

A tough start to the day

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ABSTRACT

This case presents a real life episode in the day of a pulp and paper mill general manager who receives a most unusual call. The call disrupts an important daily production meeting and the manager must make a decision about what to do. The mill he is in charge of is attempting to implement a major reengineering project and, at the same time, transform the way in which all of the wood yard employees work together. In short, the employees are being expected to learn how to work as “self-directed work teams”. However, the union employees think that they are all being “set up to fail” so that the plant can get rid of them all.

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INTRODUCTION

David Sprague (General Manager of Southeast Georgia Pulp and Paper) started his 8 a.m. daily production meeting like most days. His meeting routine was to have each of his mill superintendents report on what was occurring in his/her respective area of the mill. Only this day was a bit different than any David had ever experienced. Wes, the wood yard Superintendent, had just left the meeting. This was not unusual in that frequently one or two Superintendents might leave the meeting for a few minutes to respond via radio to ongoing problems out in the mill. Wes returned with a puzzled look on his face and interrupted the meeting with this statement: “David, the consultant we hired to work with our wood yard employees is on the phone. He wants to talk with you right now. In fact, he is insistent that you talk with him. He is telling me that he will not go any further with the seminar that he is teaching unless you drop what you’re doing and go over to the meeting room at the hotel and meet with him and the wood yard employees in his class.”

This surely wasn’t the way that David normally conducted business, but he left the meeting to talk with the consultant. He tried to imagine just what might be going on to cause the consultant to pull him out of an important meeting. After all, he had come highly recommended to David from a friend in another company that was the General Manager of a paper mill similar to David’s operation. The consultant has a great deal of experience in the industry. In background calls to other businesses, David learned that Jim Dixon (the consultant) had a good reputation for helping companies adapt to newer employee relationships involving work teams. David intended to organize the wood yard employees into work teams and hired Dixon as a first step in implementing that change.

The consultant was teaching a series of classes for all of the wood yard employees. The classes were intended to help the wood yard employees learn how to work with minimum supervision. The Southeast Georgia mill was trying to move to “self-directed work teams” and had decided to begin this transformation in the wood yard. Along with this major change, David’s mill was redesigning the entire wood yard’s methods for handling and processing incoming wood. This “reengineering” effort had been planned for about a year. The cost of reengineering the methods and processes, designing and building a new chipping machine, and construction of the new wood yard was estimated to be between \$22 million to \$24 million.

There was a tone of frustration in Jim Dixon’s voice as he spoke to David: “David, I know this isn’t how you like to do things but I have a real problem over here with the participants in the class. I have been working with them for three days now on getting them to understand what self-directed work teams are all about. It’s been tough to get them to buy into the concept. Most of them just seem to be very resistant to even considering the idea of changing how they do things back in the wood yard. Today I noticed that they were especially tense and non-responsive. Finally I took one of the most senior employees in the class aside to ask him what was going on that might be causing such tension. The response stunned me. He didn’t mince any words. He said that this entire reengineering project (including the idea of self-directed work teams) is a big phony exercise that is being set up in order to cause big time failure. He said that the real purpose of the project is to prove that the wood yard employees can’t manage the wood yard with minimum supervision. Furthermore he said that this entire reengineering project is designed to fail and that when it does, the company will fire everyone working in the wood yard.”

“He also believes that once the wood yard fails, the mill will either outsource-lease the entire wood yard operation to another company who will then sell chips to the mill, or else the mill will start buying chips directly from companies that specialize in this. Either way, the company will get rid of everyone in the wood yard. I went back into class after the break and asked them what they really thought about this and most of them who were willing to speak up were in agreement with what I was told. In fact, another one of the senior employees told me that he thinks that I am in on this hoax and that they are not going to be sacrificial lambs. I told them that I had no idea what they were talking about and that I was going to call you and get you to address this concern with them.”

