

Extraordinary managers discuss extraordinary management

The Savvy CEO Speaks

CEO Peter Flood has led The Flood Company since 1982.

Founded in 1847 in Cleveland as a paint-contracting firm, The Flood Company is a family-owned corporation that has been serving the painting industry for over 150 years. Development of a penetrating technology, Penetrol, is responsible for most of Flood's top-selling products today, like CWF-UV Clear Wood Finish and the longest-lasting stain on the market, Flood's Solid Color Deck & Siding Stain. Today, The Flood Company is a leader in exterior wood care and counts as its customers all major home centers and paint centers across the U.S.

Peter, what does The Flood Company do particularly well?

We are known as developers of innovative products in our industry. For example, one of our research people created a new product that evolved from a driveway cleaner he developed for his own use. Powerlift was created to clean decks of old finish prior to a new application. It's interesting because to sell this product, we had to first admit that our own finishes caused a build up over time. Our marketing people were a bit challenged, but they did a great job of positioning it. More importantly, our customers had a need, and we are able to satisfy it.

Another area where we excel is rewarding success throughout the entire company by developing goals companywide and tying these goals directly to compensation.

We have been in business since 1847, and we have kept the business within the family. Each generation has made its own

decision about involvement in the company, but we've had a strong sense of stewardship within our family.

What are some unique challenges of working in a family business?

An early problem was overcoming a paternalistic structure that had been in place for a long time. We were growing too fast for the CEO to make all of the decisions. We started setting up teams of people to accomplish the ever-increasing workload. Most of the time, this was done with family members as part of the team, but now I am the only member of my family in the business. We still have a team approach in place.

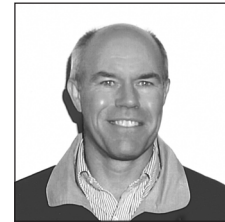
We changed the dynamics of our board as well. We have a Board of Directors that is made up of three company managers and four outside people. Very unusual in a family business! Our directors want to make a difference and be used effectively.

"I never did anything worth doing by accident, nor did any of my inventions come by accident; they came by work."

Thomas A. Edison

How did you learn to be a manager?

Well, I certainly didn't learn to be a manager in school. My formal education was a BFA and an MFA in sculpture – a bit unorthodox for managing a business. So much had to be learned the hard way, and it took awhile. I read a lot and learned my values from my parents, especially my father. And some of the older managers in the company and the industry were my teachers. Whenever I worked with the older managers, I wanted to know why they were



Peter Flood

successful; what could I learn? They were very generous to me. I have been President since I was 30 years old and have been fortunate to have had many friendly supporters along the way.

When did you fully realize the responsibilities of your position?

I was groomed to be CEO from the first moment I entered the company, and in that sense I always felt responsible for results. My father gave me a lot of encouragement and support, and I really didn't want to let him down.

But when I became president, I was not quite ready, and I talked to my dad about everything. But there came a point in time when he realized I needed less direct input from him. Even today, I am not afraid to ask for help or admit I can't do something on my own.

What are the most challenging people decisions you have had to make?

Transitioning leadership is very difficult, and going outside the company and family for a COO has been uniquely challenging. But Tony Ciepiel, our new COO, has helped to make this transition easier by very quickly establishing his own credibility within the company. He is very deep into working directly with some of our largest customers.

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It's How You Manage Trouble

An executive tells the entire organization what he values when he responds to significant problems. The actions of management are extremely powerful when the company confronts a failure.

When a problem occurs and the emphasis is put on who caused it rather than analyzing the problem for future effectiveness, the loud and clear message is one of blame shift: "How can we punish those responsible?" Blaming becomes more important than solving the problem.

And cover ups. . . What is the message when an executive covers up wrongs? Once employees believe there is a cover up, suspicion becomes an everyday fact of work life.

Unfortunately, sometimes suspicion is justified. Remember the business headlines for much of 2002.

How can you manage to ferret out the cause of problems, ensure they are not repeated and not create a blaming atmosphere? Some thoughts:

- With employees, analyze the basic strategy;
- Determine the cause of the problem;
- Evaluate the operating systems;
- With employees, develop a plan for improvement;
- If there is an individual responsible, meet with that person privately and ask how he/she will manage this in the future;
- Publish the proposed actions to all involved; and
- Thank the investigating team publicly.

