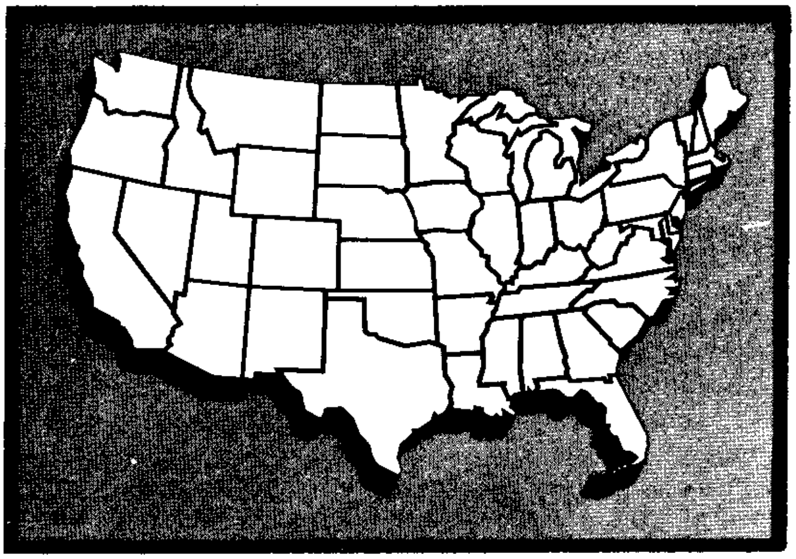
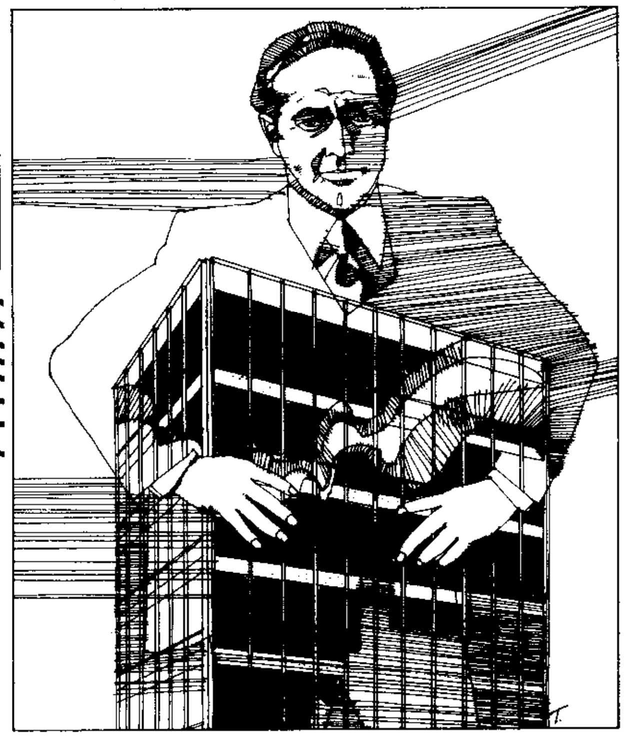


STANLEY W. GUSTAFSON

Hell Week—
Or, How Dana Makes Its Managers Money-Conscious

Most managers know that they must begin work almost immediately on the programs proposed in their budgets if they are to produce the results hoped for, but many still have to wait several months before committing their staffs because of the time lag at their firms between submitting a budget and receiving approval on it. This delay can be discouraging and cause loss of enthusiasm for the projects suggested; for nothing kills a manager's—or his department's—enthusiasm about a program more than having to wait. Furthermore, some early forecasts become obsolete by the time final approval comes through.

By condensing all discussion and approval of budgets into one intensive week, Dana Corporation, a leading manufacturer in the power-transmission field, has eliminated these problems. During this "Hell Week," all division and subsidiary general managers pre-



sent their complete plans and forecasts for the coming year in person to the company's Administrative Committee and are notified of its decision.

Hell Week was initiated at Dana as part of our companywide program to eliminate excessive paperwork. Financial controls were centralized at that time, which meant that each of our plants and our divisions—so-called profit centers—annually had to prepare capital budgets and expense budgets, including sometimes even such trifling expense items as subscriptions and dues.

The budgeting merry-go-round

Each of the budgets was prepared in an outlying district by a profit center, transmitted to the general office for review, then sent

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to the staff office. From there, it was returned to the profit center for any corrections, additions, or deletions deemed necessary by the controller's section.

The time required for all of this was fantastic. The budget process began in April of each year and took five months to complete. (Our fiscal year runs from September 1 to August 31.) By then, sales forecasts and other budget items that we had received in April, May, June, and so on were obsolete. The capital portion of the budget, too, always involved a great deal more paperwork than the rest, since people, rather than say "no" to a capital-project request, find it easier to hide in paperwork or stall by asking for more detail.

