

1-1-1993

At the Height of Consciousness: An Analytical Study of Herman Miller

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NORTHERN ILLINOIS UNIVERSITY

At the Height of Consciousness:

An Analytical Study of Herman Miller

A Thesis Submitted to the

University Honors Program

In Partial Fulfillment of the

Requirements of the Baccalaureate Degree

With University Honors

Department of Management

by

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May 8, 1993

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Date: 5/6/93

HONORS THESIS ABSTRACT
THESIS SUBMISSION FORM

AUTHOR: Laura Jirousek

THESIS TITLE: At the Height of Consciousness: An Analytical
Study of Herman Miller

ADVISOR: Clifford Ficke **ADVISOR'S DEPT:** Management

DISCIPLINE: Planning/Decision Making **YEAR:** 1993

PAGE LENGTH: 32 **BIBLIOGRAPHY:** Yes **ILLUSTRATED:** No

PUBLISHED (YES OR NO): No **LIST PUBLICATION:** N/A

COPIES AVAILABLE (HARD COPY, MICROFILM, DISKETTE): Hard copy

ABSTRACT (100-200 WORDS):

Herman Miller is one of the strongest, most well-known furniture manufacturers in the world today. Since its birth in 1923, the company's innovative management philosophies and programs have delighted employees and clients alike.

The purpose of this study is to analyze various aspects of Herman Miller--corporate culture, environment, mission--and explore their implications to further my understanding of the organization and the furniture industry as a whole. The scope of the study is Herman Miller's present situation as analyzed through interviews, periodical research, company literature, and textbooks.

A major finding of the study is Herman Miller's unwavering dedication to excellence. I have found the company to be a fine example for other furniture manufacturers, or any other firm, to emulate.

**AT THE HEIGHT OF CONSCIOUSNESS:
AN ANALYTICAL STUDY OF HERMAN MILLER**

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work in the contract furniture industry, either in a showroom or for a dealer. I hope that the knowledge I can gather about a top performer like Herman Miller will help me to better analyze its operations and product quality as compared to its competitors. Finally, I simply like the products that Herman Miller produces, and I want to learn more about the company behind the beautiful furniture.

PURPOSE

I plan to accomplish several objectives in my study. First, I will discuss the corporate culture at Herman Miller. My discussion will then lead to an explanation of the technology used at Herman Miller, especially as it relates to the craft technologies in Perrow's model of technology classifications. Next, I will explore the aspects of Herman Miller's environment which I believe have a great influence on the company today: efforts to remain environmentally sound, advances in office technology, and changes in the economy. Third, I will report my findings about the structural dimensions of complexity, formalization, and centralization at Herman Miller. I will proceed with an analysis of the relationships between Herman Miller's technology, environment, and structure. Next, the financial status, mission statement, and compensation plans will be explored. I will conclude with a summary statement of my reactions to Herman Miller as a company.

CORPORATE CULTURE

Corporate culture is the pattern of beliefs, expectations, and values shared by an organization's members. An extended definition might add that these beliefs, expectations, and values are *learned* and shared by the corporation's members and *transmitted* from one generation to the next. The second definition is a key component of Herman Miller's corporate culture.

D.J. DePree, one of the founders of Herman Miller, felt that "business should be 'rightly judged by its humanity' and that everyone should have the right to identity, equity, and opportunity." (DePree 155) D.J.'s sons, Max and Hugh, agreed with their father's ideas. "We must give employees space so that we can both give and receive such beautiful things as ideas, openness, dignity, joy, healing, and inclusion," says Max. (Nelson-Horchler 11) Hugh adds that *vision* is an important part of the future of any company: "With vision, we are not only ready for change, we are making it." (DePree 156)

Two main values, or "visions," that have led Herman Miller to success are participative management and the sharing of company profits among all employees. Participative management has a long history in the company. D.J. himself cited "identity" as one of the most important parts of an employee's experience with a company--people should have an influence on their work.

