



Winter 2004

## Building a Company Culture That Drives Performance: A Case Study

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### Recommended Citation

Scott, K. Dow; Shives, Gregory K.; Bishop, James W.; and Cerra, Vito A.. Building a Company Culture That Drives Performance: A Case Study. *WorldatWork Journal*, 13, 1: 46-54, 2004. Retrieved from Loyola eCommons, School of Business: Faculty Publications and Other Works,

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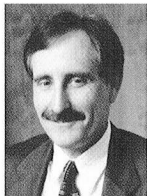


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Case Study

# Building a Company Culture that Drives Performance



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To create a more competitive organizational prototype in the automotive industry, Ford Motor Company experimented with a new type of joint venture to produce plastic components and a new vision for the work environment in its manufacturing facilities. This fledgling project, known as Atlantic Automotive Components, struggled during its first few years — both in terms of creating a participative and innovative work environment, and in meeting basic earning goals established by investors. Although the United Automobile Workers (UAW) union contract allowed self-directed work teams and only two classifications in a pay-for-skill structure, the company and production employee relationships began to resemble those of many traditional unionized plants.

Uncertainty for future plant operations increased when the original 30-percent owner opted to divest its interests in the company. As a result, Atlantic's leadership recognized that major changes were necessary to survive.

First, management focused on basic manufacturing disciplines and worked to correct product design and process-related problems with more appropriate molding technology. By establishing quality process controls, the company was able to become ISO9002-, QS9000- and ISO14001-certified and earned the Ford Motor Company Q1 Award. Second, the management

team stabilized Atlantic's ownership by creating a new limited liability corporation, in which the ownership was divided between Visteon Corporation (70 percent) and Venture Industries (30 percent). The new owners had experience with both plastic molding manufacturing and automotive supply.

By the end of 2000, sound leadership and financial structures were in place. Atlantic had approximately 500 employees, 400 of which were represented by the UAW union. The state-of-the-art injection molding and assembly plants were operating three shifts, five days per week and produced a variety of automotive interior trim parts. Production employees were organized into self-managed work teams. Peers elected team leaders every six months. Despite this turnaround, management was not satisfied with the level of employee involvement and commitment to continuous improvement. Given industry competitiveness, Atlantic management knew the company had to do better.

The initial design of Atlantic's performance management plan called for a performance-based, shared-rewards program. Many programs of this type focus on the reduction of operational costs. To enhance company competitiveness, however, Atlantic's management searched for a system that could address all elements of Atlantic's business: safety, quality, delivery, innovation and return on investment. Atlantic's team-based, participative culture required a plan that would unite these business functions and employees at every level, from production employees through upper management.

After nearly a year of investigating alternatives, Atlantic identified and embraced the Scanlon Principles and Processes as its performance management plan and began the process of customizing and building commitment to a plan coined TIGER (Team Involvement Generating Extraordinary Results).

It took one year for elected representatives from the Atlantic employee population to design the TIGER Plan, which received a 96-percent approval when employees had an opportunity to vote by secret ballot to accept or reject the plan. The plan was implemented in its present form in January 2002. This case study describes Atlantic's experience with its customized version of the Scanlon Principles and Processes.

### Scanlon Principles and Processes

Joseph Scanlon, a steelworker and union leader, developed the Scanlon Principles and Processes in the 1930s to focus on productivity improvements that could be achieved by establishing a cooperative work environment between labor and management. Scanlon believed that workers understood their jobs and what was required to produce a quality product better than anyone else. To tap into this knowledge and increase productivity, workers need:

- ▶ A meaningful way to voice their concerns and ideas for improvement
- ▶ An understanding of the overall business and customer needs
- ▶ A share of the increased value that their ideas produce for the company.

The Scanlon Principles and Processes differentiates itself from most incentive plans by providing a disciplined means for creating a fundamental understanding of business among employees through the identity principle. The model encourages employees to suggest improvements in the production processes through the participation principle, by sharing rewards and measuring performance through the equity principle, and by developing highly qualified employees through the competence principle. The following principles include examples of how they were applied at Atlantic.

