



## PERFORMANCE PAYS OFF

*How one company encourages employees to think like owners and rewards them with bonuses worth even 50% of their salaries.*

BY DOREEN REMMEN, CMA

**DO** the employees who work in your company's warehouse pressure the salespeople to sell more so they in turn can ship more products out?

The answer to this question is most often "no." But since we started a new program at NYF Corp., our warehouse employees can't seem to fulfill enough orders. We've seen explosive growth, with sales doubling over the past three years and increasing by 700% in our target markets during a downward-trending industrial environment.

So what secret do we hold at New Jersey-based NYF, a privately owned distributor of electronic hardware, assembly components, and mechanical fasteners? Turning employees' passion and power into results through teaming and gainsharing is what it's all about. Teaming and gainsharing have released the organization's creativity and have allowed it to use the knowledge, skills, flexibility, and drive of the employee base. Our efforts recently earned us New Jersey's prestigious Silver 2002 Governor's Award for Performance Excellence, the state equivalent of the national Malcolm Baldrige Award.

Here's a look at how we transformed our company and the challenges we faced.

## TEAMING

Forward-looking companies know the benefits of a team-based organization, but most underestimate the difficulty of transitioning to this business model, and few have enjoyed the success with teaming that NYF has achieved. Over the past eight years, NYF has evolved to a truly empowered team culture that promotes cooperation and the flexibility necessary to rapidly respond to changing

reduce its staff by approximately 50% and return the business to acceptable levels of profitability. The employees who left or were dismissed preferred the more territorial environment of a traditionally arranged selling organization.

Replacing the territorial environment are customer-specific teams and four functional ones. NYF has identified key customer groups that make up 88% of sales. Stakeholder customers (70%) are the largest customers and seek long-term relationships with us. Each of these customers has a team assigned to it. Power prospects, while representing only 1% of current sales because they buy from our competitors, have the potential to become stakeholder customers. Middle business customers (17%) are smaller businesses that purchase product lines complementary to those of the stakeholder customers. The remaining 12% of our customers are varied.

In addition to the customer teams, Quality, Distribution, Information Systems, and Finance are organized into functional teams, and cross-corporate, multifunctional Best Practice teams are in development. And, of course, the Leadership Team has embraced this model of



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conditions. Empowerment makes people want to work and work well. The empowered team model promotes initiative and innovation, eliminates passing customer requests around and around by encouraging decision making, and has led to explosive sales growth.

After studying the literature, the Leadership Team chose *The Wisdom of Teams* by Jon R. Katzenbach and Douglas K. Smith to guide us on this journey. Katzenbach and Smith warn that the transition typically requires an early period of turmoil from which many companies don't emerge. Thankfully, we survived.

We started the transition to teaming in 1994 when we eliminated separate functional departments in the front-office area. Long gone are the old sales, purchasing, and expediting departments and their narrowly defined roles. This significant early change allowed the company to

cooperation and flexibility for its own activities.

Each team member is required to support every other member and to develop individual competencies spanning all aspects of customer and supplier relationships. To do so, the teams meet frequently and interact constantly so each member is always informed of what's going on. If the primary account manager is absent or unavailable when the customer calls, another team member can provide immediate attention.

To facilitate working together, even the layout of the furniture minimizes barriers while respecting personal space. Plexiglas and windows create an open feeling, and there are lots of places to meet. To keep remote team members connected, we have videoconferencing capabilities and use them often.

The key to successful teaming at NYF, however, lies in

linking all human resource systems, technology solutions, process designs, and environmental considerations to the clearly stated goal of self-directed teams. A critical component to link these areas lies in Masterpack, the enterprise resource planning (ERP) system that provides all the information employees need to make decisions: Pricing, costing, inventory, and even the engineering designs are at their fingertips.