Herman Miller regularly surveys employees on their views towards the company's progress and problems. In addition, all

to be needed, want to be productive, and need to be responsible, have the right to know, need and want to own the problem. The plan can answer such needs." (DePree 120)

Joani Nelson-Horchler, in describing a visit to Herman Miller, was amazed that "everyone in the company...talks about values and has intimate knowledge of the successes and problems of the corporation." (11) Former CEO Richard Ruch adds that "an important way of communicating a corporate culture is through tribal storytelling. Those who know the culture pass on real-life stories of the past that symbolize our values." (Block 51)

Herman Miller's corporate culture binds its employees together. The two main values that Herman Miller holds-- participative management and sharing company profits with employees--have been particularly successful. Enz states that "time and again, my discussions with managers and students have led to a realization that values play a central role in the functionings of organizations." (xvi) Apparently, the people at Herman Miller have known this for quite some time.

TECHNOLOGY

The Herman Miller Research Corporation is a division of Herman Miller which constantly scans the environment to determine the needs of office workers up to ten years into the future. Herman Miller's manufacturing plants are equipped with the latest technology and robotics. The needs of the future workforce are constantly changing. The latest technology and robotics are needed to build furniture for the offices of tomorrow.

Although Herman Miller employs state of the art technology, the nature of its business forces the company to depend on aesthetic judgement which, at the present time, only people can provide. Herman Miller provides a useful and versatile product. However, the furniture in an office is somewhat of a status symbol--the beauty of a piece seems almost as important as its usefulness. Machines cannot sand a product to perfection. Robotics are no match for a person's talent to hand pick the perfect veneers (woods) and assemble them according to grain patterns for a desk top. Therefore, craftsmen are an essential component in the technological process at Herman Miller.

Craftsman Technology at Herman Miller

In Perrow's technology classification, the craft technology is composed of two dimensions: problem analyzability and task variability. Problem analyzability refers to "the type of search procedures followed to find successful methods for responding adequately to task exceptions." (Robbins 182) The "problems"

range from well-defined problems to ill-defined problems. The other variable, task variability, measures "the number of exceptions found in one's work." (Robbins 182) Task variability ranges from few exceptions to many exceptions.

Craft technologies are defined by Perrow as tasks with ill-defined problems and few exceptions; in other words, high problem analyzability and low task variability. The people at Herman Miller perform tasks such as choosing veneers with a common grain, sanding the pieces, and inspecting the finished products. These activities are relatively difficult in that the craftsmen must know the proper methods for matching grains properly, sanding pieces with precision, and inspecting them for aesthetics, durability, and proper assembly--the activities corresponding with high problem analyzability.

The other variable, low task variability, is also supported in the Herman Miller technological processes. Each person on the Herman Miller production line is assigned a task in which he or she specializes. For example, the people who sand the veneers are specialists in their craft. They do not experience many exceptions in their positions because sanding the products is their only job.

Cost-Savings Suggestions

The craft technologies in Perrow's model of technology classifications illustrate the roles of the factory floor workers at Herman Miller. Perrow states that "craft technologies

ENVIRONMENT

On March 10, 1993, I conducted an interview with Ms. Gabrielle Round, a sales representative at Herman Miller in Chicago. This interview, in addition to the articles and books I read, revealed several forces in Herman Miller's environment. I will examine the three biggest forces in Herman Miller's environment: remaining environmentally sound, technological advances in office equipment, and the economy. In addition, I will discuss the capacity, volatility, and complexity of Herman Miller's environment.

Remaining Environmentally Sound

"Our goal is to send nothing to landfills by 1995." (Annual Report 37) Campbell has given this difficult challenge to the people at Herman Miller. At home and at work, people have changed from a philosophy of "buy, use, and abandon" to a concerted effort of "reduce, reuse, recycle." (Companies 1) "It sounds syrupy," says Phil Mercorella, vice president of sales, marketing, and distribution at Herman Miller, "but the major thing that's helped us is that we've always focused on what is morally right to do, not what is expedient." (Nelson-Horchler 12)

In an age when the environment is such a concern, Herman Miller plans to continue focusing on the "right things to do." One thing the company has done to become more environmentally sound is to change its packaging materials. In years past, Herman Miller packaged its popular Equa chair shells in

corrugated boxes with internal fillers, such as styrofoam, and then covered them in plastic bags to protect the shells on a 30 mile shipping trip. All packaging materials were simply thrown away when the shells reached their destination. Today, however, Herman Miller has developed its new "sleeve pack." This packaging option replaces the old packaging materials and is also reusable. The sleeve pack saves the company 70 percent on packaging materials alone, and can be reused for up to 100 trips.

