**THE KING COMPANY BACKGROUND**

# The King Company experiences many of the difficulties common in today’s business climate. In response to declining sales, the company must transform itself from a strategy of expansion and high profit to one of cost containment and staff reductions.

# The case discusses the organization and provides details of the human resource department. Also presented are e-mails from various staff members. The e-mails identify specific problems that need to be addressed by the HR department and provides a look at King’s overall culture. You may find the tone of some e-mails to be unprofessional. This is a good lesson for us all--As much as we enjoy informality in the workplace, all documents and correspondence— including e-mails—can be retained and are discoverable in litigation. Managers must be cautious in their writing because inappropriate language may be impossible to defend in court.

**Employees In the Case:**

Amera, Argonta---Accounting employee

Andreas, Gary---employee on workers’ comp

Call, Jake---Compensation & Benefits Manager

Dean, Don---C.E.O.

Dugas, Karla---Benefits Coordinator

Folkner, Meg---Supervisor, CAD Design

Grant, Alan---Current HR Director

Honduras, Margo---Previous HR Director

Jones, Lyle---Production Employee

Madison, Charles---Senior V.P.

Petersen, Matt---Production Supervisor, Team 3

Planky, Burt---fishing buddy

Putt, Tonia---CAD Designer

Rey, Dave---Production Foreman

Sanders, Tomas---Design Manager

Scholl, Karmen---HRD Manager

Simms, Bertie---Designer

Smith, Mike---V.P.

Songun, Amy---Accounting Supervisor

Stone, Guy---Production Supervisor

Tu, Kevin---Staffing Manager

Varn, Juan---Safety & Security Manager

Warner, Salty---union promoter

White, Shaun---Employee Relations Manager

COMPANY BACKGROUND:

The King Company is a small manufacturing company located in a mid-sized city in the upper Midwest. King manufactures high-quality specialty components for the computer industry. The company was founded in 1994 by current CEO, Don Dean. Dean was a talented young engineer in Silicon Valley. When the industry hit the skids in the early 1990s, he found himself out the door with little more than an entrepreneurial spirit and a small severance. Dean left California, moved back to his home state and used his severance to finance The King Company, starting the company in small rented quarters in a nearly vacant strip mall. He brought in Cliff Madison early on as chief financial officer. Dean was smart enough to know that he had no head for figures, but Madison did. Madison was an old college buddy, a super accounting wiz, and somebody Dean could trust to squeeze as much mileage as possible out of his severance money. It was a good match. Madison managed the business, and Dean was the idea man and designer of the specialty components, patents of which were the backbone of King’s success. Today, the low-rent strip mall is a part of company history, and King employs 835 full-time workers in its own contemporary facility built in 2002.

So far, King has not been significantly affected by the latest downturn in the industry. Its market niche continues to be high-quality, specialized equipment. The company is proud that its products continue to be made in the United States and also proud of its ISO quality certification granted by the International Organization for Standardization. Dean believes this is what has kept his company in business while others in the industry shipped jobs offshore or went by the wayside.

King sells its own products and has a small customer base scattered throughout the United States and Asia, but this generates only a small percentage of King’s revenue. Eighty-three percent of King’s sales come from building original specialty components for one manufacturer. This has been a steady income source for King, but heavy reliance on one customer is a significant source of worry for King’s management team, especially because sales of finished products are down for this customer and cutbacks are expected. If the rumor proves true, King will not escape unscathed. Consequently, the push is on for belt-tightening in the organization.

King instituted a hiring freeze, and marketing and sales budgets were directed to increasing the company customer base. Canadian and European markets are being explored, and while there is some interest, there are no solid contracts. King employees are understandably jittery.

Though King remains non-union, three years ago the organization went through a difficult period of employee unrest. There were complaints of poor management, inconsistently enforced policies and unfair practices regarding job changes and movement of employees within the organization. Because of the company’s standing as a respected employer in the community, it was a significant public relations black eye when an anonymous employee wrote a scathing letter to the editor of the local paper. This brought in union organizers who distributed leaflets and circulated authorization cards. To address employee concerns, The King Company responded with management training and reorganization of lower-level supervisory positions. A companywide “Talk-to-the-Boss” program was implemented, allowing employees to bring issues to any level of management without fear of reprisal. It seemed to help. The authorization cards failed to generate enough interest for an election, and things settled down. Unrest, though, never goes away entirely. Employees became cynical about “Talk-to-the-Boss,” and “the union buzzards,” as Dean calls them, never completely went away.

