The Johnsonville Sausage Co. (A)

Ralph Stayer hung up the phone and leaned back in his chair, deep in thought. One of Johnsonville Sausage's private label customers—Palmer Sausage—was considering a huge increase in its Johnsonville purchases. In fact, the company was talking about placing an order that, if accepted, would account for 25% of Johnsonville's annual sales volume. Ralph wondered how he should react.

The Business

The Johnsonville Sausage Co. was based in Johnsonville, Wisconsin, a small town about 60 miles north of Milwaukee. In 1945, when Ralph's parents purchased it, the company was a rural meat market—a family home with a storefront, a sausage kitchen, and a slaughter shed and smokehouse out back. The Stayers opened retail food stores between 1946 and 1952. Mr. Stayer bought livestock from local suppliers, slaughtered the animals, and sold meat in the three retail stores. He also made fresh sausage, which had acquired an excellent reputation in the area. He managed these stores, and Mrs. Stayer kept the books for the business.

When Ralph graduated from Notre Dame in 1965 with a bachelor's degree in business, he and his father took a hard look at Johnsonville's wholesale and retail operations. The wholesale business looked more promising and the Stayers decided to focus their efforts on building this segment of the business. Ralph built the company's wholesale business to $4 million in sales in 1975, $15 million in 1980, and $50 million in 1985. Between 1980 and 1985, return on equity climbed from 18% to 27%, and the debt-to-equity ratio hovered between 55% and 65%. The company had become a business of well over 500 employees. Ralph assumed most of the day-to-day decision-making authority for the wholesale business in the early 1970s, and was officially named president in 1978.

Products

Johnsonville Sausage's product line consisted of three types of sausage, which in total accounted for approximately 120 different items:

Professor Michael J. Roberts prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Fresh sausage Made from freshly butchered pork and beef cuts. Popular fresh sausage products included bratwurst, Italian sausage, breakfast links and patties, and kielbasa. Fresh products had a shelf life of approximately three weeks.

Smoked sausage A sausage made in the same manner as a fresh sausage, but to which nitrates and nitrites were added as a "cure." The sausage was then cooked for two to four hours in a hot oven with smoldering wood chips to impart a smoked flavor. Smoked sausage had a shelf life of approximately two months.

Semi-dry sausage Semi-dry sausage, also called summer or slicing sausage, was made like a smoked sausage but was cooked for three or four days. It was typically much larger than an average sausage and could be sliced like a salami. Semi-dry sausage had a shelf life of at least four months.

Product varieties within each of these three categories were created by varying the spices, the link length, and the casing.

Production

All sausage began as a combination of beef and pork cuts. Live hogs were purchased weekly, and they were slaughtered daily at the company's slaughterhouse in Watertown, Wisconsin. The butchered pork was shipped daily in 2,000-pound bins to the Johnsonville plants.

The processing plants ran on a two-shift basis. Fresh meat was delivered to the plant by 10:00 p.m., when the first shift began to turn this meat into sausage filler: meat was ground and spices and flavorings added. At 6:00 a.m., the second shift arrived and began making sausages by stuffing casings with this mixture.

- The sausage meat was emptied into a large hopper and was extruded by machine into the casing.
- For fresh sausage, the links were then placed by hand on styrofoam trays, flash frozen, wrapped in cellophane packages, and packed in boxes to be shipped.
- For smoked or semi-dry sausage, the links were placed in the smokehouse and cooked or smoked for a time with a seasoned wood.

Virtually all of this process was carried out in a refrigerated environment. The process was somewhat capital intensive since large, mechanized equipment was used to grind the meat, stuff the sausage, and freeze the links. The average industry cost breakdown of a pound of sausage was as follows:

raw materials	58%
direct labor	4
manufacturing overhead	20
sales and marketing	9
warehouse/distribution	3
contribution to corporate overhead and profit	6
TOTAL	100%

Workers tested samples of each product for fat, protein, and moisture content and reported the results to the USDA. Sausage production was typically finished by 3:00 or 4:00 p.m., a scant 24 hours after the hog had been butchered.

