Herman case

Business, Leadership

Companies" list in both 2008 and 2010. The three high-technologyorganizations selected for these lists were Microsoft, Cisco, andGoogle. Unlike most firms, especially those in mature industries and most of its office furniture rivals, Herman Miller had pursued a path distinctively marked by reinvention and renewal. This path had served it well over the decades. It survived theGreat Depressionearly in its history and multiple recessions in the 20th century In the early part of the 21st century, it recovered from the dot. Com bust.

In 201 2, Herman Miller once again was facing turbulent and uncertain economic conditions. Would its propensity for using innovation to reinvent and renew its business once again allow the company to flourish and grow? How far and how fast might the company be able to push its annual revenues above the 201 1 level of $1. 6 billion? COMPANY BACKGROUND Herman Miller's roots went back to 1905 and the Star Furniture Company, a manufacturer of traditionalistic bedroom suites in Zealand, Michigan. In 1909, it was renamed Michigan Star Furniture Company and hired Dirk Jan De Pre as a clerk.

De Pre, became president in 191 9 and four years later convinced his father-in-law, Herman Miller, to purchase the majority of hares; De Pre renamed the company Herman Miller Furniture Company in recognition of Millers support. In 1 927, De Pre committed himself to treating " all workers as individuals with special talents and potential. " This occurred after he visited thefamilyof a millwright who had died unexpectedly. During the visit, the widow read somepoetryUpon asking the widow who the poet was, De Pre was surprised to learn it was the millwright.

This led him to wonder whether the millwright was a worker who wrote poetry or a poet who worked as a millwright. This story was part of Herman Miller's corporateculture, which intended to generaterespectfor all employees and fueled the quest to tap the diversity of gifts and skills held by all. In 1 930, the United States was in the GreatDepressionand Herman Miller was in financial trouble. As De Pre was looking for a way to save the company, Gilbert Rhode, a designer from New York, approached him and told him about his designphilosophy.

Rhode then asked for an opportunity to design a bedroom suite for a fee of $1 , OHO. When De Pre reacted negatively to such a fee, Rhode suggested an alternative payment plan-? a 3 percent royalty on the furniture sold-? to which De Pre agreed, figuring that there as nothing to lose. A few weeks later, De Pre received the-first designs from Rhode. Again, he reacted negatively. In response, Rhode wrote De Pre a letter explaining his design philosophy: "[Horst,] utter simplicity: no surface enrichment, no carvings, no molding, [and second,] furniture should be anonymous.

People are Important, not furniture. Furniture should be useful" Rhodes designs were antithetical to traditional designs, but De Pre saw merit in them and set Herman Miller on a course of designing and selling furniture that reflected a way of life. In 1 942, Herman Miller produced its first office furniture-? a Gilbert Rhode sign referred to as the Executive Office Group. Rhode died two years later, and De Pre began a search for a new design leader. After reading an article in Life magazine " about designer George Nelson, De Pre hired Nelson as Herman Miller's first design director.

In 1 946, De Pre hired Charles and Ray Names, a husband-and-wife design team based in Los Angels. In the same year, Charles Earn sees designs were featured in the first one-man furniture exhibit at New Work's Museum of Modern Art. Some of his designs became part of the museum's permanent collection. Many sources were helpful in providing material for this case, m¶SST articulacy employees at Herman Miller who generously shared their time and viewpoints about the company to help ensure that the case accurately reflected the company's practices and culture.

They provided many resources, including internal documents and stories of their personal experiences. In 1 950, Herman Miller, under the guidance of Dry. Carl Frost, a professor at Michigan State University, became the first company in the state of Michigan to implement a Scansion Plan, a productivity incentive program devised by labor expert Joseph N. Scansion. Underlying the Scansion Plan were the principles of equity and justice for everyone in the company" Two major functional elements Of Scansion plans were the use of committees for sharing ideas on improvements and a structure for sharing increased profitability.

