Case 14.1 Tucker Knox Corporation[32]

Ed Leonard sat slumped behind his desk at Tucker Knox Corporation. It was 6 PM and everyone else had left for the day. Ed recalled the progress he had made over the last 4 years. He had joined TKC to help the company develop a new Automotive Design Department. In the first 2 years, he had designed and developed the new department and had helped to automate the production process to the point where new products were very competitive and profitable. The final year had been filled with political turmoil due to changes in top management.

A new challenge and a new set of goals were what Ed needed. He sat there at his desk staring at a phone call message from another company. Ed had been pursuing his personal goals with Tucker Knox, but felt that the phone message was the moment he had been waiting for. Ed had been planning a move away from Tucker Knox and this was his chance. Where did it all go wrong, he wondered.

COMPANY BACKGROUND

Tucker Knox Corporation is a world leader in keyboard design and manufacturing, supplying keyboards to computer "system" producers. Since 1981, TKC held the number one position in the market share (sales volume) of the capacitive switch keyboard design for private manufacturers. However, Tucker Knox is not just in competition with private keyboard manufacturers, it is also in competition with the capacitive keyboard manufacturing divisions of such "system" giants as IBM, Sherry, and Honeywell. The number one position was not easy to come by for a company that was founded by a retired corporate executive in a rented garage in 1969.

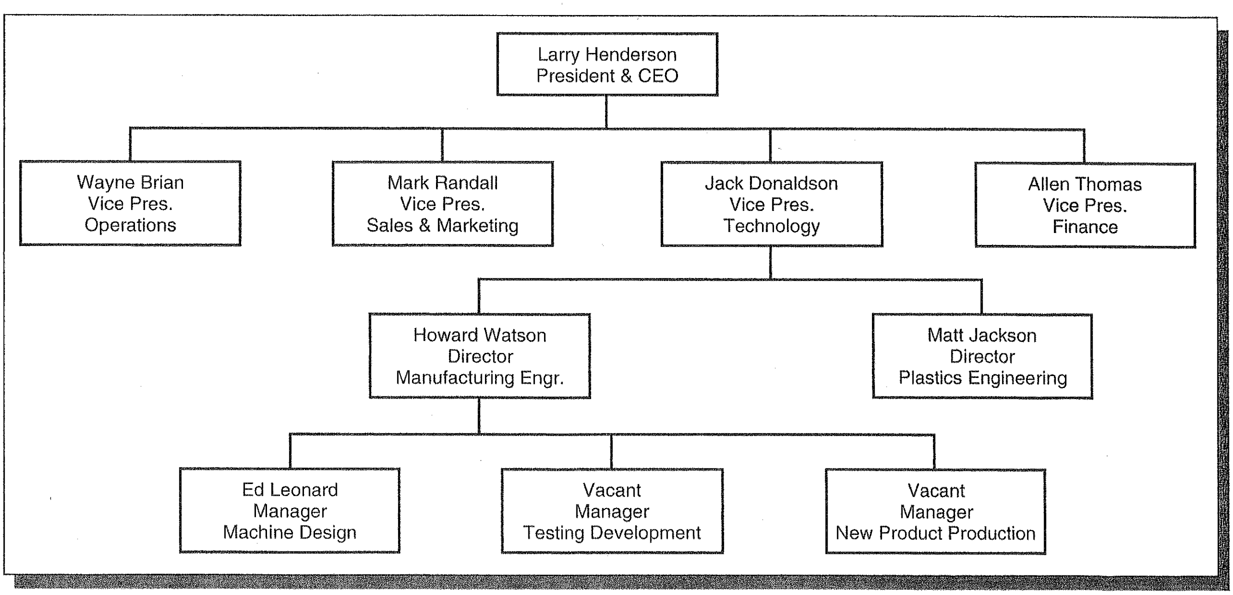
Larry Henderson, a strong-willed entrepreneur, pledged his personal assets, mortgaged his home, and called on five of his closest friends and business associates to build and grow the company into a world market leader with sales over $110,000,000 (see Exhibit 14.1 for the company's organization chart). Larry, president and CEO, had always clearly been the father figure for TKC and for all of those whom he had personally selected to join him at the senior management level. Like sons answering to their father, each of the senior vice presidents would always look to Larry for his "nod of the head" of approval or disapproval.

TUCKER KNOX GOALS

During an executive board meeting, the major topic of discussion was once again focused on the continual challenge to retain market share in an aggressive price-competitive market. "Our current challenge is (1) to compete in the world market with private and captive manufacturers, (2) have efficient manufacturing facilities in locations in the United States and overseas as required to meet price/cost demands, and (3) retain our corporate headquarters in the United States while the other manufacturers are moving their entire operations overseas." Larry started the meeting as he always had, by setting the issues directly on the table.