Inventory was kept at a minimum—two days or so—and all products were made in response to customer orders. During the summer months, fresh sausage was extremely popular, particularly the bratwurst for which the company was famous in Wisconsin.

There were significant fluctuations in demand, due to both seasonal variations and the impact of the company's own promotion and marketing efforts. To deal with these fluctuations, Johnsonville's work force was flexible and could work more or less than a 40-hour standard week, as needed. In addition, part-time or seasonal workers were hired during the busy summer months. From this pool, employees could select workers to fill full-time openings.

Johnsonville built a new plant in 1978, adjacent to its older facility. The new plant was used only for fresh products; the old factory was used strictly for smoked and semi-dry products.

Sales and Distribution

Johnsonville relied on a combination of brokers and its own direct sales force to sell its product. The firm employed 25 salespeople in 1985 and used food brokers outside Wisconsin. It used part-time "demonstrators" to cook and distribute free samples of product in retail stores. It began print advertising in 1975. Johnsonville also worked with stores to develop promotions, which typically included discounts on the prices of certain products as well as co-op advertising.

Fresh bratwurst was the product most responsible for Johnsonville's growth; "brats" were sold at the Milwaukee Brewers' stadium and were extremely popular. In fact, several annual polls of sportswriters and broadcasters revealed that Johnsonville's bratwurst was the favorite "stadium food" available anywhere:

> Bratwurst is one of the passions that consumes, and is consumed by, Bob Costas [NBC sportscaster]. Name a ballpark, and Costas will tell you the best item on the menu. . . . And when it comes to ballpark food, no other stadium occupies a more hallowed spot in Costas' heart, on his palate or in his stomach, than Milwaukee's County Stadium. "The single best ballpark item anywhere, at any ballpark, hands down, is the bratwurst with the sauerkraut and red sauce, at County Stadium," he said, "It's not even close.[1]

Markets

In its early years, Johnsonville served the local area through its retail outlets. It started wholesaling when Ralph began selling to other stores in 1965 and added some other jobbers between 1968 and 1972. Once Ralph signed an outlet as an account, jobbers took weekly orders for the products. In 1978, the company opened its new production facility and began serving the state of Indiana; Ralph's sister Launa was the sales representative for that state.

As time went on, the company continued to expand its distribution both within and outside the state. Under Ralph's direction, Johnsonville expanded to Iowa, Indiana, Illinois,

[1] *Milwaukee Journal*, July 21, 1985, p. 6.

Minnesota, and several other neighboring states. Meanwhile, the firm's market position in Wisconsin continued to strengthen. Its share of the bratwurst market in the greater Milwaukee market rose from 7% in 1978 to 46% in 1985. The company's Italian sausage was number two in this market, and its breakfast sausage ranked number four.

Management

As the company grew, it underwent a series of changes. Ralph described his early approach to managing the business:

> I ran the business from the sausage stuffer. I lived right on the shop floor, making sausage at the same time I was making all the decisions about purchasing, production scheduling, pricing, and advertising. I called on our major accounts.
>
> We had some office help to handle the payroll and receivables and payables. But I made all the decisions. As the company grew, I did hire a financial person and a sales manager. I still made all the decisions and let them handle the implementation details.

In 1980, however, Ralph began to feel uncomfortable with the business and the way in which he was managing it:

> I was fed up with the business. The quality of our product was slipping and no one seemed to care. I had always been proud of the fact that people seemed to enjoy their jobs and took pride in their work. But that seemed to change. People were careless—equipment was being poorly cared for, and bad product was making its way into the market. We did an attitude survey, and general morale was just even with the national average.
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> One incident particularly sticks in my mind. I'd hired someone early on, who was very competent. Then one day it struck me that he was just a soldier, carrying out my orders. I tried to get him to take more responsibility, but he couldn't; I'd ruined him. A few years of my style had beaten the independence out of him. I vowed I'd never do that again to a man.

