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Separating the Studs from the Duds [in the Suds]

By Lamont Seckman

In 1982, an automobile assembly plant in Fremont, California operated by General Motors Corporation was closed. Challenged by a workforce plagued with poor productivity, low morale, and high turnover, GM decided pulling the plug was the best option. Three years later, the plant was re-opened as part of a Toyota-GM joint venture. Employing essentially the same work force and equipment, the plant thrived. Most analysts attribute the difference three years made to the management system brought to the venture by Toyota. **In other words, the system was the variable** – not the people.

Owners of wholesale operations typically tell me they employ the *best* people available in the market. In fact, I've had more than one experience where the owners of every competitive operation in an area each told me separately they had the best people in the market. While I'm not a mathematician by trade, something tells me this doesn't add up.

And then, of course, there is the occasional wholesaler who blames lackluster performance on his or her people. *We've just got to get better people in here!*

It is, of course, a worthy objective to obtain the best individuals the market will bear. The objective is also somewhat elusive. Identifying and keeping good people is one of the most challenging aspects of management. Not very many of us are good at judging the qualities that lead to good performance through reviews of job applications, resumes, and short interviews. And retaining talent once found is increasingly difficult in an era of reduced loyalty and relatively low unemployment. Most companies have somehow adapted to – and expect – higher turnover rates in certain positions regardless of continuing efforts to “find the best people”.

Company Performance Impacted by People – and Systems

As the GM example so notably illustrates, company performance can be significantly impacted by changes in the way people are managed and directed. The jump in output and quality in that manufacturing plant was mainly due to a management and information structure that directly and positively impacted employee morale and involvement. It didn’t have anything to do with “getting better people”.

Conversely, I have seen companies spin their wheels in attempts to improve the overall quality of their staff – only to see market performance suffer due to the distractions such attempts can cause.

The clear lesson from the GM example is performance strides can be obtained by re-focusing efforts more toward management systems improvement rather than on continuing, and somewhat vain, attempts to upgrade “people quality”. Of course, the two objectives are not mutually exclusive. They are, in fact, correlated. Arguably, improvements in one can – and do - lead to improvements in the other.

And it follows that poor management systems could be red flags indicative of the presence of poor managers. Management systems typically are impacted from the top down. I find the following paradox to be rather consistent. Lower-level managers usually have little ability to impact the management structure employed by the company and suffer most from its limitations. Because of this, they are usually more in touch with what its limitations are. Higher-level managers, conversely, have the ability (or should have the ability) to improve the structure. Because of their position, however, they are able to rise above many elements of the structure and therefore are not as in tune with the negative effects it has on the business.

Clearly, improving the level of frank communication between management levels in wholesale operations is warranted. Many solutions to company problems exist in the minds of its employees. It’s just that operations with hierarchical management structures and poor communications systems are rarely good at mining such information.

In this article, I have identified the most common and important management systems issues. These issues directly impact the quality of people wholesalers are able to attract, and the abilities of companies to retain and productively employ such individuals.

Unclear or Non-Existent Paths of Progression

This issue is often misunderstood and its negative impacts on company culture and organizational performance underestimated. The issue impacts wholesalers differently at various levels. At lower levels of the organization, it impacts productivity and turnover. Clearly, it is unrealistic to expect high percentages of entry-level employees to progress through the organizational ranks. Many people employed as merchandisers, drivers, and warehouse workers do not have the ability or desire to move up. Some could be happy and productive in such positions for years – without reasonable prospects for more on the horizon. And certainly, some employees with potential would never view employment at a beer distributor as anything more than temporary sources of income. But wholesalers miss opportunities to motivate certain percentages of its workforce when the road to improvement is murky, unmarked, or littered with roadblocks.

Think about it. *What are the natural paths of progression in your company?* Are merchandisers promoted into sales positions – or onto trucks as drivers? In companies that view merchandising as more of a customer service function with an operational focus, merchandisers are sometimes promoted to delivery drivers. But is this a proper path of progression? *Does this motivate the merchandising staff as much as potential positions in sales?* And what percentage of merchandisers has been promoted in the company? Rare occurrences usually have little motivational effect on productivity and turnover. *Have drivers been promoted?* If so, to where? *How does driver-sell fit in?* If owners and top managers of companies have an unclear understanding of the natural paths-of-progression in their own companies, think how foggy it must be for entry level employees.

As a group, **I find mid-level managers in companies with unclear paths-of-progression tend to be mediocre**. Many of these individuals have entered a certain "comfort zone" with respect to compensation and have no desire – nor do they see the need – to give more than 100% in the faint hope of advancing through the ranks. These managers are more focused on maintaining the status quo than taking the risks that lead to growth jumps or increased company performance. Owners should question whether such managers are inherently mediocre – or simply creations of mediocre management systems.

Higher-level managers in companies with poor paths of progression also tend toward the status-quo focus and can exhibit a certain yes-man quality. Not rocking the boat is the order of the day. **After all, without upward opportunities, these folks really just have to watch their back** – and success is measured simply by whether or not one's job was kept. Accordingly, family-owned businesses with multiple family members occupying top positions have even more reason to pay attention to the paths-of-progression issue.

