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The Green Company: A Case of Labor Management and Employee Empowerment in a Small Business

ABSTRACT: The basis of this teaching case is a small nursery and landscape business in the Northeast United States. The case describes how the company attempted to implement a decentralization and employee empowerment program to move relevant decision-making closer to the work site. It illustrates that shifting from a centralized top-down style of management to a decentralized incentive driven style can create many challenges for a small business. Moreover, top management should be cautious about delegating responsibilities to line managers. Not all employees will be successful in this new environment, and without procedures for monitoring and control, significant learning may be necessary as employees move into this environment.

1. THE CASE

Goldie Green, owner of the Green Company (GC), was meeting with her managers to wrap up the 1991 season. It had not been a good year. The company's financial position as represented by the pro forma statements (summarized in Table 1) indicated that the company was sliding toward insolvency, the result of slowing growth in the local economy and changes in the kind of competitors the company faced. But perhaps a more important contributing factor was a very shaky introduction of an employee empowerment program. To permit herself the personal luxury of doing what she preferred to do within the business, Goldie had transferred a large component of firm decision-making to hired managers.

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Table 1. Consolidated Items from Green Company's Balance Sheet and Income Statement, 1990-92

Item	*1992*	*1991*	*1990*
Current assets	75,278	68,761	82,479
Fixed assets	63,543	70,005	49,191
Current liabilities	24,197	21,589	9,757
Other liabilities	92,728	121,833	90,689
Equity	21,896	(4,657)	31,224
Revenue	359,155	445,258	376,837
Sales expense	294,481	402,579	296,272
General expense	68,029	78,559	69,934
Net income	(3,354)	(35,881)	10,631
Debt/asset ratio	.84	1.03	.76

2. THE GREEN COMPANY

2.1. The Green Company's History

GC was in the lawn and garden industry. This industry sometimes is called the "green" industry, to focus on its use of plants, and also the "environmental horticulture" industry, to focus on the way plants enhance the environment in terms of resource conservation and aesthetic enhancement. The company's name had been chosen to associate itself with these images. The industry's basic product is an almost endless number of individual plants. At the production level, they often are grouped by production methods. Woody ornamental plants are produced outdoors, where they grow either in the ground or in plastic containers filled with a "growing media" mix. Flowering and foliage plants, i.e. floriculture, are produced in greenhouses.

Like many other small businesses, GC started as Goldie's entrepreneurial dream. She wanted to work in an industry in which she had technical training and great personal interest, and she would be her own boss. After receiving a university degree in horticulture in her native England, she moved to the U.S. and spent a few years in part-time jobs and graduate study before she arrived in New England with her family in the early 1980s.

Goldie was interested in a wide range of activities. She wanted to produce plants, sell them at retail, and provide landscape design, installation, and maintenance. The firm was located in a university town which provided an immediate residential customer base. It was near the state's capital, so commercial installation and maintenance contracts were available. Nearby was a traditional New England coastal resort area, which offered financially attractive business to the lawn and garden industry.

An informal appraisal of the kind and quality of horticultural services offered in the area suggested a potential market for her expertise. So, land was purchased, a greenhouse was constructed, and the family began producing and retailing plants (both woody and foliage). Some plant material was propagated and grown to retail size at the site, while other material was purchased for immediate resale. Since Goldie was experienced in technical plant production, GC's plants were of high quality. And because she was interested in unusual and/or native plant material, the company developed and maintained an eclectic inventory. Her retail customers could choose from a variety of unusual plants, in addition to the "standards."

Other products and services were added as seemed appropriate, including landscaping. Goldie was quite good at landscape design and installation, the artistic/design components of the business. She was a good listener, which led to an almost intuitive feel for customers' needs. Her applications of plant material in various settings had a uniqueness. She effectively communicated her ideas to potential buyers. This line of business was a nice complement to the retail activity, offering design expertise and opportunities to sell plants and hours of labor at higher margins.

The landscaping products enhanced the firm's position as a top quality, full service company, and overall it was a good match for a rapidly expanding local economy. There was a good deal of homeowner and commercial interest in aesthetic upgrading of property. In addition, Goldie excelled in service contributions to the community—she frequently appeared on local mass media, both radio and television, to answer questions and provide educational programs. This was great exposure for the company.

Many commercial and residential property owners who had hired Goldie to design their landscapes subsequently asked her to maintain the landscape. Other property owners learned of her expertise from these owners and her public relations activities. Thus, indoor and outdoor plant maintenance contracts found their way into GC's product mix.