As Chicago-based environmental consultant Thomas Kuczmariski says, corporate responsibility is "no longer lip service, but for real." (Companies 1) A very real environmental issue facing furniture manufacturers today is the depletion and reforestation of the earth's precious rain forests.

Former CEO, Richard Ruch, said that "Herman Miller has always been an environmentally conscious company...meeting or exceeding EPA standards in manufacturing, waste management, and recycling efforts." (Garet 46) It is not surprising, then, that Herman Miller, along with its competitors, is gearing up for the "green" decades ahead. People are becoming increasingly concerned about the depletion of the rain forests; Herman Miller has responded accordingly.

In 1989, Herman Miller joined the environmentalist group Friends of the Earth in protecting rain forests by eliminating tropical woods such as rosewood, which cannot be obtained from sustainable sources, from its standard line of products. (Garet 46) In addition, Ms. Round said that Herman Miller will no

longer manufacture mahogany pieces and has decided not to produce mahogany furniture "until a sustainable source is found." (Round Interview) Ms. Round also informed me that Herman Miller does not work with any materials that are considered to be endangered species.

According to former CEO Ruch, "This corporate decision is not a new policy, but instead extends our environmental consciousness to the protection of rain forests." (Garet 46) Hopefully the efforts of Herman Miller, and the efforts of other companies like it, will help conserve the earth's resources and beauty.

Advances in Office Technology

"[A] commitment to the pursuit of diversification, to innovation, to meeting human needs, and to expanding the leadership role for Herman Miller." (DePree 83) In Max DePree's words, this was, and still is, the purpose for the Herman Miller Research Corporation. The Research Corporation is more active than ever in Herman Miller's history. In 1960, the first director of the Research Corporation, Bob Propst, defined a problem that furniture manufacturers still face today: "How can we enable people to work more effectively and efficiently? How can we assist them in maintaining health, interest, and joy in working in the office?" (DePree 84)

Obviously, one of the major challenges for Herman Miller over the past several decades has been to remain up to date on

the constant changes in office technology. "In a fiercely competitive global market, businesses need to keep moving ahead, especially when their competitors are gaining an advantage from the newest technological breakthroughs." (Information 1) Herman Miller's challenge, says Ms. Round, goes even further than satisfying the needs of today's office technology. "Our furniture must be built for what technology will be like in the future," Round says. (Round Interview) Just the past ten years have seen rapid acceptance of fax machines, modems, personal computers, keyboards, and monitors. The next decade might see the emergence and widespread use of new technologies, such as voice input devices for computers or computerized notebooks with light pen input devices.

Accommodating new technologies in the workplace may seem like a simple task. However, "as businesses rush to capture the advantages of the latest technology, simply managing this tangle of cords and cables often takes priority over other critical office environment concerns, such as effective support for work processes and the image an office projects to employees and visitors." (Information 2)

One of the main reasons many corporations choose office systems from Herman Miller is because of the design of the pieces. A corporation's image, like it or not, is often partially determined by the decor of its offices. Design of the pieces is as important as their usefulness. The Herman Miller Research Corporation seems determined to meet the need for design

and technology: "The best facility solutions will incorporate as much flexibility as possible into their design in order to accommodate both today's and tomorrow's technology." (Information 15)

Changing Economic Conditions

"The U.S. economy will be the greatest challenge facing not only our industry, but anyone who is in business," says Thomas Spangler, vice president of operations at Executive Furniture.

Like many companies today, Herman Miller has felt the effects of the recession over the past few years. In fact, fiscal year 1992 was the first year in Herman Miller's history that the company reported a loss. Sales were down 8.4 percent and earnings fell \$28.2 million. CEO Campbell feels that the loss is "a humbling experience. It will help the company and me face up to the reality in an indefinitely invigorating way."

(Annual Report 3)

Capacity, Volatility, and Complexity

Now that I have described several of the main environmental forces at Herman Miller, I can better assess the capacity, volatility, and complexity of the company's environment.