During the time that Ralph was attempting to work through his thoughts and feelings about the business, he happened to hear a lecture by a professor from the University of Wisconsin. Dr. Lee Thayer was addressing how managers could change their philosophy and style of management. Thayer, who began working with Ralph, described the process:

> It was a long, slow process. The new philosophy had several dimensions.

- First, performance is key. And in a well-developed system, there is no conflict between what is best for the company and what's best for the individual.
- The second element is the idea that people do need help to accomplish their objectives, and that *this* is the job of management. We can help them by defining very carefully what their job is, defining explicitly what the performance standards are, and giving them the resources they need.

Thayer described the change process at Johnsonville:

> The first task was to develop a new model of managerial performance in Ralph Stayer's mind. There were several elements to the process. First, he participated in several seminars where we reviewed the new philosophy. Next, he would call me frequently with questions regarding particular decisions that had to be made. We discussed how these issues should be handled if we wanted to be true to the philosophy we were trying to implement. It was very difficult work. As much as Ralph wanted to change, it was still difficult to do.

Ralph described Thayer's role as vital in this organizational transition. He helped him understand his own role as a leader and the importance of that role to the organization. Even more important, he was a sounding board for working through specific issues and problems. Said Ralph: "He was an objective voice that could help us see when we were slipping back toward our old ways. We wouldn't be where we are today without him."

Ralph spoke about how he had come to view his job:

> My first task is a developer of people: our organization's "members." I spend a lot of time with people in the organization just talking things through. I don't tell them what to do anymore; I send them out to make their own decisions. If two people come to me—say manufacturing and marketing—to resolve a dispute, I send them back out; I'm not paying them to push tough decisions up to me; I'm paying them to think.
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> My job is as a coach, a supporter, a resource. I'm here to help them do their jobs better. I've figured out the few key things I need to know and don't bother with the rest. I'm proud of the fact that there are a lot of details about the business that I just don't know—advertising and promotion plans, for example.
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> We have a motto here that "Your job is to eliminate your job!" By that, we mean that a manager should delegate his responsibility and develop the capability of his people to work together to such an extent that his existing job virtually disappears—it has been delegated to those who work with him or her. Of course, that person's job continues to evolve as the people they work with delegate new responsibilities to them.
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> Whenever I see a problem, I look at myself, not "them." First, I assume that if people aren't achieving the performance results we've decided upon, that some of the problem is my fault—I'm not creating the right environment or giving them the kind of support they need. I need to figure out what part of the problem I am, and how I can change to eliminate it.
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> It's my job to ask questions, to surface and describe issues, and to create an environment where all of the relevant parties can discuss these issues.

The Transition

The Johnsonville Philosophy

Ralph regarded the change in philosophy as the most important change at Johnsonville. The new philosophy included a deep moral commitment to the individual. The primary objective was to make *people* better, not to make the business better. Ralph spoke about this:

> We have gone from a company where I made all of the decisions to one in which responsibility for decisions is distributed to the area best-suited to make them. Rather than one entrepreneur on top, we want an organization where everyone is an entrepreneur, where each person is the instrument of his or her own destiny.
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> We are on the leading edge of developing a far better way to live and work together. The system builds on itself. As people grow, opportunities for sales and profits grow, which in turn provides more opportunities for people to grow.
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> The key is that *people see Johnsonville as a means to their ends, not vice-versa* We are not the means to the end of profit. It's the other way around: profit is the means to our ends. Profit is not unimportant. It is the seed corn that makes everything else work. Our increase in profits has allowed us to increase our investments in the business and increase the compensation for our people at the same time. This has all occurred in a mature, consolidating industry where both profit margins and compensation have been declining overall.
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> The first step then, is getting together and deciding what our ends are.
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> We begin at a fairly high level of abstraction: clearly, we all want job security, increasing compensation, and a rewarding job. We have attacked each of these objectives, thinking about each one in more detail.
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> Job security comes from customer demand for our product. It is everyone's responsibility to make a quality product, to innovate and to think about the future. The key here is to be clear about what our performance objectives are and how we are meeting them.
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> Compensation is the bottom line in this company, not profit. We will work to make this as big as we can. The smarter we work, the more we satisfy customers, and the bigger the payoff. Job security and compensation will both increase.
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> Finally, the job should be rewarding. Work is a very large part of our lives—all of our lives. It provides the things we want for ourselves and our families. But if we cannot make our work lives more fulfilling, more challenging, more rewarding—more fun—then we're all losers in the game of life. We spend more of our waking hours in our jobs than in any other single thing in life. If all we had to show for it was a paycheck, we would be poor indeed.