The relationship between Frost and Herman Miller continued for at least four decades. During the asses, Herman Miller introduced a number of new furniture designs, including those by Alexander Gerard, Charles and Ray Names, and George Nelson. Specifically, the company introduced the first molded fiberglass chairs and the Names lounge chair and ottoman (see Exhibit 1). The Names designs were introduced on NBC Home Show with Arlene Francis, a precursor to the Today show. Also in the asses, Herman

Miller began its first overseas foray, selling its products in the European market. In 1 962, D. J.

De Pre became chairman of the board and his son, Hugh De Pre, became president and chief executive officer. D. J. De Pre had served for more than 40 years as the president of Herman Miller. EXHIBIT 1 Names Lounge Chair and Ottoman During the 1 sass, Herman Miller introduced many new designs for both home and office. The most notable design was the Action Office System, the rolls first open-plan modular office arrangement of movable; panels and attachments. By the end of the 1 sass, Herman Miller had formed a subsidiary in England with sales and marketingresponsibilitythroughout England and the Scandinavian countries.

The company also established dealers in South and Central America, Australia, Canada, Europe, Africa, the Near East, and Japan. In 1 970, Herman Miller went public and made its first stock offering. The stock certificate was designed by the Names office staff. The company entered thehealth/sciencemarket in 1 971 and introduced the Oregon chair, its first design eased on scientificobservationand ergonomic principles, in 1976. In 1 979, in conjunction with the University of Michigan, Herman Miller established the Facility Management Institute, which pioneered the profession of facility management.

The company continued to expand overseas and introduce new designs throughout the asses. By 1 977, more than half of Herman Miller's 2, 500 employees worked outside the production area. The Scansion Plan therefore needed to be overhauled, since it had been designed originally for a production workforce. In addition, employees worked at multiple U. S. And overseas locations. In 1 978, an ad hoc committee of 54 people from nearly every segment of the company was elected to examine the need for changes and to make recommendations.

By January 1979, the committee had developed a final draft. The plan established a new organization structure based on work teams, caucuses, and councils. All employees were given an opportunity to discuss the new plan in small group settings. On January 26, 1 979, 96 percent of the employees voted to accept the new plan. After 18 years as president and CEO, Hugh De Pre stepped down; his younger brother, Max De pre, became chairman and chief executive officer n 1980. In 1981, Herman Miller took a major initiative to become more efficient and environmentally friendly.

Its Energy Center generated both electrical and steam power to run its 1 -million-square-foot facility by burning waste. 2 In 1983, Herman Miller established a plan whereby all employees became shareholders. This initiative occurred approximately 10 years before congressional incentives fueled employee stock ownership plan (ESP.) growth. In 1 984, Herman Miller introduced the Aqua chair, a second chair based on ergonomic principles; many other designs followed in the 1 9805. In 1987, the iris non-De Pre family member, Dickered, became chief executive officer.

By the end of the decade, Time magazine had recognized the Aqua chair as a Design of the Decade. Also, in 1989, Herman Miller established its Environmental Quality Action Team, whose purpose was to " coordinate environmental programs worldwide and involve as many employees as possible. " In 1990, Herman Miller became a founding member of the Tropical Forest Foundation and was the only furniture manufacturer to belong. That same year, it discontinued using endangered rosewood in its redrawing Names lounge chair and ottoman, and substituted cherry and walnut from sustainable sources.

It also became a founding member of the U. S. Green Building Council in 1994. Some of the buildings at Herman Miller were used to establishLeadershipin Energy and Environmental Design (LED) standards. Because of its environmental efforts, Herman Miller received awards from Fortune magazine and the National Wildlife Federation in the 1 9905. Also in the 1 sass, Herman Miller again introduced some groundbreaking designs. In 1 994, it introduced the Aaron chair (see Exhibit 2), which almost immediately was added to the New York Museum of Modern Art's permanent sign collection.

In 1999, the Aaron chair won the Design of the Decade Award from Businesslike and the Industrial Designers I Society of America. In 1 992, J. Kermit Campbell became Herman Miller's fifth CEO and president. He was the first person from outside the company to hold either position. In 1995, Campbell resigned and Mike Evolved was promoted to CEO. Evolved, just 39 years old, had been with a company called Meridian for seven years before Herman Miller acquired it in 1990, so when he became CEO he had been with either Herman Miller or its subsidiary for 12 years.