Capacity, by definition, is "the degree to which [the environment] can support growth." (Robbins 218) Herman Miller promotes growth through the Herman Miller Research Corporation. As new needs for design and accommodations for office technology

arise in the workplace, Herman Miller is prepared to serve those needs. Herman Miller is quite prepared to support growth in its product lines. Therefore, Herman Miller has abundant capacity to support its changing environment.

Robbins defines *volatility* as "the degree of instability in an environment." (218) Herman Miller's environment is characterized by many changes, especially changes associated with the technology in the workplace. As new technologies surface, Herman Miller is prepared to meet the needs of office employees with newly developed designs. Herman Miller is also experiencing some instability in its supply of certain veneers from unprotected rain forests. As the trees become endangered, the veneers are dropped from the standard lines and Herman Miller is forced to find alternative materials. Management must concentrate on determining the trends for their furniture and the availability of their materials. Therefore, I believe that Herman Miller's environment is dynamic.

Finally, *complexity* is "the degree of heterogeneity and concentration among environmental elements." (Robbins 219) In other words, how many direct competitors of similar products does a company have? Herman Miller's environment is very complex in this respect. It competes against hundreds of contract furniture manufacturers. It is not always easy to follow the competition and plan strategies since there are so many players in the game. As CEO Kerm Campbell says, "The competition...is always in the picture." (Annual Report 39)

STRUCTURE

The structure of an organization is composed of three dimensions: complexity, formalization, and centralization. Complexity refers to the extent of horizontal and vertical differentiation within the organization. Formalization is the degree to which the behaviors of employees are guided by rules and procedures. Finally, centralization refers to the decision-making authority center of an organization. In this section, I will discuss each dimension of Herman Miller's structure.

Complexity

Vertical integration is apparent at Herman Miller. Except for the veneers and certain metal chair bases, all the inputs for Herman Miller products are produced in its assembly plants. Components for the pieces are manufactured and assembled in the same plant. Finished goods are marketed and sold through showrooms and sales offices. Herman Miller also has subsidiaries, manufacturing facilities, and distribution facilities throughout the world.

Herman Miller has differentiated horizontally as well. As I have mentioned before, the Herman Miller Research Corporation plays a major role in determining the direction of Herman Miller's products. In addition, Herman Miller has extended its office furniture line into clinical health care furniture as well. The Clinical Health Care Environments sales offices and showrooms have appeared across the United States. Finally,

Herman Miller is also associated with hundreds of office furniture dealers around the world which market and assist clients in the purchase of Herman Miller products.

Formalization

Several years ago, Herman Miller seemed less formalized than it is today. I found the most apparent changes in formalization to be focused around the sales staff at Herman Miller. According to Ms. Round, sales personnel were trained in three one-week segments. First, employees learned about the various departments at Herman Miller, such as manufacturing and distribution. Training continued into the product lines, and finally employees were trained in sales. Sales training included the specifics of Herman Miller products, determining clients' needs, and the company philosophy on sales. (Round Interview)

The initial training base at Herman Miller has not changed. However, in the past six months, product manuals have appeared in the Herman Miller offices. The product manuals are intended for study by the sales staff. According to Ms. Round, the employees are tested on the contents of the manual. (Round Interview) In addition, seminars on topics such as sales negotiations and presentations are now being offered at conferences that Herman Miller employees are encouraged to attend.

Therefore, the trend at Herman Miller seems to be leading to a slight increase in formalization. CEO Kerm Campbell believes that salespeople are "the crucial point in the chain of events

leading to success." (Annual Report 59) Perhaps the increase in formalization is his way of assisting the company to reevaluate their ability to achieve that success. "They are on the point: isolated, alone, putting themselves personally on the line," Campbell says; "I will do everything I can to help them succeed." (Annual Report 59)

Centralization

The product manuals and tests given to the salespeople at Herman Miller illustrate an effort to centralize and control the behavior of the sales staff. The crisis of its first loss in history may be a motivation for Herman Miller to attempt to centralize in other areas as well. However, just as the management at Herman Miller seems to be "pulling up the reins" on the sales staff, it is spreading and decentralizing authority at the top of the organization.