THE CONSULTANT

Jim Dixon had worked as a consultant-trainer for about 25 years and welcomed the opportunity to work with the Southeast Georgia Pulp and Paper Mill. Jim’s primary job was teaching in a business school at a large regional university in the area. His own training was in organizational behavior and applied psychology. He had completed his Ph.D. many years ago and had worked with numerous industrial companies throughout the Southeastern U.S. that were attempting to empower their workforces. On several occasions he had helped companies train operating employees to work in a self-directed work team structure with minimum supervision. While not always successful, most of these companies had experienced fairly good results. Success was not usually immediate. Normally such a change had to have the unwavering support and commitment of senior managers. Jim’s experience also taught him that mistakes would be made by both the work teams and by upper level managers. Both groups had to recognize that patience and mutual support are both necessary to ensure a successful transformation.

The most successful transformation that Jim had been a part of took about six months, but most required a year or more. Jim knew the mill fairly well in that he had grown up in the town in which the mill was located. In fact, he had worked there one summer while he was in college. While not working directly for the mill, he had worked with a large engineering/construction company as a “rod man” on a surveying team. The mill was expanding its operations. The summer job taught Jim the real importance of working with the unions that had been at the mill since its early days after World War II. Jim knew that several of his childhood friends worked there and were now union leaders. A few were engineers and one was even the Superintendent of Maintenance. One of his very best childhood friends was a senior crane operator in the wood yard. Jim figured that this particular consulting/training job had all of the necessary conditions in place for a successful transformation: commitment from senior managers, highly experienced employees, support of the union leaders, and competitive conditions pushing the company to look for ways to decrease operating costs.

SOUTHEAST GEORGIA PULP AND PAPER

The mill had been built in the early 1950’s shortly after World War II and has had its ups and downs. Within a year of starting operations, the International Paper Makers Union successfully mounted a campaign to organize a union. The parent company tried hard to stop the union’s efforts. However, many of the employees who were then working at the mill had been in the war and were a tough group. Within the next three years, two more unions were voted in: the International Brotherhood of Electrical Workers and the International Brotherhood of Laborers.

Ownership of the mill had changed hands three times over its life time. Currently, the local mill is owned by one of the largest paper and lumber products companies in the world.

For the most part, union relations have been stable at the local mill. However, in recent years, the parent company had been demanding continuous cost reductions and productivity improvements across the entire company. These efforts had hit the local mill hard, resulting in many layoffs. In the last two years, the parent company has spent over \$100 million on new technologies for making “fluff pulp”. Such pulp is used for baby diapers, disposable wipes, absorbent materials, cleaning supplies, etc. While these are growing markets, the basic product is a difficult to differentiate commodity. This means the local mill must always be looking for ways to cut costs, improve productivity and improve the quality of its products. The mill always has to be concerned about the selling price of its pulp and paper. If other companies beat them on price, they can lose business fairly quickly. To be profitable the local mill must run at about a 95% utilization rate. It basically never shuts down except for brief required maintenance periods. With the productivity enhancements, the local mill was “down-sized” from 1200 employees to about 900 over the last three years prior to the current wood yard reengineering project.

THE WOOD YARD

The mill wood yard works as many mills do throughout the U.S. Independent loggers cut pine trees in forests in the region and haul the wood into the mill wood yard. At the local mill, “short logs” have always been brought in for use in the pulp and paper process. Short logs are basically a pine tree that has had all limbs removed and then the tree is cut into shorter logs averaging about four to five feet in length. The logger loads the short logs onto the truck using specially designed steel racks to hold the logs in place as they are hauled. However, David Sprague (the General Manager) and his engineers came up with a plan to take a lot of costs (potentially) out of the process of making pulp and paper.

