CASE 3-1 Excel Industries (A)

Background Note

The workforce in North America, particularly in the United States and Canada, is becoming increasingly female, reflecting a general trend toward two-paycheck families.

According to a study from [the] Hudson Institute, an increasing number of women are entering the North American job market. Since 1990, approximately two-thirds of all new entrants to the workforce have been women. And, since about 2002, nearly two-thirds of all working-age women in the United States have entered the workforce. Other studies indicate that women in the United States have entered the job market more for economic than for professional reasons. While the number of women with college degrees and professional credentials is rising, so is the number of single-parent families headed by women. These families are, for the most part, well below average in income and education and are more likely than two-parent households to require public assistance.

At the same time, employers are coming to realize that what had formerly been seen as "women's issues"—including flexible scheduling, maternity and family leave, and daycare—are really "family issues," deserving serious attention from both the public and private sectors. Some of these matters have become the object of protracted and heated negotiation during collective bargaining. What once was regarded as a luxury or fringe benefit in many organizations is more frequently viewed by employees as an entitlement.

In North America, and especially in the United States, daycare for the children of working mothers is not seen as an entitlement to be provided by government. The U.S. federal government views itself as constitutionally excluded from issues related to management of education and child care, and state and local governments cite a lack of funding. Corporate America has increasingly come to see a social responsibility for the children of their employees, and employees have come to expect and depend on such corporate responsiveness to their needs.

This case deals with several aspects of these emerging family issues. Each employee has both a cost and a value to a business organization, and each employer has concomitant obligations and responsibilities to those employees. This case is about balance among those obligations and management decision making when obligations are in conflict or when responsibilities pull in opposite directions.

This case also involves corporate communication. The executives and management of every business enterprise operate in an environment that is information-rich, yet rife with rumor, misunderstanding, and misinformation. Business leaders must understand that every action, whether intended for public discussion or not, will have an effect on the public's perception of their business. Business leaders should also understand that, as they draft their corporate strategy and implement tactical moves in the marketplace, they will interact and communicate with a diverse and complex audience. Individuals who will see and hear of management's actions will have varying backgrounds, reading abilities, knowledge of the subject, political views, prejudices, and interests.

In many ways, the mass audience reached by radio, television, newspapers, magazines, and the Internet is actually many smaller audiences. It may be helpful to think of the larger audience as comprised of shareholders; customers; suppliers; competitors; politicians; local, regional, and national government officials; potential investors; prospective employees; neighbors; community members; and others.

In some cases, business leaders might well consider separate messages for separate audiences, designing their content for the

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backgrounds, needs, interests, inclinations, and potential reactions of each. Shareholders, for instance, might have a greater interest in knowing how an event or announcement will affect their investment than do members of the surrounding community. Employees might have a much keener interest in how an event will affect their jobs and their lives in the organization than would others.

A Manufacturer Moves into Child Care

In 1988, Excel Industries, Inc., a supplier of window systems to the automotive industry, purchased Nyloncraft, Inc., a $40 million injection molding company. Both firms were headquartered in northern Indiana, in the heart of the domestic automobile supply region. At the time of the acquisition, Nyloncraft was a highly regarded firm with great promise for growth and had exactly the sort of manufacturing capacity, equipment, and labor force that Excel Industries was looking for.

When the corporate takeover was executed, Nyloncraft, Inc., operated a daycare facility that was regarded as among the most innovative in the nation. *Money* magazine, *U.S. News & World Report,* and other business publications featured the facility, describing it as "one of the best-equipped 24-hour-a-day learning centers in the Midwest that is operated by a corporation for the benefit of its employees." James J. Lohman, chairman, president, and chief executive officer of Excel Industries, said "When the Learning Center was opened, it suited the needs of Nyloncraft very nicely. It was expensive, but it helped us to attract and retain a reliable workforce that would help the company grow. We had a number of female workers who were of child-bearing age and it made good sense for us to assist them with their child care needs. We knew from experience," he added, "that a first-class, on-site learning center would reduce turnover, absenteeism, and tardiness. It was good for business, it was good for our employees, and it was good for the kids."

When he said expensive, Lohman wasn't exaggerating. "When Excel acquired Nyloncraft, we immediately invested $200,000 in the Learning Center, improving it so that it met or exceeded all recommended standards for facilities of that type." The Center's annual budget was in excess of $400,000 to provide round-the-clock care and instruction for 162 children.

The Cost of Providing On-Site Child Care

"Within a few years," Lohman said, "we discovered that fewer and fewer of our employees had children enrolled in the Nyloncraft Learning Center, so we expanded enrollment to the community at large." By July 1988, employees' children accounted for about 45 percent of the enrollment at the Center. "By 1990," he said, "less than seven percent of those enrolled were children of Nyloncraft employees." And by then, he added, the annual subsidy had grown to nearly $300,000. All parents with children enrolled in the Learning Center, regardless of who their employer might be, received a substantial tuition discount, each paying just a fraction of what such care and instruction would be worth on the retail market.

