By Michael Neidle

How Staffing Companies Are Managed

The Good, the Bad and the Ugly

In last March's cover story "The Future of Staffing" we applied the concepts from the New York Times best sellers to our industry. We will now build on that concept, reviewing some of the best management principles from Jack Welch's books Straight from the Gut, and Winning; as well as the worst principles illustrated from Kurt Eichenwald's Enron book, Conspiracy of Fools. We will also draw on our own staffing experience as we cover the management waterfront showing "the good, the bad and the ugly."

The Good

Jack Welch has been generally recognized as the best CEO in recent years. He started off as a chemical engineer in GE's plastics division, and rose through the ranks to become head of GE, a position that he held for two decades. Although he ran one of the largest companies in the world, many of his concepts apply to small to midsized staffing companies. We will explore some of the things that he did as well as what changes his successor has

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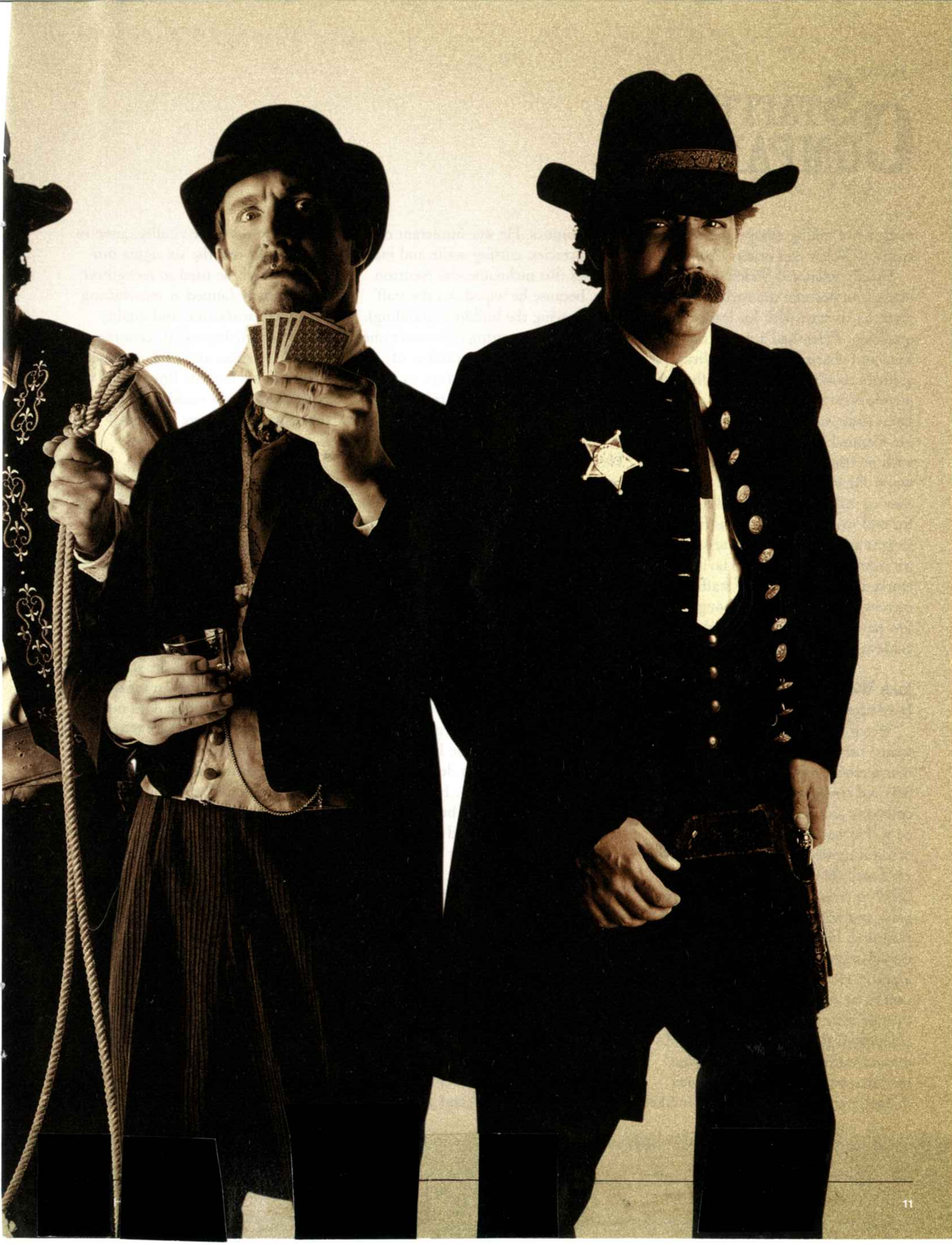

made since taking charge and the criticisms of Welch that others have made.