## MOTIVATING EMPLOYEES

The Leadership Team believes that true motivation must come from within the individual and focuses on creating an environment to release it. They encourage individuals to build their résumés and provide opportunities to expand their skills, such as working within and between teams to broaden their experience. The staff members set career and professional objectives, such as obtaining an advanced degree, with the Leadership Team. As employees build their résumés and assume roles requiring higher levels of technical competence, Leadership rewards employees with increases in base compensation.

Since motivation comes from within, NYF has a flat organizational structure, so there's no supervisory hierarchy tasked with inspiring employees. Instead of supervisors, employees have peers they can call on for advice and talent sharing. Being asked for advice by a peer is a strong personal motivator.

## PERFORMANCE MANAGEMENT SYSTEM: GAINSHARING

The role of the Leadership Team is to keep the focus on high performance as well as customer and business requirements. The centerpiece of NYF's performance management system is its gainsharing program, which we developed and implemented in 1998. Gainsharing, a system that includes a financial measurement and feedback system, monitors company performance and then distributes gains in the form of bonuses when appropriate. Except for the Leadership Team members, all full-time employees participate in this program.

The program is key to eliminating barriers to improved company performance. Thanks to this program, employees think like entrepreneurs and make daily decisions affecting company performance. They understand how their decisions affect company performance and are confident Leadership will honor these decisions.

Gainsharing combines features of 360-degree evaluation, open-book management, and, of course, profit sharing. The 360-degree evaluation involves getting input from co-workers and superiors from more than one team

## DOREEN REMMEN— SUPERSTAR



IT'S NO WONDER THAT IMA MEMBER DOREEN REMMEN earned a Certificate of Distinguished Performance on the 1992 Certified Management Accountant (CMA) exam, especially when you consider her track record at New Jersey-based NYF Corp.

She currently heads up sales and marketing as the vice president and also serves as CFO. Her career at NYF has been a steady climb up to that position. She began as controller, then moved to director of finance and operations. Next was vice president of operations and CFO before stepping up to her current position. Her accomplishments are impressive. With Remmen in a leadership role, the company experienced explosive sales growth as she led the sales force through a 45% increase in revenues in one year, which produced profits above industry benchmarks. She also negotiated a three-year, seven-figure agreement with a new customer, a deal that's expected to contribute significantly to the company's growth.

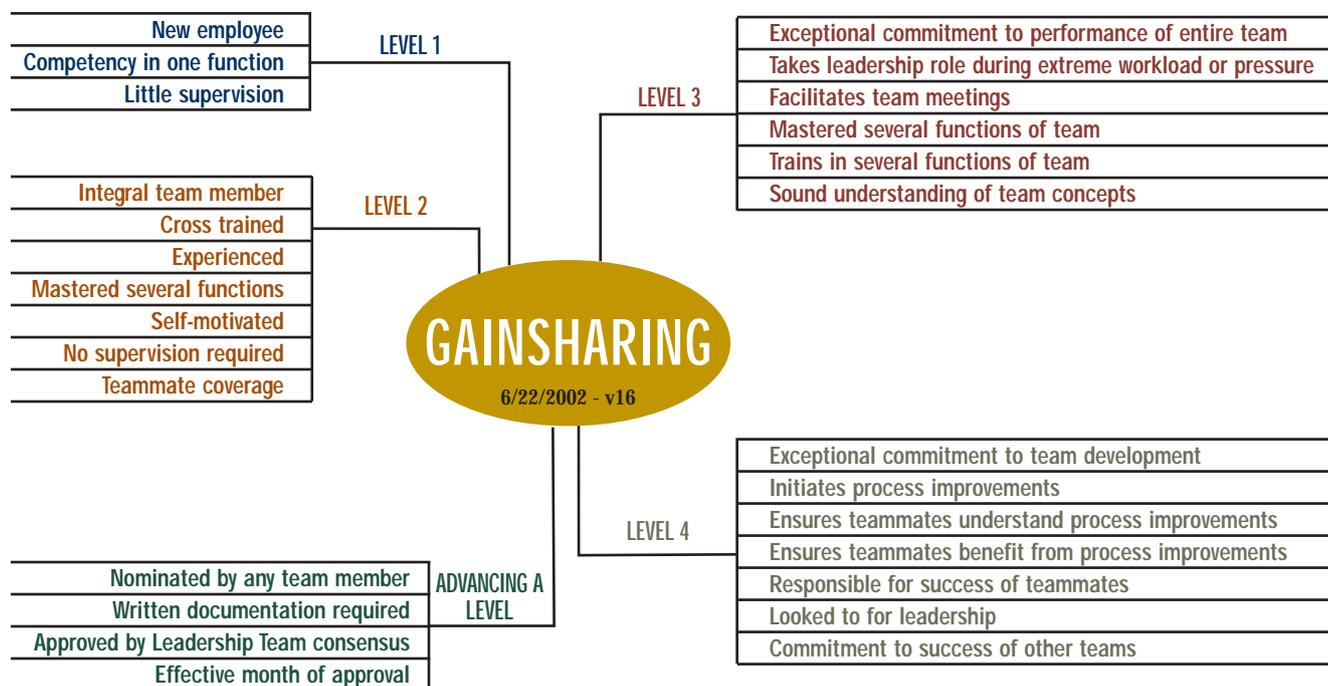
As director of finance and operations, she was responsible for the supply chain and warehousing and in that role visited major suppliers to evaluate capabilities and establish relationships. While she was controller, Doreen introduced budgeting, cash-flow forecasting, and the principles of activity-based costing (ABC).