Things have certainly changed for King from the old days of the store-front location and a handful of employees. Dean remains the CEO, but he no longer manages the day-to-day operations, spending time instead at his family’s summer retreat on the Maine coast or in the Caribbean during the winter months. Decision-making is primarily in the hands of Madison, who is now the organization’s senior vice president, and a second vice president, Mike Smith. Smith came to King eight years ago with an MBA/ HR concentration from TUI and a successful military career.

With a history that has known only growth and strong revenue, it will be a major culture change for King to respond to the eroding economy and a possible decline in sales. In addition to the hiring freeze, Madison directed managers to cut waste and improve productivity across the board. Employees were reminded that every department would be affected and that nothing was sacred.

### The Human Resources Department

 Margo Honduras was HR director at King for eight years before her departure in 2007. The official word was that she had taken early retirement to spend more time with her family, but what everyone really believed was that Smith finally got fed up and gave her the boot. Of course, there was the official retirement party where everyone said how much they would miss her, but really, most employees in the department raised a toast to her departure and gave a collective sigh of relief. Her management style—when she managed at all—was divisive. She had her favorites, especially Karla Dugas, King’s benefits coordinator, for whom no perks were ever too many. Consequently, the compensation and benefits staff fared well under Honduras because it was Dugas’s area. Other employees in the HR department found Honduras to be unfair and abrasive even on the best of days.

With approval from Madison and Smith, Honduras and compensation manager, Jake Call, had established a merit bonus plan early in Honduras’s tenure at King. Though Honduras continued to champion the bonus plan as a success in accomplishing objectives and controlling costs, it has been a bone of contention across the organization, particularly in the HR department. The bonus plan required everyone to have annual performance goals. Honduras allowed Call’s compensation and benefits staff to set their own goals, but for everyone else in the department, Honduras alone set the goals with no input from those expected to carry out the activities.

The result was hard feelings and perceived inequity that continues today. There is grumbling that even with Honduras’s departure, things never changed. Dugas still offloads most of her work on others and is never dependable for project completion, yet she and her staff members receive top-tier bonuses year after year. Even Call seems to look the other way. Other HR department employees feel their work is not supported by management and that there is little feedback on progress toward goals. For them, bonuses, if paid at all, are based on unknowns controlled arbitrarily by Call. As a result, the HR department is rife with animosity and there is little cooperation across functional areas. Certainly things couldn’t get worse.

When Honduras retired, Smith promoted Alan Grant, manager of safety and security, into the director’s position, even though he had only been with King for a year before his promotion. Though Grant had reported directly to Honduras, his good track record at safety and security kept him below the radar of many of the problems in the HR department. As manager of safety and security, he focused primarily on increasing wellness activities. Establishing an active wellness team across the organization, he became the most visible member of the HR department, and with his positive upbeat attitude, many employees thought of him as the organization’s “cheerleader.” Best of all, his management style was the polar opposite of Honduras’s. Where she micromanaged and criticized, Grant believed in encouragement and responsibility. Smith thought Grant would bring a breath of fresh air to the HR department, and he gave Grant free reign to make the changes necessary to turn the department around.

When Grant moved into Honduras’s old office, he set a big jar of candy on the desk and invited everyone to stop by and chat with him whenever they wanted. Of course, Dugas was first in the door.

### The King Company, Inc.

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|  | Vice Pres. Mike Smith |  | Sr. Vice Pres. Cliff Madison |  |
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|  | Operations |  | Human Resources Alan Grant |  | Finance |  | Sales and Marketing |
|  |  |
|  |  |  |  |  |  |
| Human Resource Development |  | Compensation and Benefits |  | Staffing |  | Safety and Security |  | Employee Relations |

HR Director: Alan Grant

HRD Manager: Karmen Scholl

Compensation and Benefits Manager: Jake Call

Benefits Coordinator: Karla Dugas

Staffing Manager: Kevin Tu

Safety and Security Manager: Juan Varn

Employee Relations Manager: Shaun White

### Current Situation

Three months ago, **Alan Grant, director of HR, resigned** unexpectedly because of a family emergency. Despite the hiring freeze, a quick but thorough selection process was conducted, **and you were hired** as the new director of human resources. You’ve come to King with an HR degree from a respected university and with several years of experience as an HR generalist in a large organization. This is an outstanding career opportunity for you. You will be a member of the management team, and this is a chance for you to make a real difference in the organization. Congratulations on your new position and welcome to The King Company.