"These challenges mean that besides the usual corporate functions of marketing, sales, finance, and engineering, we will also have to provide those functions required to

Exhibit 14.1
Tucker Knox Corporation organization chart (early)



support our unique product design." In the keyboard business, the major area of product uniqueness is the design of the "piece parts" comprising the physical and mechanical portion of the keyboard. The unique features in each manufacturer's part design leads to very high labor costs for assembly. These unique designs lead to no readily available automated assembly machines on the market that will aid in reducing the high cost of assembly labor. "I've waited patiently for you boys to provide a solution to this world competition issue, and I trust that the solution will be presented today," continued Larry.

Much to Larry's pleasure, the skilled fatherly coaching would pay off once again as the decision was announced by Howard Watson that, "Beginning next year, I will develop a corporate automation engineering department. The new department will be responsible for the concept, design, manufacture, installation, and maintenance of all custom automation for TKC's five manufacturing facilities: three in the United States, one in Ireland, and one in Taiwan." Larry was pleased, not only with the decision, but because Howard had been the one to announce it. With this new advanced technology department, Larry Henderson envisioned keeping his company ranked number one in world keyboard sales.

DEVELOPMENT OF THE DEPARTMENT

Howard Watson, director of manufacturing engineering, worked closely with Larry in developing the automation engineering department. Howard not only knew of Larry's fondness for equipment but Howard was also eager to move up in TKC. Howard was a very aggressive manager with a positive attitude toward his job, traits that Larry liked in his management staff. Although his responsibilities were many, and growing, Howard had not yet selected a manager to develop and run the new department.

In fact, Howard had not filled either of the two vacant manager positions in his division. Howard was not a distrusting manager, but a great deal of convincing was always required before he would delegate control. Howard knew that for the automation engineering department to be successful he would need a manager with a strong technical background as well as a good understanding of the business.

The manager he hired would be very visible to the corporate staff, including Larry. The manager would eventually have to develop and "sell" his own cost saving automation programs to the vice presidents. There were several people within the manufacturing engineering department who had the qualifications to manage the new department, but none with the technical background and none with the desire to have such a visible position.

Through a friend of his at Tucker Knox, Ed Leonard learned of the decision to develop an automation engineering department. In June, Ed began discussing with Howard the need to build the new department and the potential of joining the TKC team. Ed was a mechanical engineer with an M.B.A. and both management and manufacturing experience who was seeking a new career challenge. Ed's engineering degree and experience easily satisfied the technical requirements of the position. However, his management skills were mainly in the project management area with some personnel management. Ed's managerial style was not as aggressive as Howard's, but his highly motivated, hard-work ethic and commitment to the project appeared to be the balance that Howard was looking for. In November, Ed joined the Tucker Knox team, not as the automation engineering department manager, but as a machine design engineer.

Howard wanted Ed to first prove his technical abilities in the seven-person machine design department that Howard had created as a beginning for the automation department. Ed would then progress through the step of department supervisor before moving to manager and further developing the department. This progression was important to Howard for two reasons. "The performance and success of this department is very important to the future of TKC. The employees in the department must function as a close-knit team. It is essential that each team member accept and be accepted by every other member. Therefore," Howard continued, "each person functions in their new position for a period of time to demonstrate their ability and to become accepted by the team."

The second reason for this slow progression (which Howard did not discuss) was Howard's nature of being very slow to delegate and relinquish authority. This play, being agreed upon by both Ed and Howard, was the beginning of a very strong management team that was about to develop within Tucker Knox. Within a year, Ed had proven his abilities and was promoted to manager of machine design.

Soon after Ed Leonard's arrival at Tucker Knox, the machine design team was divided in two by Howard's boss, Jack Donaldson. Jack was a relatively new member of the Tucker Knox team that Larry Henderson had brought in as the vice president of technology. Larry Henderson was planning on retiring in a few years and had tried to groom several candidates for taking over his position. Jack Donaldson was the latest of these candidates. In attempting to establish his "signature" on the Tucker Knox organization, Jack decided to reduce some of the power that Howard possessed within TKC by splitting the machine design team.

The multiple copy manufacturing group was split off from the R&D group and assigned to Matt Jackson, plastics engineering director. Matt was not only one of Howard's peers, but also his strongest rival.