Although GC grew rapidly, it had several problem areas consistent with the nature of the lawn and garden business and the New England climate:

- Business was seasonal; except for a few Christmas items (trees and wreathes), there was almost no activity in the winter months.
- A short New England growing season meant landscaping projects that got behind schedule or went over budget were extremely costly.
- Carrying inventory between seasons was costly. Although some carryover was deliberate, other carryover resulted when turnover slowed and plant material did not sell.
- Both short and intermediate-term capital were needed. In early spring, employees were hired and production inputs were purchased, but no revenue was generated until retail sales started or jobs were completed, billed and collected. Capital to bridge this gap was needed. There were also opportunities that required intermediate term capital, such as mechanization to increase labor efficiency in landscaping and maintenance. Unfortunately, bankers had little familiarity with this

industry, so loans were harder to apply for and more costly than for other businesses.

- Labor was in short supply and costly, given the strong economy. Employee turnover was high, and many potential employees had minimal or no training in horticulture.

2.2. The Green Company's Competitive Situation

In terms of market position, GC's clientele was at the up-scale end of the lawn and garden industry, suggesting that customers probably were a little less price sensitive than the norm. The unique inventory noted above and a fairly sophisticated level of plant knowledge by employees were services that customers liked, and this bolstered the on-site retail activity. During the 1980s, there was general economic good fortune in the area, and GC expanded and rose with the tide. Nevertheless, GC had to deal with a complex environment consisting of a variety of retailers, customers, and suppliers.

Retail Outlets. The lawn and garden industry is made up of a variety of retail outlets. Garden centers traditionally had the largest share of the market and competed among themselves for retail sales. But, market share captured by general mass merchandisers (such as Wal-Mart and K-Mart), and by hardware mass merchandisers (such as Home Depot), was increasing. Other retail outlets include supermarkets, hardware stores, and feed/seed stores. To illustrate, home centers had a 1% average annual growth rate in households served in the early 1990s, while garden centers' and nurseries' growth rates declined by 3.3% during the same period (National Gardening Association, 1996). Mass merchants were entering smaller markets, and they were keen competitors because their size enabled them to lower average purchasing costs by serving many stores and by using sophisticated and aggressive pricing tactics.

Customers. A garden center/landscape contractor has two major kinds of business: retail sales of plants, chemicals, and accessories at its primary business location; and its landscaping and plant service activities at customers' locations. Plant and chemical sales include items for flower and vegetable gardens, ornamental gardening, indoor house plants, trees, and shrubs. Some garden centers and landscape firms operate as separate entities. However, many others combine these two activities because the additional revenues are a logical way to add value to the business. Among the advantages, the landscape operation offers another outlet for the plant material and accessories sold at the garden center. Landscape design and installation customers include personal residences and vacation homes. Commercial property customers include the construction industry and various government agencies. Interior-scaping in commercial and government buildings has become more common. Plant maintenance contracts often accompany these jobs. The garden center gains market exposure from the locations where attractive landscapes have been installed.

Retail sales to households were increasing in the early 1990s, but at a rate of only about 1% annually. Estimated growth during the 1990 to 1995 period was from \$20.8 billion to \$22.2 billion (National Gardening Association, 1996). Household spending for landscaping services, on the other hand, was projected to increase at a rate of almost 10% annually, from \$3.8 billion in 1990 to just over \$5.5 billion in 1995.

Suppliers. Garden center/landscape contractors have a broad array of input suppliers that can be classified into three types: plant material, fertilizers and chemicals, and labor. While firm size among suppliers of plant material varies widely and many small firms co-exist with the large growers, the logistics system allows retailers even in relatively small markets to be supplied from a national stock of plants. A few plant material firms are national in scope but are not large enough to establish a price leadership role in the industry. Industry sources suggest that no firm has as much as 5% of the market. The industry is geographically fragmented because of high transportation costs. Still, plant material frequently moves from production origins in California or Oregon to the large East Coast markets.

The situation differs for suppliers of other products, where fertilizer brands such as Scott's and chemical products from Ortho are consumer-level brands. In these cases suppliers are more concentrated and use marketing approaches that emphasize brand names, product quality and research. Another input category is labor, which is the largest cost category for most landscaper/garden center firms. Since small firms hire labor in the local market, this small pool of talent may limit quality of hired labor. This is particularly true in the managerial, design, and skilled needs of these firms. In addition, labor turnover in this seasonal business required on-the-job training.