Exactly what did Welch do that made him become the rock star CEO? First, let us start with his leadership qualities. Welch had a magnetic persona and charismatic personality. His abilities to win friends and influence people were outstanding. His management style was straight from the gut. He blended his instinctual approach with metrics and solid analytical work. He was a born leader, knew how to influence others and lobbied for and won the promotions he sought as a result of his charisma and his outstanding abilities. Having worked with hundreds of staffing owners, we found that although very few have these traits, those who do achieve outstanding results.

Jack Welch's Concepts Instituted at GE

Welch was much more than charismatic; he had a great set of modern management tools and ideas. Welch believed strongly in the integrity of the company and everyone who represented it. He was relentless in his pursuit of winning without breaking the rules. He noted that it was the job of the CEO to create the mission of the company and was a stickler for strategic planning. He insisted on being customer-oriented, but still always making a profit. He required each business unit to be the number one or two in each of their markets. Otherwise he redeployed their assets elsewhere. His mantra was having a "boundaryless" market, constantly redefining one's market, and thus fostering new market opportunities. He was intolerant of bureaucracies, cutting waste and inefficiencies (his nickname was Neutron Jack, because he wiped out the staff while leaving the buildings standing). He insisted on getting the unvarnished facts by increasing the number of direct reporting relationships to at least 10 people from the standard seven, and then attempting to anticipate events rather then just react to them. He believed strongly in rewarding top producers with outsized bonuses and perks rather than spreading the wealth.

Welch never let his personal feelings get in the way of making hard personnel decisions. He believed in an honest 360-degree performance appraisal and required aggressive plans. He promoted the winners, but routinely terminated the bottom 10% in each business unit every year. He invested heavily in the company's information systems and their 4E program (having high Energy people, Energizing others around goals, having the Edge or courage to make tough decisions, and Executing consistently). He moved out of capital-intensive businesses into sectors such as NBC and GE capital, selling off sectors subject to unpredictable outside forces.

But Welch never ignored the analytical side of management; as an engineer by training he measured and compared every metric he thought was helpful in motivating his team, and it clearly worked. He implemented various programs for every one of his business units, including instituting an e-business strategy; QMI (quick market intelligence) program, which brought management closer to their customers; the vitality curve to rank employees; the six sigma programs, which he used to reengineer the company (aimed at maximizing customer satisfaction and quality while minimizing costs); creating all sorts of matrices and grids to compare data; and his favorite line graphs to visually highlight trends or pick out those items that were unusual.

The New CEO of GE

Jeff Immelt, Welch's hand-picked CEO, has run GE for five years now. He has, by and large, continued to run GE in Welch's mold. He has been successful, growing the company 50% in the last five years and has added many new businesses while selling off others, but his style is much more collaborative than Welch's and he has cut back somewhat on the six sigma program. Lastly, he has been more patient in making changes and does not as rigorously enforce Welch's termination of the bottom 10% of the staff. What is amazing is how much that was retained, given that it was created up to 25 years prior.

A Critique of Welch's Credo

A recent Fortune article titled "The New Rules" called into question some of Welch's concepts and suggested that it might be time to update some of them. Welch, for instance, insisted on being number one or two in his markets. The counter argument is to find a nice neat niche or create one that works for you, as you don't need to dominate a market to be very successful. It is both unnecessary and uneconomical for the typical staffing company to try to dominate its market, let alone be number one. It would need to sweep the street with low prices in order to buy market share when its structure does not provide for economies of scale; and to price as such would be foolish. Staffing companies are often able to do business at a premium price even when their client is under a national contract if they provide a superior service. A GE strategy of being number one may work for the large public companies, but is not relevant to smaller private firms. A better approach is keeping clients happy: providing the best service, being full service, having value-added programs and volume discounts.

Six sigma is no longer a religion at GE, as noted by Immelt; companies are now looking for new opportunities as they have reached the point of diminishing returns through efficiencies, by and large. While this may be true for larger companies, from my experience this is far from true for the small to midsized staffing companies, who have barely tapped into efficiency concepts.

As opposed to Welch's argument about being customer focused, given that half of customers are lost every four years, company loyalty may be an anachronism, and companies might need to think of customers as almost being "temps" and should therefore always be prospecting for new clients. Companies should not underestimate the importance of being good citizens, as well as providing the best services. Consider Wal-Mart's $4-per-prescription program, McDonald's thinking green efforts and health insurance for Starbucks employees.