Howard was not the type to take such change lightly. Howard disagreed with the decision not just because some of his organization was given to his strongest rival, but because the decision was not founded, in his opinion, on sound financial information. Howard and Ed worked closely developing cost-saving justification that Ed used to convince Larry Henderson and Jack Donaldson to recombine the multiple copy manufacturing group with the R&D group. By allowing Ed Leonard to present the data and plan to Jack, Howard once again demonstrated his ability to achieve his own goals through his skillful managing of people at all levels within the organization. He also put Ed Leonard in the middle of an internal political conflict.

GROWTH OF THE DEPARTMENT

Ed continued to build the machine design development into a 23-person automation engineering department through corporate organization streamlining. The test equipment department, responsible for designing and building custom test equipment, was merged with the automation group in January of year 3. The plastics engineering department, part of Matt's division, was merged into the automation department 6 months later. The plastics automation department, also part of Matt's division, was merged into the automation engineering department in December of the following year. This rapid growth of the automation engineering department was due to the efforts of both Ed and Howard. Ed provided the technical expertise for the department growth. He also resented the justifications for cost reduction, increased output, and increased response to the ever-changing customer demand in the market place for new keyboard designs.

New keyboard designs resulted in demands from the vice president that the production facilities have the automation in place at the same time the new keyboard design arrived in production. The automation was viewed as essential to provide the low production costs necessary to stay ahead of the competition. Howard's contribution to the team was not only his position as director, but more so his natural ability to understand people almost better than they understand themselves and his ability to use internal politics to achieve his goals.

Howard had the ability to know how to deal with each of his peers and superiors in a way that bordered on manipulation. His intent was to influence decisions by communicating with each person in a unique way, so that each person was comfortable with the decisions. Howard used his position and communication skills to present the development steps to Larry Henderson and Jack Donaldson for their approvals. He often presented the idea to Larry Henderson first, and then to Jack Donaldson, as a *fait accompli!*

CHANGE IN SENIOR MANAGEMENT

In June of year 2, a change took place in the vice president assignments. Jack Donaldson was promoted to a newly created position of senior vice president. But as the corporate staff members were expecting Howard and Ed to also be promoted, trouble arose in the Ireland plant.

The managing director of the Ireland plant was unexpectedly forced to retire for health reasons with no time to groom a replacement. The Ireland plant played a major role in the European market. Howard possessed the most in-depth knowledge of the manufacturing part of the plant because he was responsible for having set it up. Jack Donaldson, being a relatively new member of the Tucker Knox top management team (and possibly being displeased with Howard for his political maneuvers in the machine design department), decided to assign Howard to the Ireland plant.

Howard moved to Ireland in August of the second year. Jack Donaldson filled his own vacated position of vice president of technology with Sam Martin. Jack handpicked Sam from outside TKC so that he could begin building his own loyal management team. Sam came from a high-tech firm in California with the experience of high-volume manufacturing of custom products comprised of "standard piece parts." Sam also brought several years of experience in worldwide competition including the creation of two foreign production facilities.

During his first couple of months at TKC, Sam Martin made no changes, no promotions, and no attempts of any kind to fill the personnel vacancies. After acquainting himself with his new departments, Sam Martin recommended promoting Ed Leonard to the position left vacant by Howard, but was overruled by Jack Donaldson. There was much discussion between Jack and Sam over Ed Leonard's record of continued cost reductions and excellent performance of timely installations of new equipment in the critical manufacturing facilities. However, without giving any explanation for his decision, Jack Donaldson overruled Sam. Sam Martin was ordered to fill the vacancy from outside the company. (See Exhibit 14.2.)

CONCLUSION

Within the next few weeks it became apparent that Jack was trying to fill the vacant positions in the senior management staff with people who would be loyal to him. Another newcomer, Art Hodges, would be brought in to fill Howard Watson's position. While Jack was hand selecting his own team he made sure that Sam Martin actually did the hiring so that it would appear that the "team" was selecting its own members. Art had been the manager of a packaging design department for a scientific instruments company in Portland, Oregon, where he had worked since graduating from college 10 years previously. He did not have the years of management experience that Sam had and would therefore be easily manipulated by Jack.