In years past, there was one vice president in charge of products. Recently, however, that position has been divided into four positions. Rather than one vice president of products, Herman Miller now has a vice presidents in each of its main product areas: seating, systems, freestanding furniture, and files and storage.

The reason for the change in structure is related to the geographic positioning of Herman Miller's manufacturing facilities. When the products were all produced in the same geographic area, it was unnecessary to spread authority in this

manner. But Herman Miller now has facilities in Michigan, North Carolina, and Georgia, to name a few. Each facility only manufactures one line of furniture--seating, systems, etc. So, it is a structural necessity to spread the power in the organization because of the geographic distances and differences in product lines between the facilities.

Structure and Technology

As I described earlier, Perrow's craft technologies best represent the technology of the Herman Miller laborers in the manufacturing plants. According to Perrow, craft technologies should be associated with moderate formalization and low centralization.

Herman Miller has begun to formalize some of its rules and policies in its sales offices. However, I have found no evidence as to the level of formalization in the manufacturing facilities. This can be interpreted in two ways. First, perhaps formalization is low, and is not mentioned in Herman Miller literature because it is an insignificant aspect of its operations. On the other hand, a second possibility is that formalization is moderate, as Perrow expected. Literature may not explain this because the level of formalization is not at either extreme of the spectrum.

However, I believe that the level of formalization is not high at Herman Miller's manufacturing plants. The aesthetic judgement that the craftsmen must employ in their work eliminates

the option of standardized rules and policies. The craftsmen are hired, in large part, for their abilities to create beautiful products. High formalization impedes the craftsman's ability to create. The employee must have the freedom to add an artistic touch to each piece of furniture.

Low centralization is another characteristic of the craftsmen technology in Perrow's model. As I have mentioned, Herman Miller has decentralized its product manufacturing responsibilities into four vice president positions rather than one. However, from a technology standpoint, the biggest evidence of low centralization is the "cost-savings suggestions" program--opportunities for employees to give their suggestions for better, more efficient operations at Herman Miller.

The cost-savings suggestions may result in varying degrees of centralization, depending on how many suggestions management decides to implement. If a large number of suggestions are implemented, the result may be low centralization since the employees themselves initially suggested the changes. However, top management decides which strategies to implement or toss out. Is this truly decentralization? Perhaps it is merely an illusion of power held by the employees at Herman Miller. Therefore, the low centralization characteristic in Perrow's model of the craftsmen technologies may be viable in the minds of the employees. Whether or not management is truly decentralizing decision-making power remains an unanswered question.

Structure and Environment

Herman Miller's environment is characterized as abundant, dynamic, and complex with relation to capacity, volatility, and complexity. These three characteristics do not fit into a certain structure--abundant environments usually fit best with a mechanistic structure, while dynamic and complex environments work well with organic structures. Therefore, Herman Miller's environment seems to work best with a blend of the mechanistic and organic structures. (Robbins 219)

This certainly appears to be the way Herman Miller, like many other corporations today, is structured. The rules and policy manuals that are formalizing the way salespeople learn the product lines are characteristic of a mechanistic structure. On the other hand, Herman Miller's changing environment is definitely characteristic of the organic structure.

As Burns and Stalker reveal in their study, "no organization is purely mechanistic or purely organic but, rather, moves toward one or the other." (Robbins 211) If the line between organic and mechanistic structures is a "continuum," as Robbins calls it, Herman Miller is closer to the organic side of the continuum. The focus on change is too overpowering to consider Herman Miller to be a mechanistic organization.

RECENT FINANCIAL PERFORMANCE

"Even during these recessionary times, [Herman Miller's] sales are growing at about 5%, twice the rate of the business furniture industry." (Nelson-Horchler 11) Joani Nelson-Horchler made this statement in her article "The Magic of Herman Miller," featured in the February 18, 1991, issue of Industry Week. Indeed, Herman Miller's 1990 sales were \$865 million, and 1991 sales increased to \$878 million. In 1991, Michelle Hunt, Herman Miller's vice president of corporate development, said, "We must empower ourselves to create change around a common vision and not wait for a crisis to hit us and then respond." (Nelson-Horchler 15) Ironically, Hunt's comment foreshadowed Herman Miller's first loss in the history of the company.