> The beauty of this philosophy and our objectives is that they all fit together—there is no conflict in achieving these goals. That is because they all revolve around performance.

Structure

As the organization's structure evolved, Ralph emphasized allocating responsibility properly: "deciding who owns the problem." As an example, customer letters of complaint or praise were typically directed to line workers. Complaints about too much salt or a "flavor pocket" (i.e., all the spices in one bite of sausage), were routed to the employees in the meat-grinding room who added the spices. Complaints about tough or split casings went to the sausage stuffers. Workers wrote customers letters explaining the cause of the problem, outlining the steps that were being taken to avoid it, and apologizing for the inconvenience. Employees could send coupons for free product to such customers.

During the early stages of the organization's transition, Ralph found that some individuals at Johnsonville were unable to accept the kind of responsibility that was required. Ralph brought in new people to the three key positions that reported to him. These individuals had considerable experience in their respective functions. Moreover, Ralph had screened them carefully to ensure that they would enthusiastically embrace the firm's philosophy.

Ralph hired Bob Salzwedel from a CPA firm in 1981 to manage the finance function. His responsibilities included acquisitions, cost and financial accounting, accounts credit and collections, and data processing. Bob felt that the job of the finance area was to provide people with the information that they needed to run the operation themselves. Thus, billing and credit were placed under the sales function, and cost accounting under manufacturing. In Ralph Stayer's words, "We do two things here—make sausage and sell it. They are the two line functions, and as close as possible to 100% of what we do should fall under one of these two areas. All support functions—including me—are here to serve these two functions. We work for them."

Dissatisfied with the way his 1980 hire was managing the manufacturing organization, Ralph let him go and hired Russ Wiverstad in May of 1982. Russ had been with Oscar Mayer for 30 years, rising to a plant manager position in which he was responsible for 700 employees. Russ talked about why he had left Oscar Mayer and joined Johnsonville:

> My job at Oscar Mayer was essentially the enforcement of company policy—policy doesn't exist unless it's enforced. They had standards based on time and motion studies, and if a group wasn't up to par, it was my job to yell at the supervisor. I got sick of it.

Russ commented on the changes that had transpired since he joined Johnsonville:

> When I joined the company, Ralph was making all of the day-to-day operating decisions in the manufacturing area: ordering, scheduling and the like. It took a little while for Ralph to develop trust and confidence in my abilities, but once he did, he delegated a lot of responsibility to me. Over the years, he's become even less involved in the day-to-day operations. Our relationship works on the principle that it's my job to keep him informed, not his job to ask me the right questions. One factor that allowed our working relationship to evolve so well was that Ralph didn't *have* to delegate. He was doing it out of choice, not necessity. So, it could happen slowly, at a pace he was comfortable with, and that let him

> develop confidence in me. As Ralph delegated to me, I delegated to my subordinates. Where all the budgeting and planning used to be done by the vice president of Manufacturing, those numbers now come from the shop floor.

Originally Russ was responsible for Plant 1 (old), Plant 2 (new), and the slaughtering operation. Over the years, as new functions in the organization were articulated, Russ also assumed responsibility for engineering (developing plans for new plant and equipment); research and development (USDA testing, packaging, product and process development); purchasing (buying meat, spices, and packaging); and, personnel development (education and training).