It’s your first day on the job. You hang your diploma on the wall, arrange a few personal mementos on your desk and settle into Grant’s old chair. You notice his in-basket is overflowing. You reach for the top file, open the bulging folder and start to read the stack of e-mails Grant printed out before he left. You notice that the emails are numbered, with the oldest one first.

**Email 1:**

To: Mike Smith, Vice President

 Alan Grant, Director, HR

From: Charles Madison, Senior V. P.

It has come to my attention that our sales numbers were misrepresented for the last two quarters. A number of unconfirmed sales anticipated for January were pre-booked into our accounting system between September and December of last year. These sales were entered without signed purchase orders or confirmed contracts. Most of them did not come to fruition, and this significantly inflated our sales totals for the last fiscal year. As you know, pre-booking of sales without confirmation is a violation of company policy.

First, I want an immediate accounting of all bonuses paid to the sales staff. Any bonuses paid on fictitious orders must be returned to the company, and disciplinary action will follow for those involved.

Second, because our staffing forecast is based on sales numbers, this indicates that The King Company has a surplus of labor. The hiring freeze may not be sufficient.

**Email 2:**

To: Alan Grant, Director, HR

From: Charles Madison, Senior V.P.

Alan,

I know you have already put in place a hiring freeze, but considering the news that has come out of sales, we believe that it will not be enough. You are directed to design a comprehensive plan to reduce labor costs across the board. You should plan for a 10% reduction in labor force by the end of this fiscal year. We have scheduled a meeting with you in two weeks to go over your plan and finalize decisions.

**Email 3:**

To: All staff

From: Charles Madison, Senior V.P.

Like all of you, I have watched the ups and downs in our national economy, and I worry about reports of declining sales in our industry. The business news is greeted with increasing concern each time we hear of yet another company that moves jobs off-shore and shuts down its U.S. facilities. Throughout it all, King remains steadfast in our policy of American-made products, and it is the quality of our workforce that has garnered our success. Each of you is to be commended for the good work that you do.

However, we must recognize that business cannot be sustained today with policies of the past. We must be proactive and anticipate change. Though the company remains healthy, our revenue has been flat for the last two quarters, and sales projections indicate a downturn going into next year. This necessitates cost-saving measures throughout our organization. Mike Smith (V.P.) and I will be meeting with all department managers to determine specific goals and plans for the future. All departments will be involved.

With falling sales, there will be significant cuts in staffing expenses because our hiring freeze did not sufficiently reduce labor costs. We cannot continue to build and stockpile inventory without sales. Effective immediately, all areas of the organization must plan for a 10% reduction in costs. I know this will be a difficult time for all of you, but know that this is for the health of the organization and not a reflection of the quality of your work. As in the past, we will work together, and the good work that you do will sustain us during these difficult times.

**Email 4:**

To: Alan Grant, Director, HR

From: Jake Call, Compensation & Benefits Manager

Alan—

I am sending this on to you because I don’t know what to tell her. Do we have a policy on this?

Jake

Forwarded message:

To: Jake Call, Compensation & Benefits Manager

From: Karla Dugas, Benefits Coordinator

Hey Jake—

I just got back from vacation today, and I wish I could say I had a great time and was well-rested and ready to hit the ground running. But, unfortunately, I was sick for 10 days of my two-week vacation. What a bummer and a lousy way to burn up all my vacation time! Since I have unused sick time available, can I change the 10 days of vacation to 10 days of sick leave so I can take a vacation when I’m not sick? Thanks in advance for doing the paperwork for me!

**Email 5:**

To: Alan Grant, Director, HR

From: Shaun White, Employee Relations Manager

Hi Alan,

Hey, sorry to bring all these problems to you when I know you have your hands full with the pending staff reduction, but we had another issue with Guy Stone (Production Supervisor) on the production floor this week. You know he’s hot under the collar most of the time. He gets production out of his staff, but he certainly has issues as a supervisor. I don’t think he’s learned even one thing from all the management training Karmen’s HRD group has provided. He had a run-in with Lyle Jones (production employee) yesterday. I guess he and Lyle really got into it—a real shouting match. In front of the whole shop. Guy fired Lyle, marched him right over to his locker, dragged out all his personal stuff and hauled it out the front door. Granted, Lyle’s kind of a bad apple and having him gone might be for the best, but I had a call this morning from some junior lawyer at Ness, Terry and Smith saying he was representing Lyle in his employment lawsuit. I thought you’d want a heads up.

Hey, look at the bright side—one less person to downsize!