At the time, the industry was in a slump and Herman Miller was being restructured. Sales were approximately $1 billion annually. EXHIBIT 2 The

Herman Miller Aaron Chair In 1 994, the company launched a product line called Herman Miller for the Home to focus on the residential market. It reintroduced some Of its modern classic designs from the asses, asses, and asses as well as new designs. In 1998, it set up a specific website (www. Home. Com) to tap into this market. Attachments took additional marketing initiatives to focus on small and midsized businesses.

It established a network of 1 80 retailers to focus on small genuineness and made a 3-D design computer program available to midsized customers. In addition, its order entries were digitally linked among the company and its suppliers, distributors, and customers to expedite orders and improve their accuracy 3 THE FIRST DECADE OF THE 21ST CENTURY The first decade of the 21 SST century started off spectacularly for Herman Miller, with record profits and sales in 2000 and 2001.

The company offered: an employee stock option plan (ESP.) in July 2000, and Time magazine selected the Names molded ply'. Judd chair a Design of the Century. Sales had ore than doubled in the six years that Mike Evolved had been CEO. Then the dot. Com bubble burst and the terrorist attacks of September 1 1 , 2001, shook the U. S. Economy. Herman Miller's sales dropped by 34 percent, from more than $22 billion in 2001 to less than $1. 5 billion in 2002. In the same two years, the company saw a decline in profits from a positive $144 million to a negative $56 million.

In aninterviewfor Fascinating magazine in 2007, Evolved said, " One night went to bed a genius and woke up the town idiot" Although sales continued to drop in 2003, Herman Miller returned to reparability in that year. To do so, Herman Miller had to drop its long-held tradition of lifelong employment; approximately 38 percent of the workforce was laid off, and an entire plant in Georgia was closed. Mike Evolved and Brian Walker, then president of Herman Miller North America, met with all the workers to tell them what was happening and why it had to be done.

One Of the workers being laid off was so moved by Evolved and Walkers presentation that she told them she felt sorry for them having to personally lay off workers. To replace the tradition of lifelong employment, Evolved, tit input from many others, developed what the company referred to as " the new social contract. " He explained it as follows: We are a commercial enterprise, and the customer has to be on center stage, so we have to first figure out whether your gifts and talents have a match with the needs and wants of this commercial enterprise.

If they don't, then we want to wish you the best, but we do need to tell you that I don't have a job for you right now. As part of the implementation of the social contract, the company redesigned benefit plans such as educational reimbursement and 401 (k) plans to be more portable. This done to decrease the cost of changing jobs for employees whose gifts and talents no longer matched customer needs. Herman Miller's sales and profits began to climb from 2003 to 2008. In 2008, even though sales were not at an all-time high, the company's profits had reached a record level.

Walker became president in 2003 and CEO in 2004. Evolved became chairman of the board in 2004. Then Herman Miller was hit by the recession of 2009. Sales dropped by 1 9 percent, from approximately $2. 0 billion in

2008 to approximately $ 1. 6 billion in 2009. In the same years, profits dropped from $1 52 million to $68 million. In March 2009, Mark Churchman, director of external communications at Herman Miller, predicted that the changes made to recover from the 2001-2003 recession would help the company weather the recession that began in late 2007.

HERMAN MILLER IN 2012 Herman Miller had codified its long-practiced organizational values and published them on its website on a page titled " What We Believe. " Those beliefs, listed as follows, were intended as a basis for uniting all employees, building relationships, and contributing to communities: ; Curiosity & Exploration: These are two of our greatest strengths. They he behind our heritage of research- driven design. How do we keep our curiosity? By respecting and encouraging risk, and by practicingforgiveness. You can't be curious and infallible.

In one sense, if you never make a mistake, you're not exploring new ideas often enough. Everybody makes mistakes: we ought to celebrate honest mistakes, learn from them, and move on. ; Engagement: For us, it is about being owners-? actively committed to the life of this community called Herman Miller, sharing in its success and risk. Stock ownership is an important ingredient, but it's not enough. The strength and the payoff really come when engaged people own problems, solutions, and behavior. Acknowledge responsibility, choose to step forward and be counted.