Ralph hired Mike Roller in mid-1984 to replace a 1981 hire, who after an unsuccessful shift in marketing strategy, had resigned in late 1983. It fell upon Mike to reorganize sales and marketing operations in order to set the stage for further growth and development. The company's first formal marketing plan was developed, including volume and expense budgets that the line managers had developed. Information systems were established to monitor actual results against this plan. Mike added a sales coordinator to eliminate coordination problems between sales and manufacturing; a food service director to direct the company's expansion into food service institutions; a marketing coordinator to implement the company's promotional activity (coupons, demonstrations, etc.); and a national account manager to begin developing Johnsonville's business with major national accounts.

Manufacturing

The supervisor position in the manufacturing area was eliminated. Each function—grinding, packing, stuffing, etc.—had a designated "lead person." Within a given function, workers worked as a team. They alternated specific jobs—e.g., a worker who picked sausages off a conveyor belt and placed them on a styrofoam tray switched jobs with a person who wrapped the sausage or who packed the wrapped trays in boxes. This system was one that the workers had proposed to help eliminate the routine of some of the jobs. It fit with the company's philosophy in a number of ways. If the workers had true responsibility for performance, then it was up to them to organize the line as they saw fit. Doing so increased their own enjoyment of their jobs and improved performance. Job switching had broadened the scope of workers' knowledge and skills. As a result, workers had come up with new ideas for organizing the work and for new equipment that would make them more productive.

Each Monday, production schedules for the coming week were developed by the plant coordinator. These schedules set daily production volumes. Required production targets then cascaded back to create production goals for each area (grinding, mixing, stuffing, packing, and so on).

Area leaders made a commitment to provide the next area in the production flow with the inputs they required to complete their tasks. Materials were weighed and their movement charted throughout the day. Thus, if there was a problem meeting the production target on a given day, the source of that problem was identified.

Daily production scheduling involved delicate trade-offs. For instance, it might be easiest for the grinding area to produce all the brat mixture in the morning, and all the slicing sausage mixture in the afternoon. But this approach might leave other steps in the production cycle—stuffing or packing, for instance—without the inputs they needed to work efficiently. To achieve efficiency overall, therefore, some areas had to work at less than peak efficiency in order to permit other areas to work more efficiently. One worker in the grinding area described how the system worked:

> Some days we do stuffing or packing a favor, some days they help us out. If we spent our time fighting with one another, we'd never get any work done.

The lead person' s responsibilities were not to supervise the other workers, but to collect data, help train new workers, and give workers the information and help they needed to improve their own performance.

A group of workers met each morning to taste a sample of the previous day's production and discuss any ideas on how the product could be improved. Manufacturing performance was evaluated against budget. On an annual basis, beginning each fall, two or three line workers from each area within manufacturing became part of a budget team, together with people from sales and accounting. Working with the sales force, the line workers developed a sales forecast for the coming 12 months, by product line. They then developed budgets and set goals for certain key measures, including:

- Labor efficiency (pounds of sausage per man-hour).
- Yield (pounds of meat used per pound of sausage produced).
- Labor cost (dollars of labor per pound of sausage).

Workers collected the data required to measure their progress toward these goals, and analyzed and posted results versus budget on a monthly basis. Daily figures for yield, efficiency, and costs were produced.

The capital budgeting process was part of this cycle as well. Line workers developed proposals for new capital equipment. They justified qualitatively why the purchase of the equipment was warranted and then performed a more complex financial analysis, estimating return on assets. Income-producing projects were judged against a 25% ROA (pretax) hurdle rate, whereas safety and quality-oriented investments were evaluated according to a less quantitative measure. During this process, the finance area was viewed as a resource to be used; it did not manage the budgeting process but provided service as needed to the line workers.

Personnel

As the organization placed more emphasis on individual responsibility, the personnel function changed dramatically. In 1980, Donna Schwefel, a secretary, had started the personnel department. It hired most of the direct labor, kept pay records, administered the benefit programs, and maintained other personnel records required by law. But Ralph felt that the personnel function should be a line responsibility: "The only difference between Johnsonville and its competitors is our people."

In practice, many of the typical personnel functions became the responsibility of "the line."

- Lori Lehmann, who packed on the bratwurst line, observed the frustration of new workers thrown on to the production line with no training or orientation. Lori suggested a training/orientation program for new hires. She was encouraged to develop a training/orientation guide for all the manufacturing workers in the new plant. Lori presented this program to all new employees.