Several factors brought changes to GC's competitive position. A slowing economy affected GC both because customers became more price conscious and because the volume of business declined. For example, GC began to lose a portion of its smaller landscape jobs in the middle income residential installation market. Some of these jobs were taken by a group of relatively untrained individuals whose overhead was low because their assets included little more than a truck and shovels. This enabled them to price their jobs considerably below the prevailing market price. For retail sales there was less competition from other garden centers in the area, but an increasing degree of competitive pressure from mass merchandisers.

2.3. GC's Management Structure and Systems

In GC's early years, Goldie managed the business with the assistance of a part-time office worker to handle book-keeping. She worked beside employees in whatever tasks needed to be done. By 1985, the business had outgrown this arrangement, so Goldie's husband John Green formally took over the financial management. In this role, information about GC's profitability was in John's hands, and he preferred to hold this information closely. He approved purchases of

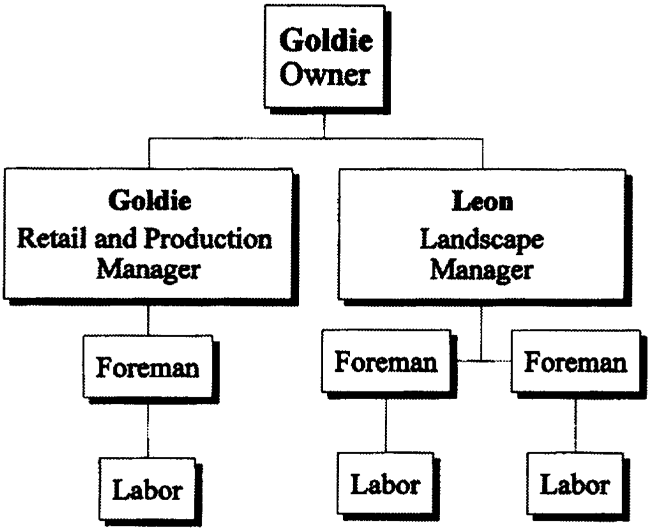

Figure 1. GC's Management Structure, 1989

products needed to run GC, in particular of any large expenditures such as machinery and equipment. He was the source of knowledge about the company's performance. The rest of the GC team, including Goldie, had little knowledge of overall financial status or profitability of individual jobs. However, Goldie was concentrating on the things she loved to do and felt comfortable with decision making in family hands.

A growing business brought more employees. With the expansion of the landscaping business came the hiring of job foremen. In 1988, Goldie hired Leon Smith to manage the landscape business. The production/retail site employees were working under Goldie's supervision, and Leon supervised crews organized under foremen at off-site locations. Figure 1 illustrates this structure.

The management philosophy at that time was traditional and authoritarian. Goldie and her husband made the decisions—they were the ultimate authority. Directions were handed down to the landscape manager, the foremen and other workers. Authority, responsibility, accountability, all were at the top.

At the end of 1989, divorce put Goldie in sole ownership and control of the business. She didn't have experience in directing a business with sales approaching half a million dollars, nor was she familiar with financial arrangements because John had kept the books. Her goal was to continue the role she had played in the company. She personally did not want to be a top-down, micro-managing owner.

Goldie had read about alternative management structures such as decentralization, participative management, and empowerment in the lawn and garden trade press. She knew she wanted an organization that would tap into employees' motivation and innovativeness. Her company would be as flat as possible in its decision-making structure. Employees would work intelligently and with a degree of autonomy. They would be concerned about costs, and would behave responsibly in terms of GC's financial health because they believed in the company. They also would be motivated through bonuses generated by a profitable company. Overall, employees would think and act like entrepreneurs, and the company would continue to function whether she was working or was absent. Such a situation was her goal, and from her reading about these alternative structures, that goal seemed to be achievable. Even with GC's top-down structure, the employee group was close-knit, cooperative work had been encouraged, and all were encouraged to contribute ideas to improve company operation. Goldie felt this atmosphere could be expanded. She decided to empower her company from the top down.

Goldie instituted the "GC Empowerment Program." Her principal activities would include selling landscaping services, design work, scheduling and planning, and office administration. She would continue her community involvement activities. Chris McCarthy was hired for a new production/retail manager position. This organization is shown in Figure 2. At this point, Goldie believed that her managers were responsible individuals who recognized that this small business could not survive without appropriate control of costs. They would, therefore, make prudent decisions about expenditures. Beyond this prudency criterion and their general job description, Leon and Chris were given wide authority to act in the firm's name. The operative philosophy was "whatever it takes to get the job done." At their discretion, they could purchase equipment, commit GC to overtime (including their own), and hire additional employees. Bonuses were based on annual company profitability because the reporting and accounting system was capable of providing only general information about financial status.