# When employees understand the business, they can make a meaningful contribution to its success.

## Identity

The identity principle creates a fundamental understanding of the business. This involves educating employees about the realities of business competition, the needs and expectations of customers, the application of business technologies and processes and the investor's contribution to the business. The underlying assumption is that rational and responsible behavior is based on understanding the context in which business decisions must be made. When employees understand the business, they can make a meaningful contribution to its success. As such, it is management's responsibility to educate employees concerning the realities of being in business and how each employee's job and department contributes to the success of the whole.

Atlantic's management began the education process during the initial implementation phase of the TIGER Plan as it adapted Scanlon Principles for its use and built commitment for the plan. First, management met with all employees in small groups to explain Atlantic's

vision and mission. They outlined the business challenges that the company faced and how implementation of the Scanlon Principles and Processes would contribute to the company's success. Part of this education process involved teaching employees how to understand financial and production information. The company books were opened and explained so employees could see how the company was doing. Historically, management found it difficult to provide understandable and timely business information to employees. The financial formula that drives the shared rewards through the TIGER Plan provides an explicit measure of company success, making this information easier to understand and communicate.

Recognizing that employee contribution is, in large part, determined by their fundamental understanding of the business, Atlantic management continuously seeks opportunities to educate employees about how the business operates and the realities of business in a capitalistic economy. One example is a training program that uses a child's lemonade stand as a simple business model to help employees understand business principles and realities.

Probably the most powerful tool for educating employees on the business is the formal suggestion process, which will be discussed later in more detail. Before an employee suggestion can be approved, a sound business case must be made as to how the suggestion will lower costs or improve business effectiveness. Each suggestion must be evaluated in terms of its cost (i.e., investment) and its potential payoff. The suggestion review process provides multiple opportunities for management to educate employees. Finally, a number of regular committee meetings and town hall meetings are used to communicate business performance and future business plans to employees. These face-to-face meetings are supplemented with a company newsletter and information posted on bulletin boards.

## Participation

Scanlon Principles and Processes are based on the premise that most performance improvements or gains come from "working smarter, not harder." Therefore, to increase productivity, employees must have the opportunity to provide meaningful input and influence decisions. Scanlon originally proposed a formal suggestion process as the vehicle to give employees voice. Many "Scanlon companies" still use this process. It requires that suggestions be documented in writing so that they can be formally and accurately evaluated. The review and implementation of suggestions are monitored and results of these reviews are shared with employees. Unlike traditional suggestion programs, there is no financial incentive for just making a suggestion, only for reducing costs or increasing profits (depending on how the shared-rewards formula is defined). Because everyone shares in the gains that result from suggested improvements, everyone has an interest in making sure good ideas are clearly articulated and quickly implemented. The opportunity to offer input and make suggestions is not a benefit of employment but considered a job responsibility for all employees.

## Teams Review Suggestions

TIGER teams represent every Atlantic employee. These teams have at least one appointed and two elected members, with an additional elected representative for every 10 production employees in larger production areas. The appointed member typically is the individual responsible for the area or someone key to providing technical support to the team. The TIGER team's decision to implement or reject a suggestion is made by consensus. TIGER teams encourage employees to make suggestions, review the suggestions and implement the good ideas in a timely fashion. A screening committee reviews and approves suggestions affecting areas represented by more than one TIGER team or those that cost more than \$500 to implement.

The screening committee is composed of 26 members — one member is chosen from each of the 15 TIGER teams and 11 members are appointed. As defined in the TIGER Plan, appointed members include the directors of finance, business development, operations, engineering, the local union president and chairperson, one at-large production employee from each facility, Atlantic's president, vice president and general manager. In addition to evaluating suggestions that affect multiple TIGER teams or cost in excess of \$500, the screening committee is responsible for encouraging participation and calculating the equity bonus. The committee also encourages employee participation through employee recognition and assures a timely response to each suggestion. The screening committee makes sure that every suggestion remains open until the person who submitted it receives feedback, regardless of acceptance or rejection. Anyone may appeal a TIGER team decision directly to the screening team if they are not satisfied with the feedback on their suggestion. As with the TIGER teams, a screening committee decision to accept or reject a suggestion is made by consensus.