- Lori also suggested that workers interview prospective hires. When this procedure proved successful, in early 1986, management eliminated personnel's role in hiring.

The performance review process was also removed from the personnel area. It worked as follows:

- Each individual worker developed his or her own job description, listing responsibilities, the performance objectives for each responsibility, and the standard measures along which performance would be judged.

- The individual and his or her supervisor had to agree on the job description and performance standards.

- Individuals updated their job descriptions whenever their responsibilities changed and, again, agreed on the changes with their supervisor.

- Individuals also measured their own performance, analyzed their deficiencies, and suggested ways in which they would improve.

- Individual workers met twice annually with their leader to review these results and agree on the performance evaluation. These meetings were supplemented with almost daily discussion about objectives and performance.

- Based on the semiannual reviews, leaders assigned workers points, from 1 to 100, for their performance. The points were then totalled on a companywide basis, and the bonus pool ("company performance share") was allocated in proportion to points earned.

The company did not have an employment security policy. Ralph explained:

> The best people—people who are really good at what they do—always have job security. To rely on the company to provide this, rather than one's self, is foolish. We provide an opportunity and environment where people can learn and become great; this is what the company can do.

The personnel function shifted its focus to the human development area. Terri Case, a local high school teacher, was hired in mid-1985 in response to a Johnsonville ad seeking an individual "committed to life-long learning." Ralph Stayer, as part of his emphasis on "people development," wanted Johnsonville to be a vehicle through which individuals could accomplish their own personal goals, whatever they might be. Every individual in the company was given an $80 educational allowance, to be spent in whatever manner they wished. Some took cooking or sewing classes; others flying lessons. Magazine subscriptions were another popular use for these funds. The company also had arranged for all workers to receive a free economics course, taught on plant premises by a local professor.

The hiring process also was unusual. In addition to the typical questions about prior experience, potential hires were asked:

- Why do you want to work for Johnsonville?
- How do you spend your leisure time?

- What would you like to be doing in five years?
- How do you define cooperation?
- How do your friends describe you?
- What do you have to offer a group?

In Terri's words, "If someone isn't sharp enough to write a well thought-out paragraph on why they want to work here, they are probably not qualified to handle the type of responsibility we give people."

Compensation

Before the transition, workers were paid strictly on an hourly basis, at a rate that was about equal to the local average. Hourly increases typically were granted once a year. In 1979, the company introduced a profit-sharing plan that contributed toward a worker's pension fund. Management viewed it as unsuccessful because it did not tie compensation to individual performance; it did not seem to influence worker motivation, perhaps because its effect was not immediate.

In 1982, the company instituted a policy of no across-the-board wage increases. Increases would be given only for an increase in responsibilities. Workers' responsibilities were traced via job descriptions, which were reviewed formally twice a year.

In addition to wages, workers received a company performance share, which was a function of both the firm's and the individual's performance. There were three "pools" to which a share of the company's profits was added semiannually:

- hourly workers

- salaried workers

- the three senior-level managers (not including Ralph Stayer)

Ralph described the philosophy behind the compensation system:

> To get great performance, it is necessary to build a system where only great performers can survive. Our compensation system is a good example. In the executive group, Russ, Bob and Mike split their bonus completely upon the basis of what they did to build people during the year. This same percentage was used to compute their share of a net worth incentive—they can each get an additional bonus of up to 5% of the company's annual increase in net worth.

Employees received bonus payments based on individual performance, as part of Johnsonville's company performance share (CPS). Since this plan was introduced, average payments to production workers had been as follows (individual payments had varied plus or minus 35%, depending on performance):

1982 - $200
1983 - $700
1984 - $350
1985 - $800

The 1985 payment represented 4% to 5% of the average worker's annual wage. Management hoped to increase this percentage to 25% over the next several years. Ralph gave his views on the compensation levels at Johnsonville:

> Our "average" wage has improved over the last five years, both with respect to our local area and the industry. Because we've grown so quickly, a relatively high proportion of our work force is new and hasn't had the chance to work their way up through responsibility and pay levels.
>
> But if you compare someone who has been here for two years with the average local employee, we've moved from about average to the eightieth percentile or so. Only workers in heavy industry represented by the big, national unions do much better.
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> With respect to the industry, we are below the national master union contract that binds Oscar Mayer and Hormel. Still, we've moved from about 50% of the national master contract level to 85% to 90% of that level. During a time that competitive pressures have forced them to decrease their wages, we've been able to *increase* ours.