In The Washington Post's article, "Two Analysts Raise a Chair for Furniture Stocks' Rebound," Stan Hinden reports that the downturn in the furniture industry initially occurred with the stock crash in October, 1987. Then, in 1989, the "mini-crash" which occurred contributed further to fading consumer confidence. (33) Hinden notes that "the furniture industry is vulnerable to almost any event that strikes at consumer confidence." (33) As people tightened their belts, furniture companies, like many others, felt the crunch.

Perhaps even a dynamic, successful company like Herman Miller has been negatively affected by the recession. In 1992, Herman Miller's sales were down \$74.1 million (8.4 percent), and earnings fell \$28.2 million. (Annual Report 97) This resulted in

a \$14.1 million loss for the company. The Annual Report states that "in 1992, the decrease primarily was due to increased price competition, which resulted in realized price decreases, together with lower unit volumes worldwide." (85) In other words, as competition intensified, all bidders were forced to lower their prices just to get a sale, and buyers were slim in number. "The remainder of the decrease in 1992," the Report continues, "was due to changes in the rate of exchange between the United States dollar and other currencies, which decreased net sales \$2.3 million." (85)

Herman Miller believes that its competitors in North America and Europe have experienced similar reductions in sales. The company predicts an increase in North American sales for calendar year 1992. (The fiscal year at Herman Miller runs from June 1 to May 30.) However, the recession in Europe is expected to continue because of "the effects of severe recession in the United Kingdom and slow economic growth." (Annual Report 86) These factors, in addition to price competition and slow unit growth in the United States, are expected to negatively affect the industry's sales.

A restructuring cost of \$25 million partially affected Herman Miller's financial performance in 1992. CEO Campbell says that the \$25 million was used "to simplify [Herman Miller's] organizational structure." (Annual Report 3) These days, even restructuring to **save** money **costs** money!

Naturally, Campbell is not pleased by the recent net loss. As he says, however, "it is time to clear the field and begin to marshal our energies and our resources." (Annual Report 3) Now that Herman Miller is a leaner organization, it should be easier to accomplish this goal. The outlook is not all bad, either. "When the economy finally turns up," says furniture analyst Budd Bagatch, "furniture stocks will lead the way." (Hinden 33) Another analyst, Jerry Epperson, predicted that an improving economy could boost profits at Herman Miller to \$2.15 per share in 1993. (Hinden 33)

Perhaps growth will occur again, but the company is conscientiously seeking ways to combat too much growth too quickly. Hugh DePree said that "growth should come as a result of vision, risk, innovation, quality products and services--and energetic people. Staying on the leading edge in all these matters will produce growth and an inevitable position in the industry." (DePree 162)

MISSION STATEMENT

A mission statement is the core of a company's philosophy. It is its reason for existence, a "set of principles by which the company is to be run." (Falsey 1) According to Thomas A. Falsey, author of the book Corporate Philosophies and Mission Statements, the term "mission statement" can be defined many ways. However, it generally outlines two things about a company: "who it is and what it does." (3)

Although I have not found an explicit mission statement in any of my written materials from Herman Miller, I am able to piece together a statement from CEO Campbell which may be fairly close to the actual mission statement. Campbell makes the following remarks about Herman Miller's products in the 1992 Annual Report:

"I believe that we are in the business of researching, designing, and distributing complete solutions, solutions that go beyond products...the research, design, and engineering behind our products and the consultation and service before and after the sale-- these activities, together with the products themselves, will *delight* Herman Miller's customers." (Annual Report 5)

I find Campbell's word choice refreshing. Notice, he does not dwell on the bottom line, nor does he wish to "satisfy customers' needs" the way so many other companies do. Campbell demands that Herman Miller *delight* its customers! His dedication to excellence is mentioned again later in the Annual Report:

"[The customers] are the only reason we can stay in business...I hope we can learn to delight each and every one of them." (9)

COMPENSATION

Herman Miller is noted for several aspects of its compensation plan. First, it provides a Scanlon plan for its employees, and all employees who have been with Herman Miller for over one year are company stockholders. Second, Herman Miller limits its CEO salary to 20 times the average paycheck (\$28,000) earned by line workers in the company. In this section, I will discuss both compensation plans.