With her background focused on continuous improvement, she's no stranger to introducing big changes to the company. In 1998, while Doreen was vice president, operations and CFO, she developed and implemented gainsharing, a company-wide, variable-pay incentive program (see accompanying article). After networking with colleagues, customers, business contacts, and even a consultant to research various incentive programs, Remmen determined that none of them would be suitable to the needs of NYF Corp. Her insight into the financial structure of NYF and its people coupled with her keen knowledge of management accounting provided her with a creative, out-of-the-box approach. Working with the Leadership Team, she ultimately came up with NYF's unique gainsharing program.

Once the company started seeing significant results, it was time to apply for the New Jersey Governor's Award for Performance Excellence. Remmen wrote the successful application that won the company the Silver 2002 Award, the highest award given that year.

Doreen and her husband Larry live in Ridgewood, N.J., where they enjoy spending their free time with their children Andrea, 23, Laura, 17, and Bryan 13.

Figure 1: NYF's Gainsharing Program



to give the employee a more holistic perspective on his/her performance. Employees receive continuous feedback from their peers in the close, interdependent team environment and ongoing coaching from Leadership Team members.

Open-book management involves sharing the revenues and cost figures with employees so that they can gauge the company's performance vs. the goal upon which their gainsharing compensation is based. Each month the controller releases a gainsharing "hurdle rate" representing budgeted expenses plus a reasonable return for the investors. Twenty percent of gross profit returned above this hurdle rate is placed into the gainsharing pool and distributed monthly. In true open-book style, employees see daily sales figures and know how they affect the top line, have pricing authority and supplier-negotiation responsibilities that affect gross margin, and are involved in hiring decisions and planning that affect operating expenses.

Employees, therefore, are acutely aware that adding new people increases the compensation expense factored into the gainsharing hurdle rate; it also increases the number of people dividing the gainsharing pool. The decision to increase staff is made jointly by the employee teams and Leadership.

To tap into information to make good decisions, every employee can use the ERP system, which is our technology backbone. For example, employees can access engineering drawings and sourcing information through it. When a customer calls and forgets if a part has a beveled edge or square edge, instead of losing that potential sale, our representative has the information at her fingertips, and the order can be taken and processed with no callbacks necessary. The primary users of our ERP system are, in fact, our sales and purchasing professionals because they're on the system all day taking and placing orders. The system's finance module collects and accounts for all of these transactions.