Some workers were very enthusiastic about CPS. Typically, they had increased their responsibilities over the years and had received hourly increases as well, so they viewed the CPS as a true "bonus." Other workers, however, complained that they had not received any wage increase over the past three to four years. Most of these workers had failed to assume new responsibilities at Johnsonville. They felt that the CPS was a poor substitute for the annual wage increase that they had formerly enjoyed. In addition, workers seemed to think that there was little variation between the best and worst performers. The compensation system did seem to have broadened individuals' perspective on the company, however. People began to question Ralph Stayer, about the impact of acquisitions and capital investments on the company's performance and the CPS.

Research and Development

Before Johnsonville's transition, the research and development area was not formally delineated in the organization; Ralph worked on his own ideas. Now R&D was viewed as everyone's responsibility. One of the company's recent, and successful, new products, "Beer 'n Bratwurst," was developed by a team within the company. The bratwurst was made with beer, instead of water, to replicate the flavor that many brat fans achieved by soaking the product in beer. The idea came out of a brainstorming session held during summer 1984. Together with individuals from the sales and research areas, this team tested and refined the product, which was introduced six months later.

A similar process resulted in the company's ham and cheese sausage, a mild bratwurst containing bits of ham and cheese. Ralph Stayer was not even aware that the product was under development until he was presented with samples.

Systems and Controls

Johnsonville emphasized "self-control." In Ralph Stayer's words, "The notion of control systems is an illusion; the only, real control is when people control themselves." In line with the company's philosophy, individual performance was key to the achievement of both the individual's and the firm's goals. Thus, the control system began with great emphasis on describing responsibilities and performance targets at an individual level. Individual salespeople developed the budgets and forecasts to which they were willing to be held accountable. Manufacturing employees used these forecasts to develop budgets and production targets to which they agreed to be held accountable.

Out of these individual commitments, firmwide projections and budgets were developed. These budgets were used as a yardstick against actual performance and as a control on spending. Non-budgeted items over $500 had to be approved at the vice president level.

Subordinates were responsible for demonstrating their performance to their superiors, not vice-versa. There was great emphasis on monitoring one's own performance. Manufacturing workers collected the data to evaluate their own performance daily. Salesmen received weekly and monthly reports on their performance versus budget. It was viewed as the individual employee's job to analyze these data and understand them. If there was a shortfall compared with expectations, what was the cause? If plans were being exceeded, what lessons could be learned?

Workers did punch a time clock but did not punch out for lunch, and their hours were no longer tallied by accounting. It was each individual employee's responsibility to total his or her hours weekly.

Ralph described the issues the firm faced in developing its information and control systems:

> Traditional flows of information are totally inappropriate for what we are trying to accomplish. Traditional information systems transfer the problems away from those individuals that are best-suited to deal with them effectively. The key is to develop systems to push problems back to where they belong. We divide information into two types—history and control. Control data are developed to help each person or group control their own operations. They are generated and kept at the operational level. Historical information shows trends and overall performance, and flows to whoever is interested.

One example of the manner in which Johnsonville worked was a specific problem the firm had experienced with "leakers"—vacuum-packed plastic packages of sausages that "leaked" air back into the package, thereby shortening shelf life. One worker described how the problem would have been handled before the transition:

> Someone from Quality Assurance would have been measuring the total quantity of leakers, and when it reached a certain point, they would yell at the foreman and tell him to reduce the number of leakers and the guy wouldn't have a

> clue what to do about it, so he'd just yell at the people who worked for him. That's the whole reason you need a foreman, so you have someone to yell at when there's a problem.