Scanlon Plan and Stock Options

Every employee at Herman Miller receives a quarterly bonus based on company productivity. Additionally, employees who have worked for Herman Miller for at least one year are given shares of stock in the company. According to CFO James Bloem, the bonuses are based on the following factors: profits, sales growth, efficiency in use of noncash assets, company performance in customer service and product-quality surveys, and savings from cost-savings suggestions of employees. "All these components are very well-known to everyone," Bloem explains in an FW article. "That gets people to move from work that's not helping to work that's helping." (Ozanian 13)

Supporters of the plan note that the bonuses and stock options keep employees conscious of the ways their actions may affect profits. Bob Bartels, an analyst with William Blair in Chicago, states that "the workforce [at Herman Miller] is

constantly mindful of the fact that they are owners in the company, and mindful of the consequences." (Boroughs 50)

Sales decreases have affected Herman Miller, but the bonus plan, says Bloem, "keeps us from having to go through some of the larger restructurings that our competitors are facing." (Ozanian 13) Indeed, as many furniture manufacturers are downsizing their operations, and as showroom space in places such as the Merchandise Mart in Chicago becomes more abundant because of closings, Herman Miller has not had to downsize as dramatically as its competitors. It may not be hiring, and perhaps bonuses are not what they used to be, but mass layoffs have not occurred either.

A question which comes to mind is this: How are employees with higher seniority or positions compensated by the bonus plan? Are their bonuses tied to other factors than company performance? Are they simply given large bonuses because of their position in the company? This could not be beneficial for employee morale or the team spirit. However, Herman Miller has covered that possibility as well; each worker gets the same percentage of wages as a bonus from the bonus pool, up to a maximum of \$39,300 in wages. Bloem states that the ceiling is necessary, "otherwise the highly paid would walk off with the bonus pool." (Ozanian 13)

Although the top 77 executives at Herman Miller participate in a separate bonus pool, their bonuses are also tied directly to company financial performance. In addition, as an executive's level in the company increases, so does the percentage of his or

her pay which depends on the bonus. In other words, higher level executives are held more accountable for company performance; larger percentages of their salaries depend on it.

As important as the Scanlon plan has been to employee satisfaction and high morale, it must be kept in perspective. No matter how good a bonus plan may be, employee satisfaction is affected by more than just monetary compensation. Former CFO Vernon Proest sums up the influence of the Scanlon plan at Herman Miller:

"Scanlon, for us, has been a remarkable tool. It was a philosophy, but it was also a tool. It was a philosophy of how people interacted in a business, and that was always said to be a major part of Scanlon. The bonus system was *secondary* to interaction, handling people, their interaction, their being able to manage their part of the business. That was the major part of the package." (DePree127)

CEO Compensation

"No man in the community should earn more than five times what the lowest paid worker makes." --Plato

One of the hottest topics in the business world over the past several years has been the issue of rising CEO salaries. In his Business Month article, "Multiple Pay, Multiple Problems," Bob Daily reports that executive salaries have "spiraled out of control." (76) He explains that over the last decade the span between line worker and CEO salaries has grown tremendously; so much so, that it is not unusual for CEOs to make over 100 times what line workers in their companies are paid. (Daily 76)

In 1991, former Herman Miller CEO Richard Ruch was paid \$409,000. But, as Don Borroughs reports in U.S. News & World Report, "if he [wanted] to get any richer, he [would have had] to give employees a raise first." (50) In 1984, Max DePree decided to take some advice from his good friend Peter Drucker, the management expert who influenced Japanese management techniques. Herman Miller began using a "multiple pay" scale. Since then, CEO compensation has been fixed at 20 times that of the average factory worker's wage.

The multiple pay scale has drawn both supporting and opposing responses from analysts. In a world where the "typical Fortune 500 CEO earns 117 times the amount that goes to the average worker," it is not surprising that mixed reactions have resulted from Herman Miller's policy. (Mitchell B6) And, as I will explain, both sides have good reasons for the opinions they hold.