## Other Ways to Involve Employees

A robust Scanlon program does not rely solely on employee suggestions to engage and involve the workforce. For example, Atlantic holds town hall meetings with all employees six times a year to facilitate financial information sharing, expression of concerns, and recognition of people and contributions. A bi-monthly newsletter supports information-sharing and recognition, and highlights company challenges and opportunities. By giving employees a voice, these participation processes enable the organization to enhance all aspects of its business, including safety, quality, delivery and total cost performance. Other methods for involving employees include project task forces, production team inclusion in organizational

# A participative management program that rewards continuous improvement demands high levels of competence from employees and management.

restructuring and the opportunity to participate in a variety of standing committees (e.g., a diversity council and events planning team). Employees receive both technical and leadership training so they will have the skills to make meaningful contributions.

For example, a production employee submitted a suggestion that focused on excessive consumption of company-issued mandatory safety glasses. Last year, 4,500 pairs were issued at an average of nine pairs per person at a cost of \$1.50 each. Employees were taking a new pair of free glasses rather than wearing the pair they had taken home the night before. The team concluded that the problem was valid and that employees should bear the cost of replacement glasses beyond those issued by the company. However, the TIGER team was concerned about a practical mechanism for collecting money. An employee suggested a vending machine as a practical solution for distributing safety glasses. This suggestion was passed on to the screening committee for final approval because it

affected all areas in the plant. This idea reduced the annual usage 80 percent and will save the company over \$5,000 annually.

The blow molding assembly team submitted another suggestion that illustrates the economic value added by Atlantic's participation process. This team assembles a speaker and an amplifier to molded housings for premium audio systems. The original plant designers and engineers arranged this team's work area with the raw materials and assembly stations on the production floor near an enclosed booth which was used for final testing of the assembled module. During the assembly process, employees had to walk the assembled module into the booth for testing. Noting that teams on all shifts were consistently unable to meet their production targets, an employee suggested installing a pass-through window in the enclosed booth to integrate the assembly and testing function. Now teams can meet their targets with seven fewer employees, who were reassigned to other duties. This work area is called the "McElvin Station" to recognize this employee's contribution.

## Equity

The Scanlon concept of equity recognizes the shared contribution of important stakeholders (i.e., investors, employees and customers). A business without customers does not need investors or employees. Investors must be equitably compensated for assuming business risk and the use of their capital resources. Engaged employees must be assured that, if they accept accountability to customers and investors, they will share in the positive rewards financially. Customers need a reliable source of quality goods and services at a fair price.

The financial reward component of Scanlon Principles often overshadows the broader value of these plans when they are described in literature. Atlantic emphasizes that financial reward is just one element of the plan. The shared incentive is designed not only to

reward increased effectiveness, but to communicate to employees the importance of the contributions that they make to the business' success and the fundamental business realities at Atlantic.

To create a financial incentive that rewards employee contributions for improved efficiency or effectiveness, a performance measure that is related to business success is required. Because there is considerable variation in how businesses operate, those that adopt the Scanlon Principles use a variety of measures, including cost reduction (e.g., labor, raw materials or equipment utilization), profits or earnings. In any event, the selected measure should capture the essence of the business, and employees must feel that they can influence that measure.

Atlantic Automotive chose Economic Value Added (EVA) as the performance measure to determine the amount of shared financial rewards for several reasons:

- ▶ Atlantic's business model uses ROI for plant investment decisions and EVA provides a clear indicator of the ROI and the total capital employed by the business.
- ▶ The concept of EVA was consistent with the values of Atlantic's investors.
- ▶ EVA was a performance measure that management believed employees could impact once they understood how the capital employed affects a business and how operating more efficiently can produce income.