The leaker problem, however, was handled very differently. A "Pride Team" of volunteers was formed to address the problem. This team of first-line workers, with the help of a manufacturing specialist, investigated the leakers and discovered four possible sources:

- The die, which punched out the plastic package;
- The plastic film, which was used for the plastic packages;
- The packaging machine, which actually shrink-wrapped the sausage; or
- The placement of the sausage in the wrapper.

Only this last cause was a human source of leakers; the rest were machine- or materials-related. The workers developed a set of priorities for attacking these problems, based on their analysis of the frequency with which each of these causes contributed to the leaker problem.

The workers attacked each problem, working with material suppliers, making adjustments to equipment or the manner in which it was used. Within two months, the machine/materials problems, which accounted for over 80% of the leakers, was completely eliminated. The team developed new practices for line workers, solving the worker-related leaker problems as well. As a final step in the program, representatives from the Pride Team visited retail outlets to educate them on how to handle and store the product once it had left the plant, in order to decrease problems caused at the store level. During this process, the workers collected, analyzed and posted the data every day to determine how they were progressing on the leaker problem.

Results to Date

Ralph Stayer was encouraged by the improvements in performance recorded in the past several years. Sales revenue per dollar of compensation doubled between 1983 and 1986. The ratio of complaints to complements received from customers declined from 10:1 to 1:1 in the same three-year period. Ralph also observed impressive strides in other areas, such as the percentage of trucks on-time and correct invoices.

Employee commitment to the new organizational philosophy was growing. When Ralph first began explaining the philosophy, many people were opposed to it, some charging that he was playing "mind-games" with them. Even though in 1986 some people still opposed the philosophy, the large majority was committed, and the trend continued for other employees to buy-in.

Although much responsibility at Johnsonville was now delegated to the functional units, some decisions still cut across these functions. Ralph described how he viewed such decisions:

> When we have an issue that involves several different areas, I try to get together the key functional managers and let them work on it. I'd rather not make a decision, but expose it to them, and let them decide and learn from it. I believe I have a certain responsibility to the shareholders—including myself—and if I thought a decision was endangering the economic health of the organization, I would veto it. But—so far at least—that hasn't happened.
>
> Basically, I don't want to rob the organization of the opportunity to learn.

> The greatest joy for me has been watching people take the program and run with it. Seeing people's expectations of themselves and of what they might become being lifted to levels that would not have been possible any other way.

The Palmer Sausage Decision

The employees of Palmer Sausage had gone out on strike in mid-1985, and the company had farmed out its production of sausage items to a number of subcontractors. Johnsonville had produced ring bologna and wieners for Palmer, and the products had sold so well that Palmer asked Johnsonville to continue making the product even after the strike was settled. Palmer sold these products outside the geographic regions in which Johnsonville competed.

In mid-1986, Ralph Stayer received a phone call from Palmer's vice president of manufacturing, informing him that Palmer was thinking of closing one of its midwestern plants and would consider giving the lion's share of the business to Johnsonville. As was standard practice in the industry, any contract for private label production would permit cancellation of the business with 30 days' notice.

Ralph described the thoughts that raced through his mind:

> On one hand, we would love to have the business. We make a 25% return on assets on this private label business—it is profitable for us. But in our last business plan, we decided that we did not want to push private label business over 15%; after that point, it would begin to compete for capital with the rest of our business. This order alone is for a dollar volume that will represent 25% of our sales.
>
> We are running at a very high capacity utilization now. In order to process this business, we will have to run two long shifts, six or seven days a week. [Johnsonville could not operate more than 18 hours per day because it was necessary to break down the equipment and clean it on a daily basis.] This will really push us to our limits. It could have a demoralizing impact on our own people and cause the quality of our own products to suffer.
>
> Longer term, it will force us to build another plant much sooner than we had anticipated. Suppose we build for this business and then they cancel our contract? Our return on that investment will drop dramatically, and we will have to lay off the workers we hired for this business.
>
> Ralph wondered what he should do.