Many analysts believe that Herman Miller is setting a very good example and that other companies should follow its lead. They call the pay policy a "key element in a corporate culture of partnerships" which has boosted Herman Miller's sales and employee satisfaction. (Borroughs 50) According to James O'Toole, the executive director of the leadership institute at the University of Southern California, "[companies] should follow [Herman Miller's] model instead of the bad examples of the 1980s. The purpose of the corporation is much broader than meeting the

needs of stock speculators or the power needs of top managers."
(Mitchell B6)

Supporters of the multiple pay scale also state that Herman Miller employees feel good about the pay policy. Boroughs states that "the spirit of cooperation is helping [Herman Miller] weather the recession." (50) Peggy Meengs, a line worker in the panel division supports this claim: "You read about how much some of these CEOs are getting, and you wonder, Are they there because of the wages? I know [Richard Ruch] is concerned about Herman Miller." (Daily 76) In other words, if employees are not discouraged by the huge amounts of money their CEO takes home, they will be more productive, happy, and satisfied with their jobs. Apparently, Herman Miller has accomplished these kinds of employee reactions--the turnover rate is only 3.2 percent, and the company is not unionized, in a state dominated by unions.

Of course, there are analysts who say that Herman Miller's multiple pay scale is not the answer we have all been looking for. Although some analysts view Herman Miller's policy as a breath of fresh air, others believe that it is big trouble for the company.

One reason some are wary of multiple pay is that the plan may not work at large companies. These analysts speculate that if the top salary in a company is capped, then all salaries from the top down will be compressed. (Daily 77) Large companies have many more levels than Herman Miller does--apparently some analysts feel that multiple pay will reduce too many salaries

down the line. (The jump between a typical executive and the CEO of a corporation is usually so high--couldn't the CEO just take a cut in pay and not touch the other executive salaries? Probably not. It would be a huge ego blow!)

According to Berkeley's Bud Crystal, a second caution against multiple pay scales is that "low multiples are often a pet project of founding CEOs, who earn much of their money from stocks and dividends." (Daily 77) Indeed, it was Max DePree who founded the plan at Herman Miller. A lower CEO salary leads to lower salaries all around, which leads to higher corporate profits. The final result is higher personal profits for the major shareholders.

The major reason analysts attack multiple pay, however, is "its potential effect on executive recruiting." (Daily 77) According to Wall Street Journal writer Jaqueline Mitchell, companies that use multiple pay scales risk being left with mediocre management because the money incentives are not there for them. (B6) Crystal further remarks that "[Herman Miller's multiple pay scale] may be a notable policy, but if you can't persuade other companies to go along with you in cutting executive salaries, you'll end up with no candidates or with someone who's soiled goods." (Daily 77) If executives know that they can have salaries of \$2 to \$3 million at company A, but that company B has a salary cap of \$500,000, perhaps the "better" executives will opt to work for company A. (At the same time, the dedicated executive may look for more than just monetary

compensation at his or her job, and perhaps company B will retain the "better" employee.)

Despite the skeptics, the multiple pay scale has been successful at Herman Miller. Mitchell points out that the company regularly reviews its executive-pay formula to check its competitiveness, and the 20-times formula is not set in stone.

(B8) Even Max DePree does not proclaim the plan to be a cure-all for companies everywhere. As the founder of the plan says, "there's no hanky-panky about this, nor is it a panacea. The principle continues to be very good. More companies should muscle up to the counter and do what's right." (Mitchell B6)

REACTION STATEMENT

Herman Miller has always been, as Max DePree says it, "in a state of becoming." Its corporate culture, mission statement, and compensation plans are very unique. The environment and technological advances at Herman Miller are as dynamic as the environment which surrounds the industry. Logically, the structure at Herman Miller has changed accordingly.

It is difficult to say what the future will bring to the contract furniture industry as a whole. The economy has not been good to Herman Miller in the past few years. However, if any companies in the industry survive, I am confident that Herman Miller will be at the top of the list. Its dedication to the changing needs of the office worker and its employees, as well as to the changes in the Earth's environment is obvious. I have enjoyed studying Herman Miller, and I only hope that I may someday work for such an innovative and proactive company.

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