

When the Golden Rule Yields No Gold

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Zach Jordan sat at his desk seeking the high road. It had been his approach to management from day one. But now, on day ten thousand and one, that road was at best foggy. Or perhaps, this time there was more than one high road. Regardless, one fact was anything but foggy: If he sold his ailing company, several people—good people whom he had embraced like family over the years—would lose their jobs and would have dim prospects for comparable employment. But if he didn't sell and business didn't improve, he could lose hundreds of thousands of dollars in rent.

He looked at the pictures adorning his walls—pictures of him with his three girls, pictures of people who had worked for him over the years, a photo of him doing his magic act (his favorite hobby) for mesmerized school children visiting the company. Zach had a zest for life and a love for everyone around him.

And that showed in his priorities. Zach had worked from home during much of his early career, sacrificing income so that he could be there to help raise his girls. He had adopted a “Golden Rule” approach to management, paternalistically caring for his employees' needs, maintaining integrity in every deal, insisting on quality, respect, and timely delivery for every customer, treating all of his stakeholders as he would want to be treated.

Over the years, the fruit of that management style was an exceptionally loyal

workforce—he had miniscule turnover in twenty years of business—as well as an equally loyal customer base. One of Zach’s eleven employees summed it up well: “Zach’s the glue that holds everything together around here. And he’s a great boss, too. He treats us better than anyone’s ever treated us in our other jobs. In good times and in bad, for example, he’s always given a substantial Christmas bonus. One time he even had to borrow the money to do it!”

The financial fruit was also bountiful, at least through the first decade. His New England Spring Company (NES) in Connecticut earned a decent return throughout the 1980’s, but international competition and a weak economy began to take their toll, and in the early 90’s, many of Zach’s customers moved south or began to import their springs, primarily from Asian manufacturers whose costs were a fraction of Zach’s. Profit evaporated and then became losses. The past five years had been particularly difficult, each culminating in red ink.

As he stared at the photo of the NES family celebrating an employee’s birthday (Zach commemorated every employee birthday with a card and a \$30 check), in walked his two invited guests for the day. Steve, his accountant and long-time friend, and Charles, a professor, now emeritus, from Zach’s business school days. This was a bittersweet occasion. Zach embraced each in turn, but then had to share with the professor the reason for the invitation: Zach needed advice about whether to sell his beloved company.

“Thanks so much for coming, you guys” Zach said closing the door. “I appreciate your willingness to give me some candid advice.” His expression turned somber, as did his tone. He looked squarely at his septuagenarian professor and repented: “Charles, this

place is bleeding and it has been for years.” Zach paused momentarily, then revealed the deeper source of his anguish. “I’m thinking sincerely about getting out rather than signing off on another two-year, \$200,000 lease for the building. Steve tells me I can get at least \$750,000 for the customers, the inventory, the receivables, and the equipment, but the problem is this: With my financials, *nobody* is going to buy the business itself. So if I sell, it has to be by parceling it off. Then NES won’t exist anymore and my people would lose their jobs. And in this economy, most of these folks aren’t going to find jobs anytime soon—certainly not much beyond minimum wage.

“I could take a chance and try to keep it afloat,” Zach continued, “but I’m on the verge of losing my biggest account to India and that’s twenty percent of my business. If that happens, I probably couldn’t survive more than two months, and the selling price of the business would drop even more. But even if I keep that account, there’s no guarantee things are going to turn around. I just can’t compete with Asia’s fifty cents an hour.”

That was a lot of information in sixty seconds, but the professor zeroed in on what he considered the essential issue. “What’s the chance of losing that account?”

“Probably about 50/50 next year,” Zach replied. “Maybe even 60/40. India’s come out with a stainless steel spring that weighs fifty percent more than ours—much better quality for the same price, and my customer is seriously considering making the switch.”

“And can you get back the lease money if the business fails?”

“No. I’m on the hook for that regardless,” Zach sighed.

“I’ve told you this before, pal,” his accountant gently offered. “You’ve gotta get out. Either that or cut your seven figure salary.”

Zach smiled at the welcome levity—and the irony. Two years ago he had cut his own pay to \$31,000, which was less than what several of his employees were earning.

“Funny you should mention that,” Zach returned with a grin. “The SEC is stopping by this afternoon. I thought I’d give ‘em your card.”