#### HOW EMPLOYEES ARE REWARDED

Sharing in the gainsharing pool is based on peer-to-peer evaluation with Leadership review. In implementing this program, we recognized that our company had an incredibly skilled and technically proficient employee base, but the transition to teams required changes in interpersonal, intrateam behavior. Financial participation in gainsharing is predicated on employees acquiring and demonstrating these new teaming skills as a personal competency. Figure 1 illustrates the levels and path to increasing an employee's share.

As you can see in Figure 1, an employee can advance to the next level by demonstrating both flexibility in role assignment and increased commitment to the team model. A new employee can advance to Level 2 by mastering several functions of the team's responsibilities in three ways: by being self-motivated, by requiring little or no supervision, and by being able to provide coverage during a teammate's absence.

Each employee has a number of shares in the gainsharing pool based on that employee's contribution to the team model. The employee's share of the pool is in proportion to his/her number of shares as compared to the total shares outstanding. The following chart shows an individual employee's allotment of the bonus pool:

<u>LEVEL</u>	<u>SHARES</u>
1	2
2	4
3	8
4	12

In its first full year of implementation, the gainsharing distribution totaled 7.3% of pooled salaries but in some cases represented 50% or more of an individual's salary, depending on base compensation (employees with low compensation and high shares were nicely rewarded).

## REAL RESULTS

The improvements cut across the entire company. This prime example from supply-chain management reflects the cost and process improvements of one very significant customer:

- ◆ A reduction in inventory from \$2.5 million to \$200,000.
- ◆ A reduction in lead time from 30 days to two days.
- ◆ A reduction in steps from 96 to six steps in the procurement process.
- ◆ A reduction in the number of suppliers from 50 to one (us).

Another example comes from Finance and IT. These functional teams have worked together to attain dramatic productivity improvements, and while sales have tripled since 1995, we've only added one person to a very lean finance department. Working together, the sales managers, IT, and Finance teams coordinated accounts receivable with customers to obtain electronic posting of credits and debits, which streamlined our processing time. We also instituted accounts payable and accounts receivable cross training.

## CHANGES AND CHALLENGES

As we got the message across that we were serious about teaming and valued the development of team skills, most employees began to think and feel like owners. And the morale improved visibly, correlating with an increase in sales and profitability that we've sustained over the four years that gainsharing has been in place. Peer pressure to do well, such as from the warehouse employees on the sales force, certainly worked in our favor.

In retrospect, I can report a few challenges associated with the gainsharing program. Designing a profit-sharing program that fit our company and our culture was the first obstacle. We considered many different models and ended up designing a unique plan that would work best for us. Another challenge is that the Leadership Team administers the program because we don't have an HR department. We could have been more effective if we had assigned someone to track the administrative details associated with the gainsharing program such as making sure nominations were processed quickly and people weren't overlooked.

Another challenge: Some employees don't demonstrate highly evolved team skills though they possess superior technical expertise, so these employees may not get the team recognition they feel they deserve. In some cases, the Leadership Team has had to meet with other teams to suggest that they reconsider a particular employee who was overlooked for a gainsharing increase.

Our current challenge is keeping the gainsharing program fresh and appealing. We're hoping to close on a big business opportunity that would give the program a monetary boost. We're also planning an anniversary program to provide employees with a look back at what the program has done and ahead at what it can do in the future.

## COMMITTED TO EXCELLENCE

Winning the Silver 2002 Governor's Award for Performance Excellence affirmed our passion for and commitment to excellence. But to stay competitive in today's global economy, we have to continually assess and reassess our performance as individuals, teams, and as a company to meet our clients' ever changing and ever increasing demands for excellence. With teaming and gainsharing, we can move boldly forward. ■

*Doreen Remmen, CMA, is vice president, sales and marketing, and CFO at NYF Corp. You can reach her at (201) 265-8770 or [Doreen@nyf.com](mailto:Doreen@nyf.com).*