**Email 6:**

To: Karmen Scholl, HRD Manager

From: Alan Grant, Director, HR

Karmen,

As you know, upper management is looking for areas to cut costs. In light of Shaun’s memo regarding the termination of Lyle Jones, it looks like the supervisors aren’t getting much benefit from your management training program. I hate to be the bearer of bad news, but Charles Madison (Senior V.P.) has management training on the chopping block. If you want to save your training programs, you need to get a report to Charles that demonstrates a clear ROI for training expenditures. Better get to it ASAP before your whole department disappears.

**Email 7:**

To: Shaun White, Employee Relations Manager

From: Dave Rey, Production Foreman

Hey Shaun, I don’t know what’s the matter with people these days. The rumor mill is crazy, and I know everybody’s nervous about possible layoffs, but we’ve got some real problem employees down here on the production floor. Salty Warner and his gang are stirring things up with the unions again. He’s getting quite a following, and there’s a group that meets in the cafeteria at lunch and the talk is they are calling the union to get out here again with the authorization cards. Attitudes are terrible, production damage is up, and production’s hitting the skids. I’m trying to put a stop to it. I changed everybody’s lunch schedule to break up the group, and I transferred Salty to a different shift. Frankly, I’m looking forward to some good layoffs. You’d think they’d listen up and think about what’s good for them.

**Email 8:**

To: Shaun White, Employee Relations Manager

From: Dave Rey, Production Foreman

Hey Shaun.

Some guy in a suit was here today, said he’s legal counsel for the union. Gave me a bunch of lip service about switching around employee lunches. Said it was an unfair labor practice. I told him to get his fanny outta here. I’m the boss; I can make lunch schedules any way I want, and besides, we aren’t even a union shop. Can you believe the nerve of those guys? He also said something about your employee involvement teams, but I don’t know what he was talking about. He said he’ll be around to see you later. I just thought I’d give you a heads up. When do we start the layoffs?

**Email 9:**

To: Jake Call, Compensation & Benefits Manager

 Alan Grant, Director, HR

From: Karla Dugas, Benefits Coordinator

Hi Jake and Alan,

I’m forwarding this on to you. I don’t know how this happened, but it looks like we’ll have to do something about it. It must have happened while I was on vacation. Thanks a bunch.

Karla Dugas

Forwarded message:

To: Karla Dugas, Benefits Coordinator

From: Meg Folkner, Supervisor, CAD Design

Karla--

As you must be aware, Tonia Putt in CAD design went on approved family medical leave on the first of last month. Somebody in your department messed up the paperwork and put it through as a termination instead of FMLA leave. She should have continued to get her regular salary because King policy allows her to use sick leave and vacation pay under FMLA. Because it was a termination, though, her salary was cut off. She has direct deposit and didn’t even know it was cut off until her checks started bouncing. Now she has overdraft fees, she says her credit’s ruined, and her mortgage company is threatening foreclosure. She is hopping mad, and I don’t blame her. She wants the mix-up fixed right now. She wants all the fees reimbursed, and you need to do something about her credit score and her mortgage company. She says she’ll get an attorney if need be. It’s crazy. Why would anybody think she was terminated? She’s my best CAD designer!

**Email 10:**

To: Juan Varn, Manager, Safety and Security

Cc: Alan Grant, Director, HR

From: Matt Petersen, Production Supervisor, Team 3

Hey Juan—

You know we’ve got Gary Andreas out on workers’ comp for a back injury, but the scuttlebutt is that it’s not a King Company work injury. Burt Planky went fishing with Gary last weekend, and after a few beers, Gary tells Burt he hurt his back moving his sister’s refrigerator. The guys on the floor think it is a big joke. Seems everybody but management knows that old ankle injury that kept Gary off work a few years back was a motorcycle accident and not a pallet that fell in the warehouse. I suggest you cut off his workers’ comp and put him at the top of the reduction list.

**Email 11:**

To: All Employees

From: Charles Madison, Senior V.P.

 Mike Smith, V.P.

In light of the economic difficulties we are experiencing, the following actions will become effective immediately. In addition to the hiring freeze already in place, compensation paid to all hourly and salaried employees will remain at the current level until further notice. Accrual to the merit bonus system will end at the close of this quarter, and the bonus system will be eliminated at the end of this fiscal year. All travel expenditures will be strictly scrutinized and must be approved by Charles Madison (Senior V.P.). All equipment purchase orders will be delayed by 90 days and must then be approved by the Senior V.P.’s office. Tuition reimbursement is discontinued, effective today.