GE Concepts as Applied to Staffing

Not all of the above concepts can be applied to the typical staffing company, but to be truly successful companies must have a mission and a game plan and need to periodically redeploy their assets to where they can do the most good, through organic growth or acquisitions. Unlike GE, almost all staffing companies are small and can respond to events quickly. We are a people business, not a capital-intensive business, and must hire and motivate our staff to produce in a highly competitive world. At GE, cutting costs and closing facilities was easy since there were so many opportunities to do so. When you are small the dollars are not as large, but the cost/benefit ratio may be just as great, so they need the same amount of attention. We are strong believers in win-win compensation plans, just as Welch was; that is, highly incentified compensation plans along with perks, along with long-term retention plans for the best people. This can take the form of either real or pseudo equity, so an employee is invested in the future of the company. We have found that the higher companies set the bar, the better the results. But to have the best staff, a company has to part ways with those who do not perform – maybe not as rigorously as Welch did, but it has to be done in some form or another.

Well-run staffing companies create and utilize metrics, graphs and key operating ratios to both measure and motivate. Some even convert those metrics into profitability algorithms, which translates staff productivity and efficiency into their bottom lines and uses those metrics to provide a road map to their staff as to where they need to concentrate their efforts to maximize their commission. Good managers know their market size, market trends and market share. They create annual budgets and five-year plans. They don't have a six sigma program, but they are always seeking to improve their quality, reduce their costs, improve their customer satisfaction levels and, of course, increase their profits. The key is always accomplishing the complicated balancing act of keeping everyone happy – employees, clients and owners in an ever-changing economy.

The Bad

Now let's see what the bad boys of business have wrought on us, from the likes of Global Crossing, Arthur Andersen, Tyco, Adelphia and, of course, Enron. As a result of all these misdeeds we now have Sarbanes Oxley due to compliance requirements, and like any event, SOX has its good side as well as its bad and has generated a $6 billion+ windfall of business. Much of this is due to financial staffing. We will concentrate on the Enron situation using Conspiracy of Fools. We see how a successful, but boring, energy drilling company morphed into a trading company with no cash flow, a mother lode of pyramid schemes and an accounting puzzle palace that was a masterpiece in obfuscation.

Enron is what happens when unbridled greed, evil genius, creativity, political influence, outright criminality and opportunity collide. It was a slippery slope starting with abuses that had initial success that encouraged, indeed mandated, Enron management to see how much they could get away with. But the house of cards eventually collapsed along with some $60 billion in market value.

I will not bore you with the full details of "market-to-market accounting" or other mystical ways Enron booked earnings without actually making real money, which is described in this 748-page book documented with 50 pages of annotations, but the essence is that Enron's accounting was so creative that no one outside the system understood it well enough to challenge it, and nobody inside the company was willing to tell the emperor directly that he had no clothes. The political connections and campaign contributions that Enron cultivated at the highest levels helped to ensure access to deals that few could get in on just on their merits alone. But Enron was not the first to use creative accounting. Others pushed the envelope by capitalizing employment contracts, selling assets to make quarterly earnings, using limited partnerships for off-balance sheet financing, booking software project revenue on a percent-of-completion basis, and so on. It is very easy to be seduced by the ability to create earnings via creative accounting. The trick is to know where the line is and not step over it. Perhaps the only real surprise was with the highest paid lawyers money can buy, that the guilty were actually convicted, with Jeff Skilling getting 24 years, Andy Fastow now serving six years and Ken Lay having his guilty verdict set aside, only due to his premature illness and subsequent death, before his appeal could be heard.

What enabled GE to come out so well while Enron went bad? Both were ripe with politics, both were driven by making earnings and both hired the best and brightest. The answer is that

follow through on recommendations. Eventually the father had enough and was forced to sell the company, but at a heavy discount given the state of flux it was in.

What Can Happen When You Don't Accept Reality

Case III. In just the opposite kind of situation, a high-flying IT staffing firm in a major Northeastern city was growing and doing quite well. The owner was a high-energy person with total self confidence. He was a classic egocentric person with an unrealistic estimation of his capability and what he could accomplish. He dismissed advice to hedge his bets as being too conservative. He was told he should not have too much of his business with one very shaky customer, that his day's sales outstanding were growing, that his forecasts were unrealistic and that his spending levels would lead to a cash crunch. He nevertheless moved into a top-of-the-line office building doubling his initial space and tripling his rent, he increased his staff by over 50%, he sponsored expensive industry events and took out full-page ads, and he enjoyed a very expensive life style. He was one of the first casualties of the dot.com bust as he drove his company off the cliff as everything collapsed around him.