Troubles don't disappear just because you have taken the time and effort to calmly and carefully investigate, but you can build an investigative attitude with your team and eliminate blaming. And a non-blaming investigative attitude will encourage employees to determine the "why" of problems, not the "who."

An executive's behavior is under constant observation – and his actions telegraph his beliefs. If you want a team of people dedicated to continuous improvement, you must live a desire to only fix the problems, not fix the blame.

Want some help in developing employees who want to fix problems, not blame? Contact Lee at The Nielsen Group 440-786-8800 or lnielsen@thesavvyceo.org.

Conflict in Business Is Inevitable. Litigation Is Not.

Do you need a mediator? Our highly litigious society affects decision-making at every level of a business and every turning point in a conflict. Most believe that it is an advantage in a dispute to have a "hired gun" to advocate on their behalf, argue the merits of the case and have a judgment or settlement rendered.

Every business owner, CEO and HR Director knows the high cost of litigation, EEOC claims and the costly effects of workplace conflict on morale and productivity. However, mediation programs for early resolution of conflicts have saved companies millions of dollars.

Mediation is based on the premise and values that parties to a dispute are the ones most capable of resolving that dispute and that they themselves should play a key role in any efforts toward resolution. Generally, this represents a shift in belief systems concerning the ways in which fair and balanced outcomes are determined. Under the guidance of a neutral third party, the mediator,

a resolution is arrived upon by the parties rather than decided by a third party like an arbitrator, judge or jury.

"The beginning is the most important part of the work."

Plato

Here are some examples in which mediation has become a valuable cost-saving management tool:

- The U.S. Postal Service reports that in the first 22 months of full operation of its "Redress" mediation program, over 17,000 disputes were mediated and 80% of those were resolved. Formal complaints dropped by 30% during the same period, and lawyers estimated that the program saved the agency millions of dollars.
- When litigation fees were drastically increasing, the head of litigation at General Electric figured early dispute resolution (EDR) was the way to go. GE's in-house attorneys received EDR training and then educated senior management. The result? By requiring management to act early in resolving any conflict or dispute, management started thinking differently

and diffusing emotions early. This corporate initiative resulted in lower litigation costs and reduced conflicts. Now, EDR provisions are standard in GE contracts.

- Texaco's settlement of a multi-million dollar racial discrimination case included the creation of an Ombuds program that later became part of a companywide problem-resolution system, along with other mediation and arbitration programs.

Internal dispute resolution programs are now the first line of defense for many large organizations. A survey of Fortune 1000 companies by the Cornell Institute on Conflict Resolution found that the majority have developed some form of alternative dispute resolution (ADR) to avoid litigation. ADR has application for every type or size of business.

Linda L. Bluso, Attorney and Partner at Brouse McDowell in Cleveland, has practiced business and real estate law for more than 20 years and is a certified mediator who mediates business and employment disputes.

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I also find it difficult to get someone to see their performance is below expectations. Before we give up on a manager, we challenge ourselves to make sure we have tried hard enough to mentor and develop them. We use a process that keeps workers informed about their performance. Even though it is never a surprise, asking people to leave the company is never easy.

With your very busy schedule, how do you keep a finger on the pulse of the company?

We have a good system of measurements, both financial and goal achievement. Before we had a COO, all the VPs reported to me, so I was well aware of what was happening. Now our COO, Tony, is setting up a reporting system to keep me informed. As the new managers take over more responsibility, my need to feel the pulse of the company should diminish.

What particular steps has The Flood Company taken to manage through the troubling times of the past two years?

We understand that the economic climate is tough, but we can't be afraid to invest for the future. We have continued to improve all aspects of our business rather than cut back. However, we've created contingency plans to help us manage and adjust costs as needed.

Does being a family company help in difficult times?

Yes, we can take a longer-term approach. When times are good, we don't tell ourselves how smart we are; we know there will be a rainy day. We are quite proud that we have never had a layoff at The Flood Company, but we are careful about hiring – holding off if we can or using part-time employees.

Perspective is also important in business. Lives do not depend on our products and services. We expect hard work and commitment from our employees, but we also expect them to take vacations and spend time with their families.

What excites you about your work?

Success! I get excited when sales and profits are up or when we have a

particularly successful region or salesperson. I love it when our people pick up the phone and tell us about their successes. It creates an excitement for everyone.