In light of the importance of health care and retirement savings to the well-being of employees, The King Company will, for the present time, continue its current level of employee health insurance coverage and King’s contributions to employee retirement accounts. We are hoping these efficiencies will get us through these difficult times and sincerely appreciate your understanding and cooperation.

**Email 12:**

To: Karla Dugas, Benefits Coordinator

From: Amy Songun, Accounting Supervisor

Hi Karla,

You know Argonta Amera in accounting has been taking MBA classes at the university using tuition reimbursement. She’s already enrolled in a class for this term on a program we approved last fall. We’ve paid her tuition reimbursement in the past and she told me yesterday she would be turning in another reimbursement form at the completion of this term, and she expects to be paid because she was enrolled before the cancellation of the policy. Her reimbursement is $1395. I’m assuming it’s ok.

**Email 13:**

To: Amy Songun, Accounting Supervisor

From: Karla Dugas, Benefits Coordinator

Re: Tuition reimbursement for Argota Amera

Sorry Amy. No can do! I checked with Charles Madison (Senior V.P.) and he said “No Way”! The reimbursement benefit has been cancelled effective immediately.

**Email 14:**

To: Karla Dugas, Benefits Coordinator

From: Amy Songun, Accounting Supervisor

Karla—

I passed your message on to Argonta and she was pretty huffy about it! She said Charles had approved Tomas Sanders’ reimbursement, and he’s in the same MBA class as she. You know Tomas, he’s the manager over in Design. Argonta said you couldn’t discriminate in benefits if one gets it, it has to be available equally to all. I don’t know where that comes from, but she acts like she knows everything since she’s been taking those classes.

**Email 15:**

To: Amy Songun, Accounting Supervisor

From: Karla Dugas, Benefits Coordinator

Re: Tuition reimbursement for Argonta Amera

Wow! Now Charles is hopping mad! He said he didn’t have to reimburse anybody after the policy had been cancelled. He said he’d pay her $500 and that’s all she’s going to get. She can take it or leave it. Besides, he said The King Company doesn’t need an MBA at her level in the company.

**Email 16:**

To: Karla Dugas, Benefits Coordinator

From: Amy Songun, Accounting Supervisor

Re: Tuition reimbursement for Argonta Amera

Charles is not the only one that’s mad. You should have seen Argonta! She said if her choice was to take it or leave it, she’d leave it. But, I don’t think we’ve heard the end of this.

**Email 17:**

To: Alan Grant, Director, HR

 Juan Varn, Manager Safety and Security

From: Mike Smith, Vice President

Re: Wellness Activities

I’ve gotten word from Charles Madison (Senior V.P.) that the budget committee is about to ax our wellness program. I know you both feel strongly about wellness, but it doesn’t seem appropriate in this climate to pay people for fitness activities or to stop smoking. You know Charles’ attitude has always been that wellness is just a lot of expensive fluff anyway and not the company’s responsibility. If you want to save the wellness program, you’ve got a hard sell. You need to convince the budget committee that there is a real return on investment for wellness activities.

Charles is also looking at health insurance coverage for nonsmokers only. Seems the company could save on premiums if our entire workforce was nonsmokers. He is considering giving our smokers 90 days to quit or lose their health insurance. Can we do that here in Michigan?

**Email 18:**

To: Alan Grant, Director, Human Resources

From: Shaun White, Employee Relations Manager

Re: Pending Lawsuit

Hi, Alan. It looks like we’ve got a bad one here. I received a letter from the law firm representing Bertie Simms. You remember Bertie; she’s that girl who used to work in Design. I thought she left The King Company to go back to school, but I guess not. Looks like she’s got a chip on her shoulder. Her attorney claims she reported sexual harassment twice, and nothing was done about it. In fact, he says that somebody in HR told her to stop complaining. I can’t imagine who would say such a thing, but looks like we’ve got to answer for it. He also claims when our HR people ignored her, she called our HR Answers hotline, and all she got was somebody with a strong accent she couldn’t understand and who didn’t help her at all.

I don’t expect this to amount to anything, but the attorney wants to meet with us. I suspect they’re trying to strong-arm us for a settlement. When are you available? We should keep this off V.P. Mike Smith’s desk if possible. Agree?

### In the HR’s Office:

You frown as you close the file and set it back on top of the in-basket. There is a lot of work to be done here. There may be more to The King Company than you thought.

As director, you must help resolve the organizational issues confronting The King Company and develop solutions for the issues facing the HR department.

Good Luck!

Source: The King Case is adapted from SHRM 2014 education documents.