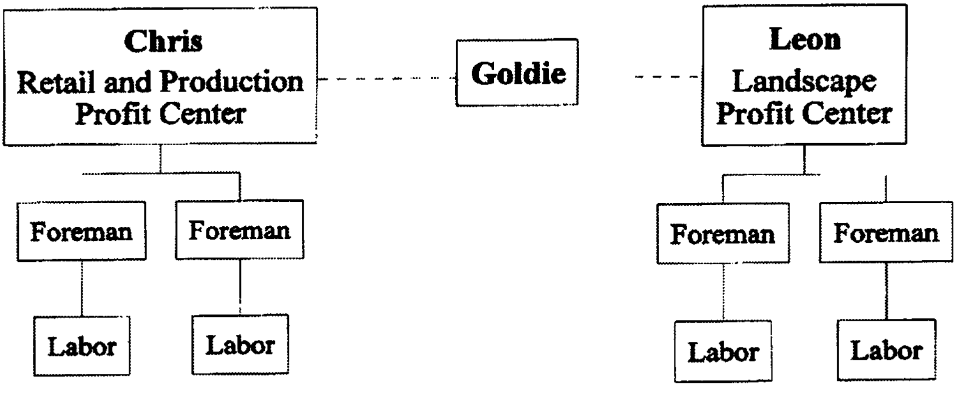

Figure 2. GC's Management Structure Under the Empowerment Program, 1990-1991

This structure was in place in both 1990 and 1991. Managers were pressured from many directions, but particularly to remain on schedule. They had little concern about costs. Year to year sales had been increasing prior to 1990, and increased again from 1990 to 1991 by about 18% (Table 1). However, costs increased by about 36% between the two years, generating a cash loss for 1991. In addition, indebtedness increased for both current and other liabilities. Included in the sales expense category for 1991 was a salary and associated costs factor that had increased to about 50% of gross income, compared to an industry benchmark of 25% to 33%.

Goldie realized there were problems with her program and that operating losses could not continue. Obviously, the incentives for Leon and Chris didn't motivate cost control and they didn't always act in the firm's best interests. If appropriate incentives had been in place, current financial information about the managers' areas of responsibility was not available, so it was difficult to hold them accountable for results. Therefore, Leon and Chris felt they had no responsibility for these losses. Following the 1991 season, there were general discussions about how to restore profitability. Goldie's ideas for change involved some additional controls and would have restricted the number of overtime hours, thus reducing their pay. Both managers absolutely rejected the notion that they were part of the problem, and resigned.

In addition, the lawn and garden industry was beginning to feel the impact of the region's economic downturn. Sales of GC's products began to decline as well, with the landscaping component first to take this hit. Increased competition from mass merchants, both general and hardware, contributed to a slowdown in retail plant sales.

Goldie was looking for help in managing her company. Bob Soldi was retained as a consultant during the period between the 1991 and 1992 seasons. He was about 30 years old, and he liked to work part-time with a few small and mostly seasonal clients. This arrangement gave him freedom to travel for a portion of the year. He didn't have impressive resume-building experience, but clients had found his advice to be solid and he was proficient with accounting systems. Bob's lifestyle suggested that he understood that high overhead costs reduce the flexibility of a business or an individual. He kept his personal overhead expenses low by living in a yurt (a fabric-covered frame structure built partly below ground) so he could afford to travel during the winter.

One of Bob's clients referred him to GC. The two of them discussed GC's situation. Goldie wasn't interested in returning to the responsibilities of a centralized, top-down style of management.

Goldie and Bob agreed that there were two general courses of action to consider. First, she could scrap her program altogether and move toward a more traditional management style. This would mean that she would give up some of the design and other functions she enjoyed more, and assume greater control of the financial and operating aspects of the business. A modification of this option would be to hire a professional general manager to oversee the financial and operation aspects of the company. The second basic option was to improve the empowerment program to address the problems she had experienced. If she retained the empowerment program, she had to decide if the problems encountered were in the empowerment concept itself, her interpretation and implementation of it, or related to the people who were being empowered. Goldie needed to decide on the best course for the upcoming year.

