyten. Engineering has always directed the projects, and we should keep it that way. We shouldn't change a winning combination.

Fred Kuncel, plant engineering

I've thought about the trade-offs involved in implementing formal project management at Hyten and feel that plant engineering cannot live with them. Our departmental activities are centered around highly unpredictable circumstances, which sometimes involve rapidly changing priorities related to the production function. We in plant engineering must be able to respond quickly and appropriately to maintenance activities directly related to manufacturing activities. Plant engineering is also responsible for carrying out critical preventive maintenance and plant construction projects.

Project management would hinder our activities because project management responsibilities would burden our manpower with additional tasks. I am against project management because I feel that it is not in the best interest of Hyten. Project management would weaken our department's functional specialization because it would require cross-utilization of resources, manpower, and negotiation for the services critical to plant engineering.

Bill Knapp, director of marketing

I feel that the seminar on formal project management was a good one. Formal project management could benefit Hyten. Our organization needs to focus in more than one direction at all times. In order to be successful in today's market, we must concentrate on giving all our products sharp focus. Formal project management could be a good way of placing individual emphasis on each of the products of our company. Project management would be especially advantageous to us because of our highly diversified product lines. The organization needs to efficiently allocate resources to projects, products, and markets. We cannot afford to have expensive resources sitting idle. Cross-utilization and the consequent need for negotiation ensures that resources are used efficiently and in the organization's best overall interest.

We can't afford to continue to carry on informal project management in our business. We are so diversified that all of our products can't be treated alike. Each product has different needs. Besides, the nature of a team effort would strengthen our organization.

Stanley Grant, comptroller

In my opinion, formal project management can be profitably applied in our organization. Management should not, however, expect that project management would gain instant acceptance by the functional managers and functional employees, including the finance department personnel.

The implementation of formal project management in our organization would have an impact on our cost control system and internal control system, as well.

In the area of cost control, project cost control techniques have to be formalized and installed. This would require the accounting staff to: (1) break comprehensive cost summaries into work packages, (2) prepare commitment reports for "technical decision makers," (3) approximate report data and (4) concentrate talent on major problems and opportunities. In project management, cost commitments on a project are made when various functional departments, such as engineering, manufacturing and marketing, make technical decisions to take some kind of action. Conventional accounting reports do not show the cost effects of these technical decisions until it is too late to reconsider. We would need to provide the project manager with cost commitment reports at each decision state to enable him or her to judge when costs are getting out of control. Only by receiving such timely cost commitment reports, could the project manager take needed corrective actions and be able to approximate the cost effect of each technical decision. Providing all these reports, however, would require additional personnel and expertise in our department.

In addition, I feel that the implementation of formal project management would increase our responsibilities in finance department. We would need to conduct project audits, prepare periodic comparisons of actual versus projected costs and actual versus programmed manpower allocation, update projection reports and funding schedules, and sponsor cost improvement programs.

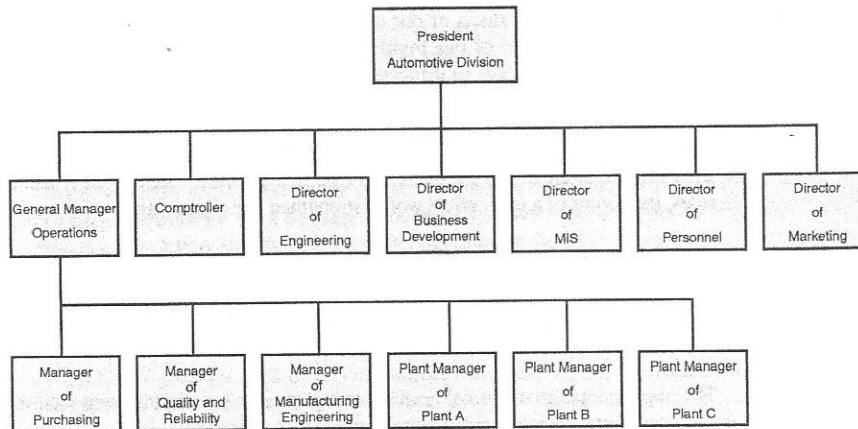
In the area of internal control, we will need to review and modify our existing internal control system to effectively meet our organization's goals related to project management. A careful and proper study and evaluation of existing internal control procedures should be conducted to determine the extent of the tests to which our internal auditing procedures are to be restricted. A thorough understanding of each project we undertake must be required at all times.