Companies should arrive at sound, logical paths-of-progression through the organization. These paths should be clearly communicated to employees with training and performance assessment systems established to support such notions. And, oh yes, examples of individuals actually progressing through such paths certainly helps.

Breweries and compensation experts are increasingly promoting pay-for-performance concepts. I personally believe that sales positions in the future will be compensated less on commissions based on actual sales – and more on incentive-based methods that compensate for the executional behaviors that lead to sales.

Poorly Designed and/or Poorly Implemented Compensation Systems

I have experienced two red flags commonly indicative of ineffective compensation systems.

First, inadequate or inconsistent explanations of how the program even works. It is unfortunately not uncommon to receive different answers about a company's compensation plan depending on who you talk to. I can think of interviews I've conducted with wholesaler employees in which three different compensation models for sales people were described – none of which were, in fact, accurate. Typically, I find that if sales employees do not understand the compensation plan, it is not likely to be motivating their performance.

A second red flag goes up when you see low compliance with the paperwork necessary to generate variable compensation. After assembling a report at one company, I found only 60% of the sales staff had submitted timely documentation in support of a display incentive during one entire quarter.

Low compliance is indicative of a variable compensation plan that is poorly designed. Variable pay plans are ineffective as motivators if the targets are set too high – or if the dollar amounts associated with such targets are not meaningful. Conversely, targets set too low are not effective as motivators either and quickly become perceived as a part of base pay – and not rewards for exceptional performance. **The lesson here is effective variable pay systems tend to have a fairly narrow bandwidth of achievement**. If everybody is achieving 100% of potential variable pay, the system is not effective. And, if a few employees are receiving only a percentage of potential variable pay, the system is not effective. Clearly, companies should set a target achievement percentage for variable payouts – and then design, implement, and monitor the compensation system to drive performance to this target level.

Even well-designed programs can be ineffective if poorly implemented

It is all too common for performance objectives to be developed by management late in the pay period – after the motivational effects can be maximized. The higher performance pay is as a percentage of total income, the more important variable pay systems be designed well – and implemented timely, fairly, and consistently. Remember, poor compensation systems de-motivate to a greater degree than good compensation systems motivate.

Lack of Training and Poor Personnel Development

Training can be a morale – as well as a skills – issue. I have heard employees express that poor training is a sign of the importance management really places on its people. Regardless of what is said about the importance of people, when training is poor or nonexistent, employees recognize owners are not investing in them. And this has impacts on their commitment level and productivity.

Most distributors could benefit from a review of corporate in-house and out-sourced training plans. Too often, companies over-emphasize on-the-job training – without adequate assessments of specific training needs and an appreciation of potential outside resources for meeting those needs.

Infrequent and/or Poor Performance Appraisals

A key component of an effective training and development program is a thorough, and consistent, performance appraisal. Employees need to know on a consistent and timely basis how they are doing. Informal reviews should be conducted periodically and formal reviews should be completed at least annually. Often I find companies rely too much on compensation to address issues of employee satisfaction. **Owners sometimes pay lip service to the importance of their people, but then fail to commit** the management resources required to review and guide employees adequately. Remember, often a pat on the back from the right owner or manager can be worth more than hard dollars from a motivational standpoint. And more formal appraisal systems should be tied very much into the training, personnel development, and path-of-progression plans developed by the company.

Employee Turnover That is Too High – or Too Low

Most would expect turnover to be a problem only if it were too high. And certainly high turnover rates add hard costs to an operation (i.e. training, productivity losses, recruiting expenses, etc.). However, in many cases, I find turnover rates that are too low – at least in certain levels of the organization. In companies where even the poorest performers are rarely let go, complacency creeps into the company culture: nobody is in fear of their jobs! I believe in the concept of a "healthy" turnover rate - loosely defined as the rate where optimum productivity is achieved. Identifying the exact rate that drives maximum performance is, of course, impossible. But some **wholesalers would do themselves a favor to control turnover better**. Initiate turnover where it is needed, and improve management systems to reduce it everywhere else.

Summary

Do not take the wrong thing away from this article. Certainly, "getting the best people" is a worthy objective for product wholesalers and giving up entirely on this effort is not advised. However, the challenge of distribution, like many things in life, relates to the optimum use of resources. And wholesale management has only so much time and energy to spend on internal issues. Companies looking for the best return in performance - relative to effort expended - would do well to focus more on improving the structure by which employees are managed – rather than chasing the Holy Grail of "getting better people."

Ineffective systems for managing and motivating people are, in many instances, reflective of the presence of poor managers. This is, in fact, quite the chicken-or-the-egg issue. Which came first, the poor systems or the poor managers? This question need not be answered. To break the cycle, however, improve the quality of the systems used to attract, retain, manage, and motivate people. Improvements in these areas will naturally lead to an overall increase in the quality of individuals employed in the industry. During this time of consolidation and the creation of larger and more complicated operations, this should be greatly welcomed.