3. Case Study Questions

- Compare and contrast decentralization, participative management, delegation, and employee empowerment.
- Was Goldie's "empowerment program" truly a case of employee empowerment?
- What factors caused Goldie's empowerment program to fail?
- Should Goldie abandon her empowerment plan? If so, what management approach would you recommend? If not, what steps should Goldie take to improve her empowerment program?

4. Teaching Note

This case should stimulate discussion of advantages and disadvantages of the alternative management structures, and about whether the GC Empowerment Program was a complete enough package to deliver the promises of empowerment. The teaching note assists in reaching that objective by: (1) providing a brief outline, with references, of the requirements for successful implementation of an empowerment program; (2) an analysis of why GC's empowerment program initially failed; and (3) showing how GC re-implemented empowerment in 1992.

4.1. Elements of an Empowerment Program

Management structures that are more responsive and adaptive are needed in a rapidly changing business environment. The traditional, top-down structure does not facilitate adaptation to change, so alternatives have evolved and some are discussed briefly here. *Decentralization* is an organizational structure issue. Layers of management are reduced, and decision making is shared and pushed down to lower levels of the organization. *Delegation* occurs when a manager transfers a task or a set of tasks to an employee along with the concomitant levels of responsibility, authority, and accountability. *Participation* has many meanings, but the focus is on degrees of employee involvement in decision making, goal setting, and/or problem solving. Participation is a continuum of behaviors ranging from a manager who allows one subordinate to have a voice in making a single decision to giving all employees control over how they perform their work on an ongoing basis. *Empowerment* includes elements of both delegation and participation, but also involves a change in the values and norms of the organization.

Quinn and Spreitzer (1997) write about two common empowerment perspectives called the mechanistic and the organic, and demonstrate from their consulting experience and selected management research that successful empowerment embodies both perspectives. In the mechanistic perspective, empowerment is a top-down process. Senior management sets direction through a clear vision of the organization's mission, vision, and values, and the vision is communicated through specific plans and assignments. Tasks, roles, and rewards for employees are clearly specified, and responsibility, accountability, and authority are delegated. Management also must "share information, provide structure, develop a team-based alternative to hierarchy, offer relevant training opportunities, and reward employees for the risks and initiatives they are expected to take" (p. 40).

The organic or bottom-up approach defines empowerment in terms of personal beliefs and orientations. The management culture accepts that employees will make mistakes but trusts that they will act in the interest of the organization. Employees begin to take initiative and risk based on a sense of ownership. Characteristics of empowered people include: a sense of self-determination, that is, choosing work processes without micro-management; a sense of meaning, that their work is important and they care about it; a sense of competence and confidence in their abilities; and a sense of impact, that they influence the work unit and are listened to.

An empowered work force is developed over time through the integration of these two perspectives. Quinn and Spreitzer identify four key levers that can move an organization toward empowerment:

- Clear vision and challenge, where management's vision and direction are understood and employees can act independently rather than waiting for direction.
- Openness and teamwork, where the organization values human assets and where employees feel that their ideas for problem solving are taken seriously.
- Discipline and control in providing "clear goals, clear lines of authority and clear task responsibilities...where they (employees) are aware of the boundaries of their decision-making discretion" (p. 46).
- Support and a sense of security when actions are within decision making boundaries.

The authors suggest that the mechanistic approach is appropriate but incomplete, and assumes "that empowerment is something managers do to their people" (p. 41). The organic perspective's dominant difference is management's assumption about trust and control. In an empowerment program, employees feel they have the right, responsibility, and authority to act within established boundaries to accomplish the stated mission. An organization must make information available to those affected about the impact of their performance. Employees must believe that this culture will ultimately benefit all involved, and this belief must be continually reinforced. Management must be committed to empowerment, and can create a context that is empowering, but employees must choose to be empowered. Introducing and implementing such a radical innovation takes time.

4.2 Analysis of GC's Empowerment Program

Goldie's empowerment program for 1990 and 1991 contained some elements of the organic perspective. However, she was not able to instill the self-motivation and entrepreneurial thinking necessary for an empowerment program to be effective. Most of the factors from the mechanistic perspective of empowerment were also missing. The program was implemented to make her role in GC what she wanted it to be, not to fulfill other critical needs. Analysis of a structure most appropriate to this business, managers, and other employees was not done. Though presented as beneficial to employees, Goldie didn't have the detailed information to show specifically how it was beneficial to them.