“Remind me, Zach,” Charles interjected with a chuckle, “what your product line looks like. And tell me how you’ve been pursuing new business lately.”

Zach sat up straighter. “We manufacture and sell several types of springs, everything from specialty stainless steel springs to springs for navy jets and helicopters to common springs you’d find in a hardware store. Over the years, I’ve tried to grow the business through a combination of in-house sales reps and advertising in the standard industry publications, both in print and on the Web. Frankly, though, it’s been years since either approach has paid off, so I’ve now dropped them. Bids are so tight that a sales reps’ five percent commission required me to bid at my cost to remain competitive. I’ve been taking jobs just to cover overhead! And the hundred grand I dropped in advertising over the past decade has returned almost no business. So basically, I’m left with no sales force and essentially no advertising.”

“Sounds like you could use some fresh ideas,” the professor observed thoughtfully. Zach thought him brilliant, but right now, Charles was simply stating the obvious.

“That would be nice,” Zach replied politely. He was getting anxious for some hot tips from the good doctor, but he knew those were probably a few days off. “And there might actually be some new business out there. But my ‘fresh idea’ file is freshly depleted. I’ve also thought about re-tooling as an option—you know, create other

products that might have a niche—but I'd need about a quarter-million for equipment, even used equipment, and I have no customer list for whatever that new product would be.”

“Let me give the marketing piece some thought over the next couple days,” Charles responded with characteristic circumspection. “But in the meantime, I'd also like to get a sense for just how bad things are financially. Do you have some statements handy?”

Zach buzzed his secretary. “Mandy, can you please bring me the binder of financials?” Mandy, as always, responded promptly, smiling at the gentlemen on her way out. As she closed the door, Zach shared with his guests that Mandy, his secretary for twenty years, was recently widowed, having psychological problems from the loss, and in critical need of the health insurance benefits he provides. “My other office gal,” he explained, shaking his head, “has a disabled husband and is the sole support for a family of five. And the guy who runs the plant has four kids, two of them getting ready for college. If he lost his job at age fifty, I don't know what he'd do.”

The professor nodded; the accountant flipped pages in the binder. “It's not terrible,” Steve said as he pointed Charles to a spreadsheet, “but it's not sustainable either. The last five years show net losses ranging from about \$1,000 to over \$40,000. Costs are on the high side, mostly because of health care, workers' comp, and property tax increases. Salaries are exactly at market—anywhere from \$10 to \$26 an hour. But we've cut everything else to the bare bones. And as far as sales goes, we're at about 1.2 to 1.3 million pretty consistently, year in and year out, but we don't have any expectation of new sources of revenue.”

Charles adjusted his glasses as he reviewed the statements. His grimace told Zach that there was no quick fix.

“I’m telling ya, Zach, cut-and-run,” Steve recommended, pre-empting the professor’s analysis. “I know you care about these people, but they’re big boys and girls now. They can take care of themselves. Believe me, they’ll be fine.”

Zach didn’t know whether to be irritated at or grateful for the counsel. Maybe Steve’s response was the only rational one. But at the same time, Steve was ignoring the fact that Zach didn’t want to sell out his employees. Irritation trumped gratitude for the moment.

“Would you be ‘fine’ if your income were cut in half and if you lost your health insurance?” Zach retorted softly but firmly. “Would your family be ‘fine’? I know you’re trying to look out for me, Steve, but I simply can’t operate that way.”

“All right,” Steve back-peddled with a shrug. “So spend \$250,000 to give them six months’ severance. And spend another forty grand to maintain their health benefits for that long. Will that help you to sleep at night?”

Zach pondered the idea, but although possible, it seemed a bit excessive. “I’m getting too old for this kind of stress,” he said rubbing his temples. “I’m 62 now, which, I know, sounds like a spring chicken to you, Charles. But the spring business is taking all the spring out of this spring chicken.”

Deep down, Zach secretly hoped for his spring company to bounce back. But that seemed unlikely without a new strategy. And he wasn’t sure he had the energy to pursue it or the gumption to roll the dice on another \$200,000 lease. “Cut-and-run” seemed like a logical course of action, but what about the people? This “Golden Rule” spring

manufacturer recoiled at the thought of repaying their loyalty by putting them out on the street.

Should Zach sign the new two-year, \$200,000 lease for his building? If so, what should he do to sustain and grow the business? And if not, what, if anything, should he do about the employees who will lose their jobs?