I like to see our executives recognized in the industry and know we have contributed to that success. Personally, I would like to see as many of our people as possible meet their own ideas of success, whatever they are.

What are the most difficult aspects of your work?

Working with large retailers is very challenging but can result in very good business, too. We have to be very disciplined when negotiating to supply this type of business. We also sell to paint stores and hardware outlets that compete with the large retailers. We have to listen very closely to all of our customers to help them be successful selling our products. Our challenge is to meet the needs of our customers that resell our products as well as those of the end user.

What advice would you give to a new CEO or President?

Be prepared to act even when you don't have all the facts. And develop a good sense of timing. You will never have enough data, but knowing when to make the decision is critical. Some issues may seem urgent and are not. Knowing the difference is important.

What you say and do is carefully scrutinized by all, so adhere to the highest standard of your own integrity

and that of the company. And communicate clearly and fully.

What do we need to revitalize the economy in Northeast Ohio?

The manufacturing sector is being hit very hard. Unfortunately, many CEOs are basing their risk taking on what they read rather than what is going on in their own companies and industry. Businesses doing well have an obligation to continue investing in their companies and to be stewards in their own geographic area. If you're succeeding, you should be investing.

What recommendations do you have for investors regarding the rash of recent business scandals?

Investors are understandably shaken when the largest accounting firm in the U.S. is charged with unethical and illegal practices. Logically, this means the practices are widespread. The biggest issue worldwide is Enron-type practices. If these practices continue, it will undermine U.S. business.

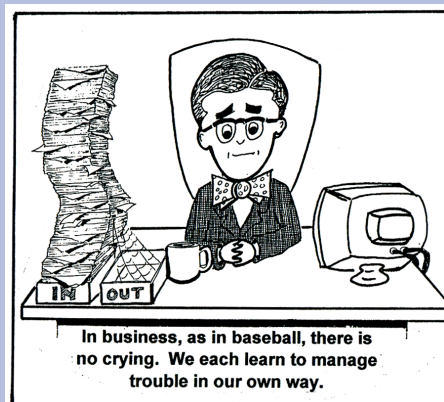
It is particularly important to know what the management and boards of companies are doing to ensure financial accountability before investing. We must be able to trust management teams and their boards.

We can't wait for government to mandate ethical practices but seek out companies that have always been doing things right. There are plenty of them out there. As investors, we then must hang in there for the long haul.

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The savvyceowannabe

Created by Howard Vaeth



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Save the Date!

The Savvy CEO Breakfast Forum
September 16, 2003 • 7:30-9:30 a.m.
The Ritz Carlton, Cleveland

The Savvy CEO Breakfast Forum is a singular opportunity to hear several very successful local CEOs sharing their wisdom. Mark your calendars and attend this dynamic event.

The Savvy CEO provides the free exchange of ideas and reflection on the art of exceptional management.

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The Nielsen Group

We Help Executives Get Results

Case Studies:

Incentives paid, but profits down?

This company found that the sales team met their incentive goals, but the company did not meet profit goals. This could not continue.

With the sales management, we redesigned the incentive plans. We based the new incentives against the company's overall profit goals – and the profit goals included managing all costs influenced by the sales team: cash flow, inventory returns, terms of sale, etc. *Now, the sales team is winning, and the company is, too.*

Spending too much?

The company was struggling to meet goals and was looking for any and all ways to save money. The CFO was particularly disturbed by the cost of employee benefits.

We reviewed all benefits costs to determine the appropriateness to this retailer's people market. *Our recommendation to revise the eligibility period for all new hires created a savings of over \$1,000 per new hire. The CFO was able to report a*

year-end savings of over \$300,000 at no loss of employee morale.

Too comfortable?

A 'comfortable' management team was unprepared to meet the demands of acquiring a new company that was critical to its growth.

We provided a management evaluation to determine which managers were able to accept increasing responsibilities. We supported a restructure where managers were reassigned. A robust hiring process was implemented to ensure the best possible new management. We provided a series of team-building sessions to create a strong new team. *The company is rapidly proceeding in its acquisition strategy confident that the team can accept increasing responsibilities.*

Want to create exceptional people performance within your company?

Call The Nielsen Group at 440-786-8800 or e-mail lnielsen@thesavvyceo.org.

IT'S ALWAYS ABOUT PEOPLE!