Care about this community and make a difference in it. ; Performance: Performance is required for leadership. We want to be leaders, so we are committed to performing at the highest level possible. Performance isn't a choice. It's up to everybody at Herman Miller to perform at his or her best. Our own high performance-? however we measure it-? enriches our lives as employees, delights our customers, and creates real value for our shareholders ; Inclusiveness: To succeed as a company, we must include all the expressions of human talent and potential that society offers.

We value the whole person and everything each of us has to offer, obvious or not so 4 obvious. We believe that every person should have the chance to realize his or her potential regardless of color, gender, age, sexual orientation, educational background, weight, height, family status, skill level-? the list goes on and on. When we are truly inclusive, we go beyond toleration to understanding all the qualities that make people who they are, that make us unique, and most important, that unite us. Design: Design for us is a way of looking at the world and how it works-? or doesn't.

It is a method for getting something done, for solving a problem. To design a solution, rather than simply devising one, requires research, thought, sometimes starting over, listening, and humility. Sometimes design results in memorable occasions, timeless chairs, or really fun parties. Design isn't just the way something looks; it sinusitis the way something works, either. ; Foundations: The past can be a tricky thing-? an anchor or a sail, a tether or a launching pad. We value and respect our past without being ruled by it. The stories, people, and experiences in Herman Miller's past form a unique foundation.

Our past teaches us about design, human compassion, leadership, risk taking, seeking out change and working together. From that foundation, we can move forward together with a common language, a set of owned beliefs and understandings. We value our rich legacy more for what it shows us we might become than as a picture of what we've been. ; A Better World: This is at the heart of Herman Miller and the real reason why many of us come to work every day. We contribute to a better world by pursuing sustainability and environmental wisdom.

Environmental advocacy is part of our heritage and a responsibility we gladly bear for future generations. We reach for a better world by giving time andmoneyto our communities and causes outside the company; through becoming a good corporate citizen worldwide; and even in the (not so) simple act of adding beauty to the world. By participating in the effort, we lift our spirits and the spirits of those around us. ; Transparency: Transparency begins with letting people see how decisions are made and owning the decisions we make. So when you make a decision, own it.

Confidentiality has a place at Herman Miller, but if you can't tell anybody about a decision you've made, you've probably made a poor choice. Without transparency, it's impossible to have trust and integrity. Without trust and integrity, its impossible to be transparent All employees were expected to live these values. Management Mike Evolved remained chairman of the board in 2012, and Brian Walker was president and CEO. Walker's compensation was listed by Bloomberg Businesslike as $693, 969 in 2011. The magazine listed compensation for Coos at four competitors as ranging from $778, 000 to $973, 000.

Walker and our other top executives at Herman Miller took a 10 percent pay cut in January 2009 and, along with all salaried workers, another 10 percent cut in March 2009. The production workers were placed on a work schedule that consisted of nine days in two weeks, effectively cutting their pay by 10 percent as well. That the executives would take a pay cut before salaried workers, and one twice as much as that required by workers, was just one way human compassion was practiced at Herman Miller. However, most employees' pay cuts and furloughs were ended in June 201 0 when the company's financial performance began to improve.

By U. S. Securities and Exchange Commission (SEC) regulations, a publicly traded Company had to have a board of directors. By Herman Miller's corporate policy, the majority of the 14 members of the board had to be independent. To be judged independent, the individual as a minimum had to meet the NASDAQ National Market requirements for independent directors (NASDAQ Stock Market Rule 4200). In addition, the individual could not have any " other material relationship with the company or its affiliates or with any executive officer of the company or his or her affiliates. Moreover, according o company documents, any " transaction between the Company and any executive officer or director of the Company (including that persons spouse, children, stepchildren, parents, stepparents, siblings, parents-law, children- in-law, siblings-in-law and persons sharing the same residence) must be disclosed to the Board of Directors and is subject to the approval of the Board of Directors Or the Nominating and Governance Committee unless the proposed transaction is part of a general program available to all directors or employees equally under an existing policy or is a purchase of

Company reduces consistent with the price and terms of other transactions of similar size with other purchasers. " Furthermore, " It is the policy of the Board that all directors, consistent with their responsibilities to the stockholders of the company as a whole, hold an equity interest in the company. Toward this end, the.