Essentially, their plan was to have an outside vendor design a giant machine that would be capable of taking an entire tree (minus limbs) and then grind the tree up into chips. The chips would then be carried into the mill on conveyor belts/chutes and end up in the digester operations for cooking. The cooked chips or slurry then flows into the bleaching area, and eventually the bleached slurry is processed into either fluff pulp or paper. By using such a unique chipping machine and reengineering the entire wood yard, David’s reengineering team estimated that \$9 million could be saved annually at the mill. However major changes were necessary to accomplish the savings. Initially, the biggest single cost was building the “one of a kind” giant chipping machine. No other mill in the U.S. had such a machine. The machine was to be built in Mississippi, broken down, hauled to Georgia and reassembled on site. The other major costs were for rebuilding the entire wood yard with hard surface roads, massive concrete pads, reconfiguring the conveyor and chute system for handling the chips, and the loss of productivity during the time in which the wood yard would be down. Another cost would be purchasing chips to keep the mill operating during the time taken to rebuild and set up the new wood yard. The total cost estimate for the giant machine, construction of the new wood yard, and downtime was between \$22 million and \$24 million.

These costs were just part of the changes necessary to achieve the \$9 million in annual savings. The other more difficult to achieve costs had to do with the unions and employees. In order to save \$9 million per year, the wood yard work force had to be reduced. From the very beginning, David had kept the union leaders informed about what was being planned. While

somewhat apprehensive about it, the leaders of the unions had promised that they would support the reengineering. The union presidents stated publicly that they understood the need for cutting costs and would be willing to renegotiate the contract for the employees in the wood yard. However, the biggest changes fell on the shoulders of the wood yard workers. To obtain the annual savings, the Wood Yard Superintendent (Wes) and his shift supervisors agreed that the new configuration could be run with 52 workers, rather than the 77 currently on the payroll. These 77 employees had to cover three shifts per day with a fourth “swing” shift to cover scheduled time off. The current 77 included laborers, crane operators, machine operators and skilled maintenance persons.

The move to self-directed work teams though, meant that there would be no more shift supervisors on each shift. There would only be Wes (the Superintendent) and one Assistant Superintendent. Both would basically work during the day. The other four current supervisors would be reassigned to other parts of the mill. The biggest change would be with the 77 current union employees. Decreasing the numbers from 72 to 52 meant that 25 people would need to be laid off. Using the union seniority system, Wes announced who would be staying and who would be leaving. Most of the workers who were then laid off had only been at the mill for less than four years. Of the remaining 52, most had finished high school but several were “functionally illiterate” meaning that they could barely read and write. The “survivors” varied from four years to twenty-eight years experience working in the wood yard. The average age was about 38 and varied from 25 to 55. About two thirds were white and the remaining third were African American. In the new configuration, 13 workers per shift would be expected to manage the wood yard and keep it running without the benefit of a formal shift supervisor. The workers would basically be on their own and would need to learn how to coordinate their efforts, trouble shoot and solve problems and deal with occasional conflicts and interpersonal issues that might arise.

TEACHING NOTES

Questions for discussion

1. What should David Sprague (the General Manager) do as a result of the call from the consultant?
Obviously, the wood yard employees in the class are convinced that they will lose their jobs as a result of the reengineering program. There is some logic to their argument, in that most recent changes have resulted in reductions in the mill work force. What is needed is for David to immediately address all of the wood yard employees about the process, honestly answering all of their questions. Jim Dixon will not be able to successfully complete the training sessions until these workers issues are dealt with. It appears that the changes were either poorly explained or not explained sufficiently to the wood yard staff. They have seen multiple waves of layoffs and know that the mill is under constant pressure to increase productivity and lower cost. Management must proactively inform all of the mill workers that, rather than failure, the purpose of the changes is to produce the increase in productivity and decrease in cost that the senior level of mill management requires.
2. What might have caused the wood yard workers to think that the entire project is an “exercise designed to fail”?

Remember that most of these workers have little formal education and have a natural mistrust for management. They tend to believe what they can see. What they have seen in the recent past is regular changes in processes and procedures to make the mill more profitable. Each one these changes has also resulted in a reduction in the work force at the mill. This most recent wood yard redesign cost 25 of their friends and coworkers their jobs.

At least some of them feel that they are headed in the direction of outsourcing chip production for the mill. If this is true, and mill management is just making the changes to convince top management that the wood yard operation is too costly to continue, regardless of intent, the remaining wood yard employees will eventually lose their jobs.

