When the going gets rough: A Baldridge Award winner on the line

Robert C. Hill

Executive Overview

In 1990, the Wallace Company became the first small service company ever to receive the Malcolm Baldridge National Quality Award; in 1992, just two short years later, it filed for Chapter 11 and was acquired by Wilson Industries. This success, then failure, of a company dedicated to total quality management (TQM) has raised many eyebrows and caused numerous critics of the Baldridge Award to question both its veracity and its value. Interviews conducted with the former Wallace Company CEO, John Wallace, and Wallace Wilson, CEO of Wilson Industries, suggest that the company’s overzealous pursuit of TQM and the Baldridge Award may have contributed to the hard times that followed.

Background

The Wallace Company, a 1990 Malcolm Baldridge National Quality Award winner, received a considerable amount of press for its quality programs. However, in January 1992, the company filed for protection under Chapter 11. Subsequently, it was acquired by Wilson Industries, Inc., a large oilfield supply and service company with sales of more than $300 million. Today, the Wallace Company is part of the Tyler Dawson division, formerly a Wallace competitor in pipe, valves, and fittings.

This article reports on interviews with John Wallace, CEO of the former Wallace Company, and Wallace S. Wilson, CEO and chairman of Wilson Industries, Inc. John Wallace is now a vice president of Wilson Industries and is working with managers of Wilson Industries to develop and implement a quality improvement program in the merged Wallace/Tyler Dawson company as well as Wilson Industries.

Some people view quality improvement programs as something you do to improve your competitive position in good times, but what happens during hard times?

John Wallace: Please understand that when we joined the quality movement, it was anything but good times for us. We were just the opposite of what you are suggesting. In the early eighties, we were thirty million dollars in debt. Our debt was down to five million when the bank closed on us. In the last seven or eight years we were able to reduce our debt by about twenty-five million dollars. So we have really done pretty well.

When we went into Chapter 11, did we maintain the same pace as we did earlier in the quality movement? No. We had made the commitment to be involved in the quality movement during hard times, but those were exceptionally hard times. We did have to lay off some people at a later
date—and that was one thing that we probably fought too long. We all know that part of the quality movement philosophy is that, if something does go wrong, you try to find another place in your company for the affected employees. That’s great if you’ve got a large corporation, but for us there just wasn’t any room for them.

After filing for Chapter 11, we continued going out to all of the different company locations and giving updates to the associates. We also asked for their suggestions to help us cut costs. There were some suggestions made for cutting costs, but they just weren’t enough. There were just no alternatives if we were going to save the company. When we finally did have to cut people it was no surprise—our associates had drawn the same conclusion.

I know fairly well where all my people are now. The one thing that is really significant to me is that less than two percent have not found jobs. Because potential employers were so interested in knowing what our people had learned, most who were laid off were able to find jobs, even in very difficult times.

Did you provide outplacement services?

Yes—of course. We couldn’t give those laid off golden parachutes, but we did give them two to three weeks of vacation. More importantly, we obtained an outside counselor to aid and assist them in finding new jobs. Fortunately, a number of them did not need this service. Some of the associates were able to get jobs almost immediately. We didn’t have many people quit even during these hard times. We did lose some, but not many. I would say about sixty-five to seventy percent of the original people are still in place.

You said that you asked for cutting suggestions. Did you ask for suggestions on who would be laid off as well?

Interestingly enough, some people came up and said, “Look I have plans to do something else later on. I’ll quit right now because Mary Smith needs a job. We did talk to them about it. We were very, very open. They knew the figures and how much we had to cut. When we got down to the bottom line, there were just no other alternatives.

So some of the openness that you established while developing the quality program really paid off?

It made it a lot easier. I don’t think that there were any hard feelings at all. They were scared. They understood what we had to do. Certainly everyone knew that there would be layoffs. They just didn’t know exactly which people were going to be laid off. I will say, however, I think most people know if they are expendable or not. There weren’t many surprises.

Did any of your people become reluctant to take initiative as a result of the potential layoffs?

No, I don’t think so. I think the one thing we’ve been successful in eliminating is fear. What you are talking about is when the fear factor kicks in, they believe that if they make a wave, then they are going to be terminated. I never saw that.
The fear factor was our biggest problem when we first got started in the quality movement. We thought that by being a family-owned company, we would not have a problem with fear. It was probably the problem that we solved best of all in the end. I don’t think that there’s a company in the United States that doesn’t have this problem. There are varying degrees of the problem, but unless a company is involved in the quality movement, I would expect that their fear factor is extremely high. That is the way we have all been brought up to run a company. The prevalent attitude is “Either you are going to do it my way or else.”

Do all of the policies of empowerment that you developed in the Wallace Company still hold true now after the mergers? For example, can all associates make the customer-related decisions of up to $1,000 without seeking higher approval?

No. That will be my job—to bring it all back. That’s the hard part. We have two different cultures and it is very difficult for our people because they must work under different circumstances. I hope that in a relatively short period of time, one or two years, we are back at that point. That is going to be one of my main goals. Tyler Dawson has only been a part of Wilson Industries for a year and a half. They were working on a quality improvement program, but they were trying to do it all internally. They were going through the process we went through when we first got started. It took us two years before we even found out which areas we needed to work on the most. About that time, we found the Malcolm Baldridge criteria and used that as our guidelines. We are not striving for that goal now by any stretch of the imagination.