Board requires that each director will have an equity interest after one year on the Board, and within five years the Board encourages the 5 directors to have shares of common stock of the company with a value of at least three times the amount of the annual retainer paid to each director. " In there words, board members were held to standards consistent with Herman Miller's corporate beliefs and its ESP. program. Although Herman Miller had departments, the most frequently referenced work unit was the team. Paul Murray, director of environmental health and safety, explained the relationship between the team and the department as follows: At Herman Miller, team has just been the term that has been used since the Scansion Plan and the De Peres brought that into Herman Miller. And so I think that's why we use that almost exclusively.

The department-? as a department, we help facilitate the other teams. And so they aren't just department driven. Teams were often cross-functional. Membership on a team was based on the employee's ability to contribute to that team. As Gave Wing lead chemical engineer for the company's Design for theEnvironmentdivision, described it, You grab the appropriate representative who can best help your team achieve its goal. It doesn't seem to be driven based on title. It's based on who has the ability to help us drive our initiatives towards our goal. Teams were often based on product development. When the product had been developed, the members of that team were redistributed to new rejects.

New projects could come from any level in the organization: One way in which leadership was shared at Herman Miller was through the concept of " talking up and down the ladder. " Workers at all levels were encouraged to put forth new ideas. Herman Miller environmental specialist Rudy Barrels said, If they try something they have folks there that will help them and be there for them.. That requires a presence of one of us or an e-mail or just to say, " Yeah, I think that's a great idea. " That's how a tot ... In the organization works. Because Herman Miller workers felt empowered, a new manager could run onto some startling behavior. Paul Murray recalled, can remember my first day on the job. I took my safety glasses 0 if . ND an employee stepped forward and said, " Get your safety glasses back on At [Company X, Company there was no way they would have ever talked to a supervisor like that, much less their supervisor's manager. It's been a fun journey when the workforce is that empowered. The company's beliefs were also reinforced through the Employee Gifts Committee and the Environmental Quality Action Team. True to Herman Millers practice of shared leadership, the Employee Gifts Committee distributed funds and other sources based on employee involvement. Jay Link, manager of corporate giving explained the program as follows: Our first priority is to honor organizations where our employees are involved.

We believe that it's important that we engender kind of a giving spirit in our employees, so if we know they're involved in organizations, which is going to be where we have a manufacturing presence, then our giving kind of comes alongside organizations that the/re involved with. So that's our first priority. In addition, all Herman Miller employees could work 16 paid hours a year with a charitable organization of their choice. The company setgoalsfor the number of employee volunteer hours contributed annually to its communities. Progress toward meeting those goals was reported to the CEO. The Environmental Affairs Team, formed in 1 988 with the authorization of Max De pre, had responsibility for such activities as recycling solid waste and designing products from sustainable resources.

One of the team's successes was in the reduction of solid waste taken to landfills. In 1 991, Herman Miller was sending 41 million pounds of solid waste to landfills. That figure was down to 24 million pounds by 1 994 and to 3. 6 million pounds by 2008. Such improvements were both environmentally friendly and costiveness. Herman Miller's beliefs carried over to the family and the community. Gave Wing related, " I've got the worst lawn in my neighborhood. That's because don't spread pesticides on it, and don't put fertilizer down. " He went on to say that he and his wife had to make a difficult decision in the summer of 2009 6 because Herman Miller had a policy " to avoid PVC [polyvinyl chloride] wherever possible. In restoring their home, they chose fiber cement board over PVC siding even though the fiber cement board was considerably more costly. Wing said, " Seven years ago, I didn't really think about it. " Rudy Barrels was involved in a youthsoccerassociation that raised money to buy uniforms by collecting newspapers and aluminum cans. Barrels said, " When I'll speak they'll say, 'Yeah, that's Rudy. He's Herman Miller. You should-? you know we're goanna have to do this. "' The company's beliefs carried over to all functional areas of the business. Some of them were obviously beneficial, and some were simply the way Herman Miller chose to conduct its business.