Most clearly missing was structure provided by the mechanistic perspective, and without that, she could not empower. The vision, plans, and control systems needed in a comprehensive empowerment program were not well defined. Goldie had not articulated what this new type of organization would "do" in terms of specific growth and customer goals. Managers did not know what concrete, measurable performance goals were to be achieved. In the context of a short season, there was pressure to meet schedules so managers didn't concentrate on cost containment or profits. In summary, there was little sharing of information, articulation and sharing of a vision, no boundaries were set for the managers, no commitment to the new plan, and rewards were not commensurate with desired results.

Quinn and Spreitzer note three major barriers to developing an empowered organization, and it appears that all three are prevalent at the Green Company. First, a bureaucratic culture impedes change through a strong tradition of top-down directives, the lack of a credible vision for the future, short-term managerial thinking, a lack of management support for real change and risk-taking, and often the reward system emphasizes the status quo. Second, multi-level or function conflict results from a structure that creates strong division within the company, and can result in conflict among peers as one profit center is pitted against another. And third, as with all managers, those at GC were faced with much to do and not enough time to do it all.

4.3. GC's Solution for 1992: Re-implementation

Goldie chose to continue with her program but with precise definition of responsibilities and authorities for managers and other employees. First, she continued in the role she had defined for herself under the earlier program, except for the management information responsibilities assumed by Bob. She realized she was closely identified in the public eye with the company, so she took a more visible role in consulting on landscaping sites. A manager for maintenance was added, and replacements for the other two managers were hired. Bob identified profit centers and set up an accounting system to provide up-to-date information about each profit center and status of jobs within each center. That, of course, meant that managers had to supply much more information to the office. Managers' responsibilities for their projects were clarified into broad but constrained boundaries. New managers signed an employment agreement, which stated they would: (1) recruit employees; (2) plan and schedule work; (3) write bids on small and moderate-sized jobs but would rely on Goldie to bid and design large projects; (4) have access to financial statements to evaluate the impact of their decisions on profitability; and (5) participate in a monthly budget review meeting. Managers would be provided information about performance of their profit centers through center and individual project budgets. Access to GC's financial statements would show how their decisions affected firm performance. Information would be exchanged between profit centers at monthly managers' meetings. Though the managers "signed on" to the program, they were less than enthusiastic about having GC's balance sheet at their disposal.

The new managers were better educated (they were college graduates) than their predecessors. Some needed a little "on the job" training in selected areas, which was provided by Goldie. Their incentives were a profit sharing program and the addition of resources to crews that were efficient. For example, if a crew finished jobs at less cost than had been budgeted, half the savings in the profit center would be retained for distribution at that manager's discretion, i.e., as bonuses or for purchase of equipment to make work faster and easier. The corporate culture rewards of working for a company that sought to make jobs more interesting and to allow employees a degree of control over their work experience still were part of Goldie's vision.

One of the shortcomings of the 1992 experience was the failure of the monthly meetings of managers to provide reinforcement for the empowerment experience. In fact, they became a negative factor. This "public" discussion of profit center results and their impacts on the bottom line immediately were called assassination sessions because mistakes were exposed. At a fundamental psychological level, these managers were not people who wanted to be empowered. At the end of the season, all three resigned. Revealing his true feelings, one stated that all he really wanted from a boss/employee relationship was a kick in the butt to get him going on Monday, a paycheck on Friday, and to go home.

4.4. Empowerment Yet?

This is an improved but still incomplete empowerment program. Bob's invaluable assistance to incorporate elements of the mechanistic perspective provided structure and appropriate information to share with managers. There also was a need to clarify goals and implement the changes in norms and values needed in a comprehensive empowerment program.

The roles and responsibilities were clarified, and the reward structure was more commensurate with what she wanted to accomplish. She stated that her directions to managers were much more clear, suggesting that the vision and mission were clarified. In terms of the organic perspective, Goldie felt that she had fully articulated this culture and philosophy for herself and to managers but it clearly had not taken hold in the organization. That the new managers paid lip service to the program but were not committed was signaled by their comments and their resignations. This emphasizes that the empowerment process occurs over time as there is awareness of the need for cultural change, commitment to the changes, and support for employees who are becoming empowered.

The fact that monthly meetings of managers were called assassination sessions indicated that competition, not teamwork, was the message received by Goldie's managers. This problem could be addressed through team building exercises that would encourage managers to cooperate rather than compete for resources. This would be designed to build, support, and reinforce an environment of open communication and trust, and would encourage initiative.

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