Three weeks after arriving at TKC, Art Hodges (at the direction of Jack Donaldson) reassigned Ed Leonard to the company's largest manufacturing facility to set up a maintenance department. Ed was told by Jack and Art that after successfully completing the assignment he would be able to return to his own department. With virtually no experience

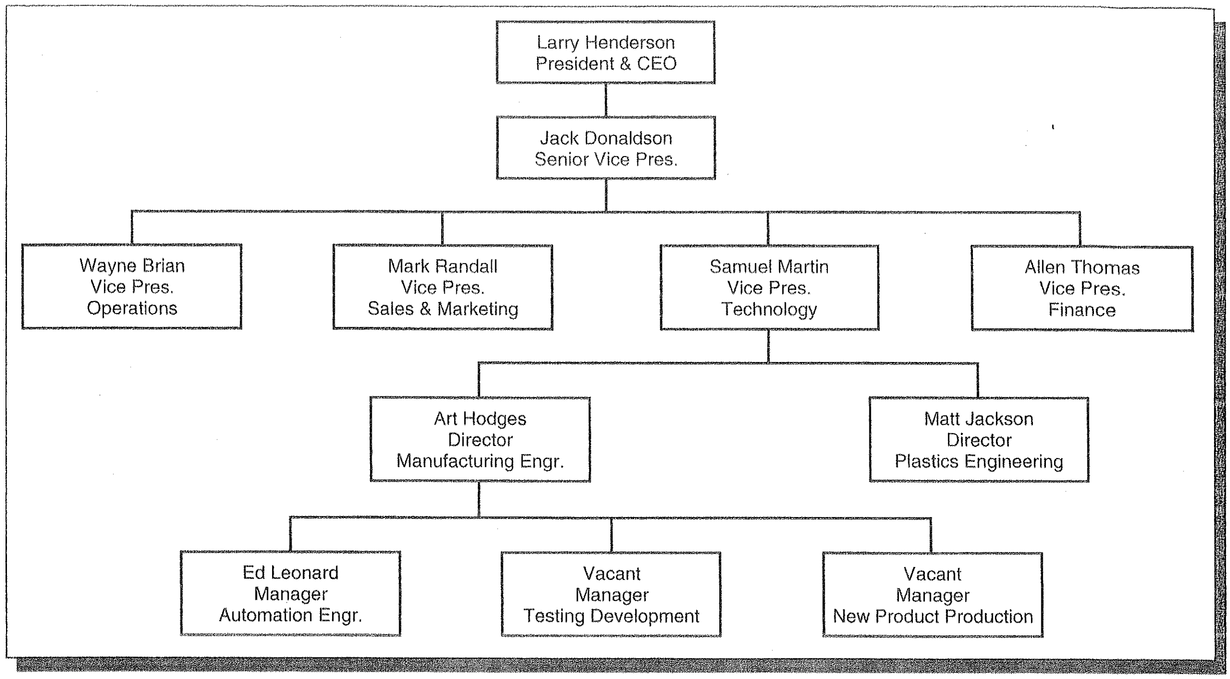


Exhibit 14.2
Tucker Knox Corporation organization chart (later)

at TKC, Art followed Jack's direction without question and 4 weeks later assigned Ed's automation engineering department to Matt Jackson. Within 3 months, Jack Donaldson had managed to rearrange the manufacturing engineering department and surround himself with managers that he had hand selected and who he felt would be loyal to him. Six months after being given the assignment to set up the maintenance department, Ed was brought back to the corporate facility and given 6 weeks to find another job within the company or be laid off.

Ed Leonard sat slumped behind his desk at the keyboard manufacturing company. It was late in the day and everyone had gone home. Ed recalled the progress he had made over the last few years as well as the lessons in management that he had so painfully been taught. Routine was not what Ed wanted and routine was certainly not what he got.

TUCKER KNOX CORPORATION FINANCIALS

Consolidated Statement of Income

	Year End June 30, (in thousands, except shares)
Net Sales	$111,655
Operation Costs and Expenses:	
Cost of sales	78,658
Research, development, and engineering	8,431
Selling	8,598
General and administrative	13,008
Plant consolidation	2,053
Total operating costs and expenses	110,748
Operating Income	907
Interest Income (Expense)—net	(66)
Income Before Income Taxes	841
Provision for Income Taxes	280
Net Income	$561
Net Income per Common Share	$.06
Weighted Average Shares Outstanding	$8,843,121

Liabilities and Shareholders' Equity

	(in thousands, except shares)
Current liabilities:	
Current portion of long-term obligations	$2,820
Accounts payable	5,246
Employee compensation and accrued vacation	1,844
Taxes other than income taxes	1,513
Commissions payable	1,469
Other	2,588
Total current liabilities	15,480
Long-term obligations, less current portion above	3,629
Deferred income taxes	2,949
Commitments and contingencies:	
Shareholders' equity	
Common stock, no par value	38,789
Retained earnings	26,596
Foreign currency translation adjustment	235
Total shareholders' equity	$65,620
	$87,678