3. What causes resistance to change?

Fear of the unknown is one of the most obvious causes of resistance to change. As this case certainly demonstrates, the changes at this paper mill led to angry and uncooperative employees. They fear that the focus on change will continue to force mill management to seek ways to produce at least the same amount of product with fewer and fewer human resources.

Ignorance also increases resistance to change. As stated previously, while the workers had been informed of the reengineering project and the resulting decrease in the work force, they obviously were not convinced that these changes would benefit them.

Perhaps a more detailed explanation of the plan, and how it would lead to stability and growth in both productivity and revenue, would convince the workers of the need for success of the plan, not failure.

The wood yard staff also needs to be convinced of the honesty of David Sprague and his managers. Believing in the mill leadership is a necessary step to reduce the resistance to the changes taking place.

4. What is the best way to get changes implemented successfully in a situation like a wood yard?

A good first step in a situation like this is to make an honest presentation to the employees, detailing the need for the changes, how the changes will positively impact both the mill operations and the employees over time, describing all negative aspects associated with the changes (employee downsizing, early retirement, reduction in rank or pay, etc.) and honestly addressing any and all questions and concerns they may have. A second important step, that Jim Dixon was hired to address, is to provide adequate employee training in support of the changing work environment. Each employee must understand both the overall changes taking place and how his/her work role will be affected.

Third, the process of change is dynamic rather than static. The management of the mill should provide information and progress feedback to the wood yard employees as the reengineering process progresses.

An overarching consideration in any such change management process is to create “buy in” among all of the organizational groups. The steps above provide a platform for changing the attitudes of the wood yard group.

5. What potential problems would you anticipate in a transformation like this? What would be the best ways to deal with such problems?

The most common problem in such transformations forms the basis for this case. People are the most important barrier to deal with in organizational change. People are resistant

to change generally, and particularly resistant when the change is considered unnecessary, difficult and harmful to the people involved.

Another common problem with process reengineering involves variance from expected outcomes. A simple example related to the wood yard case could be that the new wood chipping machine, designed and built for this mill, generates 10% less volume of product than expected and costs 10% more per year to operate and maintain than was anticipated. This results in a reduction in the annual savings from the process redesign from \$9 million per year to \$2 million per year. Such a large change from projections could precipitate the outcome that the wood yard workers feared. The parent company may decide to outsource the wood chip supply side of the operation, resulting in the closing of the wood yard and the loss of the remaining 52 jobs.

What is the best way to deal with such problems? First, anticipate implementation problems and ensure accuracy of the data used to develop the plan. Second, build a sensitivity analysis model into the plan. In other words, how much variation from expected outcomes can take place before the entire plan is compromised. Sensitivity analysis is a quantitative approach to “management by exception.” Finally, develop contingency plans for the problems that may arise during implementation.

POST SCRIPT

What actually happened is that David Sprague (the General Manager of the mill) did come over to the training class. He addressed the employee concerns very directly in a non defensive manner. He explained that the corporate management did not want him (David) to spend \$22-24 million on the reengineering/conversion. In fact, he stated that corporate wanted him to shut down the wood yard and to begin buying chips from chip makers in the region. David went on to say that he finally convinced corporate that he and his employees could successfully convert the wood yard and that major cost savings would ensue. David candidly told them that if this project failed, he and several other senior mill managers would likely be fired. He spent about an hour with them and answered all of the questions they had.

From Jim Dixon’s (the consultant) perspective, the wood yard workers seemed to be mostly inclined to believe David. Over the remaining classes, the group was markedly less hostile toward Jim and the conversion. At the end of the wood yard conversion there were a few costly errors and mistakes during the “learning curve” period of readjustment. However, at the end of the first year David Sprague was able to document a cost savings of almost \$9 million in comparison to the “old” wood yard costs. This was an annual savings of \$9 million. His initial estimate of savings was \$7 million per year. The huge success of this project and other achievements eventually led to David being promoted to the Vice President level of one of the largest pulp and paper products companies in the world.