The EVA concept is expressed in the algebraic equation:

$$EVA = \text{after tax operating income} - (\text{investment in assets} \times \text{weighted average cost of capital})$$

If the result of the formula calculation is greater than zero, the activity is adding economic value. If the result is zero or less, the activity is perceived as breaking even or destroying capital. The EVA measure adjusts the value of gains achieved to account for the capital investment required to achieve those gains and for the cost of the necessary investment capital.

The financial formula for the TIGER plan was based on an existing five-year business plan with forecasted EVA that already exceeded the investors' targeted percent return on the capital employed by the business. Sensitive to being fair to the company's investors and to reinforce the concept of continuous improvement, the team prorated the sharing based upon added improvement to the forecasted positive EVA. In the latter years of the business plan and beyond, investors and employees would equally share any positive EVA. The employees' share is distributed in five checks, one each quarter, with the reserve fund distributed at the end of the fiscal year. Fifty percent of each quarterly payout is placed in the reserve fund in case EVA earnings fall below the projected goal. Investors are reimbursed from the reserve fund should this happen. Money remaining in the reserve fund after the close of the fiscal year is distributed to the employees in the fifth check. A negative balance is erased and the company absorbs the loss. Atlantic's plan paid roughly \$1,000 per employee during its first year. Adjustments were made to the bonus so overtime requirements of the Fair Labor Standards Act (FLSA) were met. Management was careful to clearly define and emphasize that plan distributions were rewards rather than compensation. As such, these payouts are not part of the union agreement and everyone from production employees to senior management received an equal share. During the one quarter that did not generate a plan payout, Atlantic experienced an increase in the number of employee suggestions. This was interpreted as evidence of a heightened sense of accountability by the employees to improve productivity.

### Competence

The final Scanlon Principle is competence. It is recognized that a participative management program that rewards continuous improvement demands high levels of competence from employees and management.

# Atlantic is committed to educating employees about business operations and the financial realities of the business.

Competence is defined in terms of technical or job skills, interpersonal and leadership skills, and business literacy. Competence from the Scanlon perspective does not mean simply engaging in more training exercises. It means one must have the ability to integrate technical knowledge with interpersonal development (i.e., leadership).

Atlantic uses a pay-for-skills compensation structure for hourly employees to reinforce the importance of developing technical knowledge and leadership skills. Three skill levels have been established and employees can advance to the next higher level in four to six months. Advancement to the next level requires evidence of higher-level interpersonal as well as technical competencies. Level I skills are required for employment. Level II targets flexibility, leadership and trainer skills. To attain Level III, the employee must demonstrate higher levels of leadership development and actively participate in organizational improvement activities. Atlantic trainers verify and certify skill competencies. Employees who obtain specialized technical licenses are eligible for an additional hourly premium.

Atlantic is committed to educating employees about business operations and the financial realities of the business. Although the bonus formula and the financial training courses have been important tools in this educational process, the screening committee and TIGER teams are constantly looking for other innovative methods to accomplish this goal.

Encouraging home ownership is an innovative strategy that teaches financial lessons. Atlantic believes that home ownership teaches the concept of investing, ROI and budgeting — the same basic lessons that apply to business. Atlantic has had phenomenal success in helping employees purchase homes. Recognizing that few hourly employees are homeowners, the company offers training programs on budgeting and home purchase and also helps employees apply for a mortgage.

## Plan Design and Implementation

The implementation process serves three purposes:

- ▶ To customize the plan to fit the specific needs of the company
- ▶ To educate employees at all levels on the responsibilities of participative management
- ▶ To build commitment to the Scanlon Principles and Processes.

The Scanlon implementation process as applied by Atlantic includes the following steps:

*Leadership exploration and commitment.* Senior management conducted a systematic search for a shared-reward program that was consistent with their values and recognized the importance of continuous improvement. This exploration process required them to articulate exactly what their organizational needs were and to become knowledgeable about the Scanlon Principles and Processes. To determine senior management's commitment to the plan, a secret ballot was conducted requiring unanimous support for creating a Scanlon design committee.