"We weren't just looking after these children, as a baby-sitting service might," he added. "We provided state-certified instruction, professional preschool development programs, and we fed them. Our insurance, reporting, and oversight problems were growing by the day. It was becoming increasingly difficult to justify a subsidy that was well in excess of a quarter-of-a-million dollars for the children of only 10 Excel employees. The financial pressure was simply too great for us to continue the operation."

Excel tried unsuccessfully for nearly a year to find a buyer for the Learning Center. Failing that, they tried to find a management firm that would agree to take over the day-to-day operations of the facility. "No one would step forward to help us," he said. "We didn't

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want to close the Nyloncraft Learning Center. But, increasingly, I saw fewer alternatives open to us."

Lohman began to think carefully about the decision alternatives available to him and the audiences that would be most affected by his choice. Looking after the children of those few employees who still used the Learning Center would be neither difficult nor expensive. But how would others react to a management decision to close the facility? What other choice did the company have? What other choice did the parents have? Quality daycare was in short supply in the local area, and time was running out on Jim Lohman. The board of directors wanted an answer from him soon.

The two most troubling questions were deceptively simple: What should I do about the Learning Center, and how should we communicate our decision?

DISCUSSION QUESTIONS

1. What ethical obligations, if any, did Excel Industries have to the women who were employed there?
2. Is an employer obligated to provide daycare for its employees' children?
3. What obligations does the firm in this case have to the community? Having once opened its doors to the children of nonemployees, was the firm obligated in any way to continue caring for them?
4. Could a firm, such as Excel Industries, sidestep ethical issues associated with daycare altogether by recruiting either male employees or women past child-bearing age?
5. What responsibilities does Mr. Lohman have as chief executive officer to the shareholders and debtholders of Excel Industries, Inc.? Does his obligation to maximize shareholder wealth and minimize debtholder risk conflict with an obligation to provide a safe, comfortable working environment for female employees who may be concerned about child care?
6. Since it became apparent to Mr. Lohman that the Nyloncraft Learning Center could no longer be economically justified, what ethical obligations did he have to the women whose children were enrolled there? Do Mr. Lohman's responsibilities to employees of the firm exceed those to women who are not employed by Excel Industries?
7. What role should corporate public relations and the public news media play in communicating this decision to Excel Industries employees? What role should they play in communicating the decision to the community at large?
8. What vested interest do you suppose the community has in the continued operation of the Nyloncraft Learning Center? Do any reciprocal obligations exist between the community and the employers for the proper care, feeding, and education of preschool children whose parents are employed in the community? Has Excel Industries violated any "unspoken pact" between management and its workers, or between the company and the community?

WRITING ASSIGNMENT

Please respond in writing to the issues presented in this case by preparing two documents: a communication strategy memo and a professional business letter. In preparing these documents, you may assume one of two roles: you may identify yourself as an Excel Industries manager who has been asked to provide advice to Mr. Lohman regarding the issues he and the company are facing. Or, you may identify yourself as an external management consultant who has been asked by the company to provide advice to Mr. Lohman.

Either way, you must prepare a strategy memo addressed to Jim Lohman that summarizes the details of the case, rank orders critical issues, discusses their implications (what they mean and why they matter), offers specific recommendations for action (assigning ownership and suspense dates for each), and shows how to communicate the solution to all who are affected by the recommendations.

You must also prepare a professional business letter for Mr. Lohman's signature. That document may be addressed to parents of children attending

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the Nyloncraft Learning Center, addressing their concerns in the case. If you wish, you may write separate letters to parents who are Excel employees and to parents who are not employees of the company. If you have questions about either of these documents, please consult your instructor.

NYLONCRAFT
Summary Balance Sheet
December 1990

Item	Amount
Cash	97
Accounts Receivable	3,207
Inventory	7,308
Prepaid Expense	93
Total Current Assets	10,705
Fixed Assets, Net	8,585
Goodwill and Other Assets	3,691
Total Assets	22,981
Accounts Payable	1,897
Accrued Liabilities	1,232
Current Portion Ltd	413
Long Term Debt, Banks	1,800
Due to Parent/Equity	17,639
Total Liabilities & Equity	22,981

NYLONCRAFT
Income Statement Year Ended
December 1990

Item	Amount
Sales	36,730
Cost of Goods Sold	35,332
Gross Profit	1,398
Selling and Administrative Expense	2,697
Operating Income	(1,299)
Other Expenses	522
Loss Before Tax and Corp. Allocation	(1,821)

Note: Figures are given in thousands of dollars (U.S.).

This case was prepared from personal interviews and public sources by James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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