To eliminate these delays and bothersome procedures, we decided that we would throw away the old budgetary process and do something new. After we had considered and rejected a number of alternative ideas, Hell Week was born.

The first week in August of each year was set aside for this process, because it was the closest to the beginning of our fiscal year, yet still gave us a three-week buffer to make essential corrections or alterations to the plan. In August, we also felt, our operating groups would be more likely to have accurate sales information—certainly for the first three or four months of the new fiscal year.

Focus on planning, not paper

Each division was told that it no longer had to prepare a great deal of detail or paper. Instead, all it had to do was come to Toledo, Ohio, where our corporate offices are located, and meet with our Administrative Committee, made up of the chairman of the board; president; vice-presidents of finance, planning, and international; and group vice-presidents. The divisions' managers were told that they could bring anyone they wanted to the meeting, but that they must bring their financial managers, because this was going to be a money session. (The purpose of our being in business is, of course, to earn money, so we have always tried to make our divisions money-conscious and to make money managers out of our division personnel.)

At these meetings, we told the division managers, the divisions' plans for the coming year would be discussed. We also told each division that we wanted to know its plans for the next four years, by year, concerning total sales and profit after taxes. To help stimulate the planning process and to make sure that the divisions were giving some thought to long-range planning, we asked them in addition to jump ahead ten years and tell us what the picture would look like then.

Most divisions show up for Hell Week with just their general manager and their controller. Some, if they have a special project in mind, will bring along one of their other "team" members, such as a salesman or an engineer. Each division is given as much time as it needs for its presentation. The meetings run, for the most part, an hour or less and are held one immediately after another—a fact that helps explain how Hell Week got its name. Although a lot of people believe that it's called Hell Week because the Administrative Committee raises hell with those who appear before it, that is not so; it was so named because, after the first year, the Administrative Committee realized that a solid week of sessions with one group after another, without letup, was hell on it—not on the division personnel.

Initially, most of the division presentations lacked professionalism. While we had some that were very good, many were unpolished. Our people just were not used to describing their situations verbally. In the last few years, however, the presentations have improved and become remarkably polished, and the evidence of a constant thread of money-management awareness that now flows through the general managers' minds has been marvelous to watch.

The order in which the presentations are made is determined by the corporate controller, based on the divisions' time needs and their preference, if any, as to the day or time of their appearance. If a division prefers to come on Monday morning rather than on Wednesday afternoon, for example, it is given its preference if possible.

Generally, we try to schedule those divisions located some distance from headquarters late in the week, so that they have to stay only a short time. The divisions that are within easy driving distance meet earlier in the week with the committee. If the divisions do not have a preference, we try to arrange the presentations into some logical pattern. We may, for instance, schedule those divisions that handle the products of all the other divisions—such as the international or service division—early in the week. In this way, we know what their plans are before we listen to what a specific product (manufacturing) division's plans are. This order of appearance, we believe, is helpful to us later on in deciding whether a product division truly needs to expand its facilities, or whether there is going to be great demand for a particular product—in addition to that in a division's own market—that the division in question may not yet be aware of.

The first four days

Hell Week begins on Monday morning with a presentation by our corporate economist on the future state of our economy, the outlook for our industry, and the world economic situation for the coming year. Next come the presentations by our divisions, one after another, until Thursday noon.

The meetings are held from eight in the morning until six in the evening. In making its presentation, each division first reviews what it told us last year and what it has actually done during the year. That establishes the extent of any "credibility gap." Next, it tells the committee its plans to improve sales or increase profits and whether there is anything special, in its opinion, that will affect its market this year. Finally, the division asks for the amount of capital it will need—both working capital and fixed capital—to operate during the next year and subsequent four years. At this time, the only piece of paper that the committee asks the division for is a funds-flow statement. The division then leaves the room to await the committee's decision on Friday.

On Thursday afternoon and evening, when all the presentations have been made, the corporate financial department puts the whole thing together, consolidating what all the divisions have said with what the general office has told it. Next morning the department meets with the Administrative Committee and reviews with it the divisions' profit and sales plans for the upcoming year and four years after that. We then discuss the credibility of those numbers to determine what corporate sales and profits will be. We do this by a very scientific method: We all vote. It's interesting how remarkably close we really are on the ballots; most of the time we agree on what the sales and profits will be. But vote we do, and that vote decides what our corporate position will be.

Next, we discuss the requested capital programs. To let the committee know how much available capital the company is going to generate, the vice-president—finance reviews the corporation's cash flow and what effect it will have on the business. He also tells the committee what Dana's borrowing power is and the total amount of money available, should the committee decide it needs it. The committee then looks at the capital projects that the divisions have asked for and evaluates each request against the other and against the cash requirements of the corporation. We do not concern ourselves with specific capital areas; we couldn't care less whether a division wants to buy a truck or a drinking fountain. What is important to us is the whole program.