I have been talking to Wally [Wallace Wilson, CEO of Wilson Industries] and we are going to wait and see in which areas I can help. I can’t tell you exactly what my role is going to be in the future. Right now, we desperately need to get the quality process going again to jump start the company. For now, that is my main role. In a month or two, I fully believe that we will have a good in-house program going. We have a couple of people that were trainers with the old Wallace Company that are going to be trainers here. So hopefully, I can eventually go on to working on other things.

I am also going to be working on helping to build the quality program in Wilson Industries. Wilson Industries is already involved in the quality movement, but we want to expand it—that is going to be a fairly slow process.

Given the amount of autonomy that former Wallace Company employees had, have there been any problems since the acquisition?

Yes. It’s hard—extremely hard for them. Of course, they are pushing me very hard to get the quality program up to speed where they can work under the same environment as they did before. Even though they have lost a lot, they are working very hard to bring the others up to speed, but it is a slow process. We’ve got to go through the whole paradigm shift.

What role did the Baldridge award play in the acquisition?

I’m sure that it made the company more appealing. There’s no doubt about it. That’s why the merged company is going to be named the Wallace Company.
because we have the reputation. We will have the award on display in our quality room.

**What things are most critical in keeping a quality program going through difficult times?**

I think that one of the main things would be openness. You must continue to talk with your associates. Let them know where you are. They are scared. This could mean their jobs. They need to know what is happening and what you’re doing about it. It’s important to keep the fear factor down as best you can. There is nothing worse than not knowing what is happening when you are in a company having problems. Truthfully, what actually is happening is never as bad as what you think it might be. Your imagination can just go wild. So, we talked to our people all the time. I personally spent a lot of time talking to them.

**While in Chapter 11, how did you find the time to talk with your associates?**

It was hard. I probably wasn’t doing as good a job as I should have on anything because I was spread too thinly. I was talking to potential suitors, potential investors, trying to keep the people happy—and biting my fingernails. One thing that I enjoy now is that I can focus on certain areas and not be spread so thinly. Before, there were too many interruptions.

**What lessons has all this taught you?**

One thing I learned is that there can truly be a partnership created between the supplier and the customer. It need not necessarily be an adversarial relationship. The mere fact that we were able to keep our customer base is evidence of this. That, to me, is the biggest selling point of the whole quality process. Our customers had all their eggs in one basket with the Wallace Company. If we had hit the wall, and not told them about it, they could have a plant almost shut down. With a number of our customers, we produced all of their back-up inventory. If we were given orders in the morning, we had to have it out by that afternoon. We have maintained an on-time delivery performance of ninety-three percent, and with some of our customers ninety-seven percent—even during our hard times. That is still better than any of our competition. That would be one of the most beneficial things that came out of the quality process. There really can be a trusting relationship that can develop between customer and supplier. I don’t think many people believe that can be done in today’s business environment.

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There is also the lesson of the benefits of having your associates involved in the day-to-day workings of the company. I believe that is the only thing that kept the whole company together.

Maybe the major lesson is that quality programs can work. They are not a guaranteed success, but they can work.

**Postscript**

In a separate interview, the CEO of Wilson Industries Wallace Wilson offered his perspective on what had happened at Wallace Company.
How did pursuing the Baldrige Award play a role in the Wallace Company’s problems?

Wallace Wilson: In trying to qualify for the Baldrige Award, it may have been overkill. It is quite expensive and not entirely necessary. When you do win the Baldrige, there is also an obligation, if not a contractual commitment, to go out and spread the gospel. It takes a lot of time away from work for the key people to give talks and spread the word. You also have to open up your business to others who want to see your systems and your procedures. That is good, but if you are in the business of trying to survive, it can become a financial problem and defeat your original purpose of being in business.

There’s really nothing new about it. It is just good common sense to do things right the first time.

The fact that they had won the Baldrige Award was very nice. It brought a lot of positive public relations and that sort of thing. In looking at their operations, however, we have no desire to mimic what they did. We want to review what they have done and see if it makes sense. Just because they won the Baldrige Award itself really does not mean anything to me. If it leads to problems by making it more expensive to operate under a number of burdensome procedures, winning the Baldrige can almost be a negative.

I think some companies use it and promote it strictly for the marketing advantages. They hype it and talk about it, but it really isn’t valid. If you talk to their people, they really do not believe in it and they are really not doing that much. Other companies may not talk about it very much, but they have got it going. They have done some good things and they are very pleased with the end results. There are certain elements of it that are just good common sense. There’s really nothing new about it. It is just good common sense to do things right the first time.

About the Author

Robert C. Hill is an assistant professor of management in the College of Business Administration at the University of Houston. He has co-authored several papers on total quality management and implementing quality improvement programs. His other research interests include innovation, entrepreneurship, and the corporate venturing process. He is also an active member of the Academy of Management and an officer of the Entrepreneurship Division.