

Maintaining Morale

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Fibronik Corp (NASDAQ: FBRK) is a diversified global manufacturer and service provider in electronics, telecommunications, computers and computer peripherals. The company's net revenues in 2010 were \$110 billion and its earnings \$8 billion. The company had been successful for decades and maintained strong competitive positions and high margins in some of its divisions, particularly in computer peripherals. However, one division, Electronic and Fiber Optic Components with \$20 billion in revenues, had been under assault for years. Relentless cost pressures drove down the price of components and the earnings of the division, although it remained profitable. Fibronik was the world leader in the components business and invested \$1 billion a year in R&D for them, but components were unlikely to carry high margins ever again. Fibronik had kept the division because it was at the heart of the company, which was founded 80 years before to develop early electronic, vacuum tube devices to drive testing equipment, radio transmitters and oscilloscopes.

Mary Higgins led the Components division and was known as a relentless cost-cutter determined to squeeze margins out of a commodity business. While other divisions in Fibronik could boast of fat returns, Higgins fought for every tenth of a percent from eight factories in the US, China, India, Brazil and Germany. Higgins' employees worked hard to find new ways to reduce product cost without sacrificing quality. The division had a history of slashing hundreds of millions from production through better design, less expensive fabrication and smarter logistics.

Higgins wasn't completely surprised when she heard rumors that the board of directors might consider a sale or spinoff of the Components division. She had expected as much, although the CEO had assured her more than once that the division was safe. Fibronik was under pressure to increase margins and boost its lagging stock price. Getting rid of Components was a quick way to reposition the Fibronik, and directors could overrule the CEO, especially since stock analysts had been calling for the sale for years.

Higgins knew the rumors were reaching employee ranks and that anxiety was building, especially among engineers and managers who could easily move elsewhere. Higgins needed these people for their expertise in cost reduction and manufacturing. Other electronics manufacturers had poached a few, but most were loyal to the division and to Fibronik, which had a history of treating employees well. If they were no longer part of Fibronik, raids on the company or internal transfers could destroy the managerial and engineer expertise the division had built over decades.

Higgins had plenty of communications tools to reach her 10,000 employees. She conducted Town Halls quarterly that were webcast to all locations. She visited plants twice yearly and conducted customer visits with engineers four times a month. The HR department completed annual employee surveys. There was an electronic suggestion/complaint box on the division's intranet with a guaranteed response time of 24 hours. The intranet had a blog updated daily with news of contracts, HR messages, promotions, etc. There were 55 moderated discussion forums, some livelier than others. There was a Facebook-like section where employees could post photos, backgrounds, interests and discussions with friends and a wiki that carried hundreds of pages with division information -- personnel policies, ongoing projects, benefits programs, standards, division history, etc. In addition, the division issued a weekly HTML newsletter and alert blasts by e-mail. Her problem wasn't media. It was content. What could or should she say to combat rumors? She called for a meeting with the HR manager and head of division communications.

"It is my understanding that there are three board members pushing to get rid of us, but the board has yet to vote. The CEO is fighting, but he might lose."

"How much can we tell employees?" asked the head of communications.

"Nothing. I have no confirmation, and it is too early. My problem is how to keep engineers and managers from bolting when I can't tell them anything."

"We could emphasize loyalty to the division apart from Fibronik," said the head of HR

"How do I do that?"

They discussed this but determined there was already a strong divisional loyalty. There T-shirts, baseball caps, ball and bowling teams, cook-outs and other get-togethers in which Components employees fraternized and built team spirit.

"We could open a wiki "rumors" page and update it daily," said the head of communications.

"What do we put on it?"

"We run it like "Snopes." (<http://snopes.com/>) State the rumor. Give the facts. We could start with the forum speculation. Call it "Rumor Central."

"I like that. Run an announcement in the blog. What else?"

"Why don't you tackle the issue head-on in the next town hall?" suggested the head of HR.

“And say what?”

“Many of you have heard rumors about a spin-off or sale of Components. I’m here to tell you that there is no truth to these rumors, and I promise you I will tell you when the time comes. Meanwhile, continue your great work, etc.”

“Put that at the head of my opening remarks,” Higgins said to the communications manager.

The town hall went well. Higgins rebutted the rumors, provided a retrospective of the previous quarter and focused on the next quarter’s business. Discussion in the forum died down, but Higgins talked weekly with the CEO about the board’s deliberations. Directors were debating the issue but there had been no movement toward a vote. The CEO was stressing the importance of Components to the Fibronik’s other divisions that relied on its parts and operational software.

It was Thursday, December 15, the day of the last board meeting for the year, when Higgins received a call on her mobile phone in the German plant. It was the CEO. The board had voted to study the sale or spin-off of Components with a final decision to be made by the end of Q2 of the coming year. A press release would be on the wire within an hour. Higgins felt sick. A 28-year employee, she had wanted to retire from the company. However, her first concern was to keep the division together and growing. Six months of rumors would be an invitation to competitors and head hunters.

Higgins cut short the visit to Germany and returned to divisional headquarters. The US plant managers, the head of HR, and the communications manager were waiting in her conference room when she arrived and plant managers from China, India, Brazil and Germany were videoconferenced on a 55-inch flat screen TV at the end of the conference table. Higgins apologized for not letting them know before the news came out. She explained she was surprised herself by the board’s action. She then turned to the issue at hand.

“We’ve got to keep turnover down and production up while the board figures out what to do. There is no mystery in getting this done. We keep doing what we have been doing everyday and we don’t let rumors get in the way. We’re the world leader in components and we’re going to stay that way whether we’re sold or not.” She asked for questions, explained what she knew and ended the call after 30 minutes. She then met with the US plant managers separately and in the late afternoon called the head of HR and the communications manager back to her office.

“I need a bonus program to keep everyone in place. I need to know who among the stars are thinking about leaving, so I can talk to them myself. I need a communications and feedback program to catch rumors before they infect the

employees. I need monitoring to see what is being said outside of company walls.”

The head of HR and the communications manager nodded.

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Questions to discuss:

- Based on what you know about the Components division, detail a communications, feedback and monitoring program.
- Detail the measures of effectiveness for such a program.
- Was it wrong for Higgins to promise to tell her employees about a sale or spin-off when she couldn't control the board's announcement?
- What can Higgins say now while the study is underway? What should she say?
- Should Higgins build the cohesive spirit of the Components division apart from that of Fibronik?