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Manufacturers have seen a variety of environments in recent years. Over time, I have seen them take many steps to adapt to rapidly changing conditions. Below are some ideas that seemed to work, though never without the need for fine-tuning and modification. The suggestions are written for directors. I hope they will be helpful to those people entrusted with the sober responsibility of working with management to keep their company viable—not an easy task in this highly competitive global economy.

1. Start with quality
Most companies assume quality is high; good companies make quality an overriding first principle—in action, not with slogans. Top executives visit customers, visit dealers, understand their problems. People at good companies like customers and want them to enjoy the company’s products. These well-run companies try to improve quality even when they are already the best in the industry. Profits, sales, and incentives all come later. Quality must be achieved first.

2. Worry about results, not plans
Some companies spend too much time planning. Plans can be helpful, but in an uncertain world, plans must be adaptive. Instead of spending precious time developing a highly precise plan, just pick something that seems about right and move on. Then gear incentive programs, bonuses and employee compensation to actual results in profits, quality and development.

3. Invest
It takes a lot of money to keep a company competitive in the 21st century. The average machine tool in the United States is nearly twenty years old. Many factories are older still. A rule of thumb is that if a manufacturer is not spending several thousand dollars per employee in capital equipment every year, it will be difficult for the company to remain competitive in world markets. Many Asian companies receive massive support from their governments in the form of equipment or facility loans or grants.

Many companies spend money on big offices, high executive compensation, and grandiose corporate meetings. Good solid investments that improve product quality, reduce costs, and spur prompt delivery benefit customers; frills do not.

4. Manage by subtraction
Most well-run companies prune routinely rather than axing into the meat of the organization whenever a crisis develops. They look over what is being done, reduce non-value-added tasks, and then reallocate resources. This takes wisdom, empathy for the people involved, and enough tact to enlist the support of the organization.

The managers of the company, together with its directors, are ultimately purveyors of justice. They have to judiciously decide what is necessary to keep the company in business for the benefit of stakeholders. This awesome task will not be fulfilled unless the company systematically withdraws resources from tasks unessential to the main business.

Director Summary: A veteran director shares his expertise on board service when your company still makes something other than money. Invest in equipment and employees; keep executive compensation and acquisitions in check.
5. Advance the dignity of employees
Virtually every corporate mission statement says employees are important but corporate behavior does not always walk the walk. Yet the evidence is clear. When employees believe their tasks are important, companies are almost always successful.
Fostering an atmosphere of dignity does not mean running a loose ship. Quite the contrary, the employees of most well-run companies resent it when someone who is not doing their job is kept on. Fortunately, the remedy is low-cost. Provide enough dignity to the team and the team will make sure things go well, even if personnel changes have to be made.

6. Keep executive compensation reasonable
The best CEOs are reserved in articulating their accomplishments and modest in their pay. Most of the good ones came up through the ranks and can easily identify what life was like at lower levels. And they appreciate the contributions of all.
Executive compensation in the United States has been goofy. Even the people who deserve what they get do not believe high compensation is an ingredient to success. Directors have a responsibility to be practical.

7. Resist the temptation to acquire
Very few acquisitions work out and even fewer of them are worth the cost. Do the math. Figure how much the acquisition will cost and then figure out what would happen if you put the money into product development, quality improvements, and marketing initiatives. Usually the acquisition is unnecessary.
There have been a few good, investment-driven acquisitions; they differ from bad ones in an important way: one company acquires another and then invests to improve the competitive position of its newly acquired property.
Cost-driven acquisitions show less promise and are often wealth-destroying rather than wealth-enhancing. Cost savings, justified by illusory economies of scale, become necessary for the acquisition to pay for itself; costs must be quickly reduced to show that the merger has the “synergistic” potential promised to Wall Street. Instead of investing in a valued property or building new capabilities, managers concentrate on reducing the cost of what was done before in order to pay for the acquisition. They place relatively less value on their workers as a part of the company, despite rhetoric to the contrary.

8. Be cautious about outsourcing
With the onslaught of reverse auctions and the flood of component parts from overseas, a lot of people are talking about the advantages of outsourcing. Unfortunately, they may not have thought the matter through.

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Good, reliable suppliers are always a blessing and it pays to cooperate with them and to fully utilize their strengths. However, a company that farms out all of its proprietary capabilities may sow the seeds for its own ultimate destruction. What remains may be too simplistic and too easily duplicated. The bankruptcy of one-time pacesetter Schwinn Bicycle, after extensive outsourcing to Asia, provides a good example. If a company outsources its important competitive strengths, rather than building upon them, the company compromises its future reason for existence.

9. Ask the same question of many people
Successful directors are rarely absolutists and do not claim to be quick learners. They have to think about things for a while and they appreciate different perspectives. Successful directors have an appreciation of what they do not know. Therefore, they need multiple interpretations.

10. Remain as a helper in the background
Directors do not represent the company. They have no official role other than to provide advice and counsel to the management team on behalf of the shareholders, whom they do represent.
Directors can be most helpful if they are available when needed, candid in their observations, true to the mission of the company and appreciative of the difficult role managers have in this era of intense global competition. They may have a good idea but, if they are smart, they will not take credit for it. A good director has a lot in common with John the Baptist—firmly grounded in what is important, but appreciative of more essential roles.
Once in a while, directors have to make a difficult call. When that happens, the task will be made easier by humility, study, prayer, and a sense of obligation.
Good luck to all.

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