I'm all in favor of formal project management, provided management would allocate more resources to our department so we could maintain the personnel necessary to perform the added duties, responsibilities, and expertise required.

After the interviews, Sue Lyons talked to Wilbur Donley about the possibility of adopting formal project management. As she put it,

You realize that regardless of how much support there is for formal project management, the general manager will probably not allow us to implement it for fear it will affect the performance of the Automotive Components Division.

Exhibit I. Organizational chart of the automotive division, Hyten Corporation



Questions

1. What are some of the major problems facing the management of Hyten in accepting formalized project management? (Include attitude problems/personality problems.)
2. Do any of the managers appear to have valid arguments for their beliefs as to why formal project management should not be considered?
3. Are there any good reasons why Hyten should go to formal project management?
4. Has Hyten taken a reasonable approach toward implementing formal project management?
5. Has Hyten done anything wrong?
6. Should formal project management give employees more room for personal growth?
7. Will formalized project management make it appear as though business development has taken power away from other groups?
8. Were the MBAs exposed to project management?

9. Were the organizational personnel focusing more on the problems (disadvantages) or advantages of project management?
10. What basic fears do employees have in considering organizational change to formal project management?
11. Must management be sold on project management prior to implementation?
12. Is it possible that some of the support groups cannot give immediate attention to such an organizational change?
13. Do functional managers risk a loss of employee loyalty with the new change?
14. What recommendations would you make to Hyten Corporation?

problems associated with new products. The department was formally organized three years ago by the then 38 year old president as a recognition of the need for project management within the Automotive Components Division.

Manpower for the Business Development Department was taken from both outside the company and from within the division. This was done to honor the Corporation's commitment to hire people from the outside only after it was determined that there were no qualified people internally (an area that for years has been a sore spot to the younger managers and engineers).

When the Business Development Department was organized, its level of authority and responsibility was limited. However, the Department's authority and responsibility have subsequently expanded, though at a slow rate. This was done so as not to alienate the functional managers who were concerned that project management would undermine their "empire."

Introduction of Formal Project Management at Hyten Corporation

On July 10, 1998, Wilbur Donley was hired into the Business Development Department to direct new product development efforts. Prior to joining Hyten, he worked as project manager with a company that supplied aircraft hardware to the government. He had worked both as an assistant project manager and as a project manager for five years prior to joining Hyten.

Shortly after his arrival, he convinced upper management to examine the idea of expanding the Business Development group and giving them responsibility for formal project management. An outside consulting firm was hired to give an in-depth seminar on project management to all management and supervisor employees in the Division.

Prior to the seminar, Donley talked to Frank Harrel, manager of quality and reliability, and George Hub, manager of manufacturing engineering, about their problems and what they thought of project management.

Frank Harrel is 37 years old, has an MBA degree, and has been with Hyten for five years. He was hired as an industrial engineer and three years ago was promoted to manager of quality and reliability. George Hub is 45 years old and has been with Hyten for 12 years as manager of manufacturing engineering.

Wilbur Donley: Well, Frank, what do you see as potential problems to the timely completion of projects within the Automotive Components Division?

Frank Harrel: The usual material movement problems we always have. We monitor all incoming materials in samples and production quantities, as well as in-process checking of production and finished goods on a sampling basis. We then move to 100 percent inspection if any discrepancies are found. Marketing and Manufacturing people don't realize how much time is required to inspect for either internal or customer deviations. Our current manpower requires that schedules be juggled to accommodate 100 percent inspection levels on "hot items." We seem to be getting more and more items at the last minute that must be done on overtime.

Donley: What are you suggesting? A coordination of effort with marketing, purchasing, production scheduling, and the manufacturing function to allow your department to perform their routine work and still be able to accommodate a limited amount of high-level work on "hot" jobs?

Harrel: Precisely, but we have no formal contact with these people. More open lines of communication would be of benefit to everyone.

Donley: We are going to introduce a more formal type of project management than has been used in the past so that all departments who are involved will actively participate in the plan-