*Employee exploration and commitment.* During this step, two senior managers and a Scanlon consultant met with all employees in groups of 15 to 20 to explain the reasons for company improvement, clarify the company's mission and explain how they thought the Scanlon Principles and Processes could facilitate the change. After the presentation, employees were asked to cast a secret ballot indicating if they were convinced that change was needed and if they thought the Scanlon Principles and Processes were a good strategy for developing a program for continuous improvement. Ninety-six percent of employees voted in favor of creating a continuous improvement program based on the Scanlon Principles and Processes.

*Plan proposal development.* A cross-functional team was formed to design a plan for Atlantic Automotive. The 31 design team members represented all levels and were elected by their peers. Company owners were invited to participate. Instead, the owners provided boundaries and appointed the company president and finance director as their team member representatives to ensure the best interests of the overall business were protected. The team's role went far beyond defining the parameters for performance measurement and reward sharing. It included the development of a team structure to ensure employee participation and appropriate representation for every position in the company. All decisions were made by consensus, including an escalating approach to sharing the gains of the EVA formula.

*Confirmation of employee and management commitment.* Once the program design team had completed its task, the plan was presented to senior management of the holding companies that own Atlantic. Upon plan approval, it was presented to employees for their approval and to obtain their commitment to participate.

*Trial installation and review.* The plan has been in place at Atlantic for over one year. The screening team

now is in the process of reviewing the plan and recommending improvements. Any changes to the plan within the boundaries provided by the owners can be made through consensus of the screening team.

*Periodic renewal and rebirth.* Organizations must constantly change to meet the challenges of the marketplace. Furthermore, employees are replaced and people forget. Consequently, a serious re-examination of the plan and reconfirmation of management and employee commitment should be conducted every three to five years.

### Challenges for the Future

The Scanlon philosophy represents both an ideal and a specific plan for improving company effectiveness. Because Scanlon Principles and Processes require a profound and far-reaching change, company transformation cannot be expected to occur overnight. Atlantic's management is realistic in assessing the successes that the program has achieved so far, as well as what still needs to be done.

Management acknowledges that it has been difficult to educate all employees on EVA. Many employees have found the measure difficult to understand and must trust management to calculate the formula correctly. Atlantic's management remains determined to develop all employees into knowledgeable business partners. For this to occur, the employees must possess a basic understanding of EVA. Therefore, Atlantic's challenge is to find teaching methods that will enable all employees to grasp the concepts of EVA and learn how to apply this knowledge to productivity improvement.

Management would like to see an increase in both the number of employees who become involved in the TIGER Plan and an increase in their level of involvement. To date, roughly 25 percent of the employees have submitted at least one suggestion and 10 percent have regularly participated in the process.

Atlantic has noticed that salaried employees are not as engaged in the plan as production employees. Atlantic attributes this, in part, to the other opportunities that salaried employees already have to influence decisions and offer input.

Fostering increased interaction among employees at all skill levels is a major challenge. Interaction between employees in different production areas has been significant, but interaction between the salaried organization and the production workforce has not been as successful. Atlantic's recognition of this challenge is both insightful and important. Creating a meaningful connection among all organization levels, departments and divisions is at the essence of the participatory culture the company is striving to achieve.

### Moving Forward

Atlantic is an economic success for its investors and the company has made significant progress toward creating the values and behaviors of a participative manufacturing environment. Change is continuous and Atlantic will continue to look for those indicators of positive change as the most important metric for their desired environment, such as:

- ▶ All employees contributing suggestions for productivity improvement
- ▶ A high level of morale and trust among employees at all levels
- ▶ High levels of retention and numerous applications when job openings occur
- ▶ Employee personal growth through education and knowledge
- ▶ People demonstrating pride in their work, their company and community
- ▶ Praise and acknowledgement from customers and investors
- ▶ Profitable growth of the business.

Although many factors have contributed to their success, Atlantic's management attributes much of the

company's performance to the powerful framework that the Scanlon Principles and Processes provide. The TIGER Plan has helped management create a culture that drives performance by engaging employees and encouraging their active participation in the company's operations. ■■

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