The committee thus examines the divisions' requests and their relationship to division and corporate sales and profits, as well as other cash requirements of the corporation—for example, for other funds needed for corporate ventures of importance—and decides, subject to the approval of the board of directors, how much money should be allocated to each division or subsidiary. Sometimes we find it necessary to give less than requested. At other times, we may suggest, through a particular division manager's group vice-president, that the division expand its thinking. If, for example, we think that a division is going to grow faster than it expects, we may suggest that it consider buying 100 acres around its plant instead of the ten acres it is planning to purchase.

The divisions are free to spend the money allocated to them as they choose in order to achieve the profit and sales goals they have set for themselves. Generally, we find that given the freedom to control their capital projects, people will ask for less money than they would if they had a constraint on them. If you say, "There are no constraints; just tell us how much you need and what kind of return you are going to make," they also have a tendency to evaluate money needs more accurately.

Initially, though, division personnel asked for a lot, expecting to be cut back as they had been under the old capital-budget procedure. The first year, I recall, the divisions asked for twice as much money as the corporation was going to generate. We gave them the money that they asked for; and by the end of the year, they hadn't come anywhere near spending half of it, because that was all they had had time to spend.

Once the Administrative Committee has taken its position on capital, we have, in effect, accomplished the purpose of Hell Week. We know what our sales and profits are going to be, although we may disagree with a particular division's forecast. However, once a division has committed itself to that, we don't change it; and we don't tell the division manager to change it. It's his commitment, and we let him live with it.

Friday

On Friday we have a meeting with all the division managers and their controllers and we explain what the results of Hell Week were—what the posture for the corporation will be. We tell the group what its combined numbers added up to in sales and profits —the numbers we plan to take to the board of directors. Each division manager is informed that his respective group vice-president will review his specific forecasts, projects, capital requests granted, and so forth.

On Friday, also, division personnel are allowed to question the committee on why it chose that particular course for the corporation as a whole. We tell them what the total capital picture is and how much total money will be generated by the company as a result of those numbers. It's a comprehensive learning process that helps division personnel to be associated with the total—that lets them feel that they are a part of the whole. It's a psychological thing as well as a physical thing; and when they go back to their divisions, they know exactly what plan they are working on.

In addition to providing immediate response to cash requests, Hell Week gives division and subsidiary general managers and their controllers an opportunity to talk with the Administrative Committee about their plans for the coming year, to answer the committee's questions, and, in general, to plead the case for their cash requests. This was not so before Hell Week was implemented. Then, budgets were submitted to the general office and decisions made on them many times without face-to-face confrontations.

Hell Week also has advantages for the seven-member Administrative Committee. With the case for each requirement for funds fresh in the minds of its seven members, the committee is better able to evaluate each request against the other and against the cash requirements of the corporation and to decide how much money should be allocated to each division or subsidiary.

I have no way of guessing how much time the divisions spend getting ready for Hell Week, but I do know that they do not have to prepare an armload of books or the big volume of detail for us that they previously had to prepare. So the time involved in preparation has been drastically reduced. As a matter of fact, we probably would now have to start long before April to go through the same process that existed before Hell Week came along, because then we were talking about $400 to $500 million worth of sales and now we are at a billion. And you have to run a billion-dollar business differently from a $400-million one.

Why do we believe in the Hell Week concept? Well, we feel that you can control a business in one of two ways: You can institute a kind of martial law, with troops stationed in each hamlet or village standing guard; or you can sit back and let each village be self-governing, picking up a blip now and then on the radar and attending to that. Because of our company's size, we feel it has to be self-governing to be successful. And Hell Week, by de-emphasizing detail, specifying personal interaction, and focusing on profit and sales goals and their relationship to capital-project requests, is one way that we allow our divisions to govern themselves. We are scanning the field on radar continuously, looking for storm clouds; but we are not there with the troops or martial law ahead of time.

Hell Week, we believe, is a natural extension of our "paperless management" concept. Our objective is to make sure that the division manager is managing his business. That's the whole secret; what we are after is to help that person to be a money manager.

STANLEY W. GUSTAFSON, vice-president—finance of Dana Corporation, joined Dana in 1958 after graduation from Michigan State University with both a bachelor's and a master's degree. He started with Dana as an internal auditor and has held positions as plant accountant, plant manager, and internal audit manager. He also served as staff analyst for Dana's Spicer Division and as secretary/treasurer of its Victor Manufacturing and Gasket Division. Prior to his appointment as controller in 1968, Mr. Gustafson was director of operations analysis for the corporation. He was elected vice-president/treasurer in 1969 and vice-president—finance in 1971.