What Should Good Staffing Management Do?

Filtering the best and the worst, we can apply certain lessons to the ever-dynamic staffing industry. Here is my top 10 list of what to do to run a successful organization:

1. Provide leadership. Everything starts with strong leadership. People need direction, focus, controls and a fair system of rewards. Although they don't require a charismatic leader, they do need someone they respect, who can follow and lead by example, who is open to input from staff, and who has a strong ethical compass.

2. Make sound decisions. Good managers use both their gut instinct along with an analysis of the facts to make good decisions. The gut is really their analog computer that tells them, based on their experience, if something either makes sense on the face of it or doesn't. When things are not obvious, they have to run the numbers and ask questions to figure things out.

3. Create teamwork. A company should be a team effort and is only as strong as its individual members. If you have a great sales rep who brings in the orders, but your recruiters are not filling them, or vice versa, you can't succeed. Providing team-based incentives leads to the identification of weak links. Get close to your staff socially, but always remember who the boss is, and don't let friendship cloud your judgment.

4. Streamline your company. Don't have more people than you need. Streamlining the organization not only saves money, but also people who are fully utilized are happier campers. And in today's increasingly fast-paced world you can't wait until critical information works its way up the food chain before you know about it and can act upon it. Streamlining maximizes your span of control so that you can get as close to the action as possible, and reduces the likelihood that information will be filtered before reaching you.

5. Be connected. Our rate of change makes it incumbent on you to utilize electronic communications (e-mail, pagers, etc.) to stay connected, as long as you don't become overloaded. Don't operate in a vacuum of your company information alone. Be connected to the world around you and integrate that information with your internal data in order to make sound decisions. Join industry as well as eclectic associations. Be on the Internet and be well read. Seek advice from others including outside experts. One of our clients used his social connections to entertain the movers and shakers in his community for both seeking advice from successful people as well as opening up doors for his staff. Never stop learning, and if you are doing great, don't think that now you have all the answers.

6. Retain control. Always remember that it is your equity that is at stake in your own business and that even if you have a bank loan, it is your house that may be held as collateral. Having a good staff is critical, but it is only the owner who will do anything to ensure the success of the enterprise. So stay in control, have adequate checks on the decisions that affect the financial viability of the company and make sure that you sign off on all key decisions (see Case I, above).

7. Be analytical. Most staffing company owners and managers are not as comfortable with numbers as they are with people. That is understandable given that we are in a people business. But you don't have to be an accountant to understand the meaning of not making a profit or not having sufficient cash flow to cover payroll. You need to be able to understand which numbers are important and how to fix things if they are flashing red. You can always hire people to do the number crunching, as long as the numbers are being crunched competently and are then translated into something that you use to run your business. As noted above, your gut alone is not usually enough.

8. Think "boundaryless." You don't need to be large to extend your staffing business boundaries. This also helps when your margins are thin or your market share is low. A good way to do that is to create value-added services. Some of our clients have done this via training workshops, performance guarantees, employee retention programs, profit improvement programs, alternative billing methods, career counseling, customized reports and proprietary screening methods. They first created, branded and copyrighted the services. They then promoted and bundled the services, which increased their margins as well as their market share. Project solutions offer a similar way to extend traditional boundaries, but this does involve greater risks as you are now responsible for deliverables, not just staff augmentation. The results can be impressive with an increase in profits of up to 60% higher for those who are able to perform in this arena.

9. Communicate well. You need to clearly communicate whatever your concepts are to others, unless you want to do everything yourself. Good communications start with explaining why you are requesting that things be done in a certain way and then what the benefits are to those parties involved. If you come up with a new compensation program for your staff, for example, you will need to explain how that plan (if it is designed well) will make the employee, as well as the company, more money. You should be prepared to provide examples and answer whatever questions arise.

10. Be creative. GE had its 4Es, QMI, six sigma program, its unique grids and charts. Create your own tools and convert them into your own buzz words and mystique to energize your staff and stand out from the competition. Last March we wrote about some of the creative concepts from Blink, The Tipping Point, etc., such as viral marketing, thin slicing problems and connectors. Build on those concepts and be better than your competition by staying one step ahead in the creativity arms race.

Mike Neidle started Optimal Management, Inc., in 1994 (www.optimal-mgt.com) mentoring staffing owners in sales, finance, comp plans and acquisitions, to maximize sales, profit and company value. He was senior VP of Snelling and executive VP of Hall Kinion (now part of Kforce), and CEO, CFO and marketing director for startups to Fortune 500 Corporations. Neidle has an MBA and engineering degree.