



“ At SRC our business is based on providing our employees with the tools they need to succeed in their job and continually move the company forward. Our investments in training and job certification are essential to expanding all employees’ understanding of how they can make a greater positive impact on the performance of the company for themselves and the other employee owners at SRC. People perform better and are more satisfied with their jobs when they are challenged to grow. The emphasis on training and job certifications is an expectation at SRC and is part of our formula for success. ”

– Tim Roth, General Manager

# SRC Electrical

Sustaining An Open, Trusting & Participatory Work Culture

SRC Electrical is a 19-year-old, employee-owned manufacturing company in Springfield, Missouri. An internationally acclaimed remanufacturer of electrical components, SRC Electrical has a diverse customer base including blue chip customers such as John Deere and Case New Holland. Over the last decade, the company has been profitable and met or exceeded their revenue targets in all but two years. Over the last three years, their sales have averaged around \$12 million and today business is booming. In the first quarter of 2010, the company has exceeded its production targets by 35%, and they are in the process of hiring over a dozen more full-time employees.

As part of SRC Holdings' family of companies, SRC Electrical is a valuable part of the Springfield economy. The company has worked hard to build a strong, participatory culture that teaches everyone about the business through open-book management. They develop their production talent through a skill-based pay for performance certification program and give staff – at all levels – an authentic stake in the company's financial success.

## The Workforce

As of this writing, SRC Electrical employs approximately 80 people. Nearly 55% of this workforce consists of direct production laborers that

### SRC Electrical | Springfield, MO

- Founded 1991
- Remanufacturer of electrical components (alternators, starters, generators)
- Privately-held, 60% employee-owned and part of SRC Holdings
- 2009 Revenue: \$10 million
- 80 employees
- Average turnover for last 3 years: 8%
- Average tenure: 6 years

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disassemble the electrical components, recalibrate and replace the parts. Twenty percent of staff indirectly supports production by addressing quality issues, material handling and shipping; the remaining 25% includes salaried sales staff and management.

The direct production workers, the focus of this report, make up the largest portion of the workforce. Wages for this group start out around \$10 an hour with annual salaries averaging between \$25,000 and \$26,000. These employees can increase their salaries through the company's Employee Stock Ownership Program (ESOP), merit and tenure increases and quarterly bonuses.

SRC Electrical has a multi-generational workforce. The average age is around 32 years old, but many are older with long tenures. All the employees at SRC Electrical have their high school diploma or equivalent; approximately 20% have completed either two-year or four-year college degrees.

Turnover at the company has been minimal over the last several years, averaging around 8%. In 2009, when sales were down, turnover increased to 17% as a few people voluntarily left with a severance package.

Thus far, 2010 looks very promising; sales are up and the firm is back in hiring mode.



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## Instilling An Ownership Mentality

The three words that best define the cultural foundation at SRC Electrical are engagement, ownership and commitment. Philosophically, its leadership believes that when all employees are taught to understand the key measures of business, act on their knowledge and have an authentic stake in the company's success, the organization and the employees benefit. Employees are more committed to the long term success of the firm. The business benefits as everyone is working "smarter" toward the same goal; management spends less time on the floor fixing problems, and there is greater accountability within the workforce.

**"The best, most efficient, most profitable way to operate a business is to give everybody in the company a voice in saying how the company is run AND a stake in the financial outcome, good or bad."**

– Jack Stack, Founder and CEO SRC Holdings<sup>1</sup>

Building a participatory work environment where all employees – at every level – understand the business and act more like owners takes time, endless communication, much trust and continuous training.

To develop the workforce's business acumen, SRC Electrical, in conjunction with its corporate headquarters, hosts a series of trainings on open-book management for all its employees.



<sup>1</sup> SRC Holdings founder Jack Stack is known internationally as the author of *The Great Game of Business*, a book that outlines open-book management principles and how he utilized these practices to help launch a number of unique companies, each specializing in different remanufactured components for commercial trucks as well as agriculture and construction vehicles.

## Open-Book Management

A series of open-book management sessions are taught onsite by internal staff and include many simulated business examples and experiential exercises.

- **The Great Game of Business Introduction:** Upon hire, all employees receive a two-hour overview session involving a business simulation designed to teach business finance fundamentals, basic tools and concepts.
- **Understanding Profitability:** A 16-hour session that occurs within the first three months of employment where all employees learn to understand income statements, balance sheets and cash flow.
- **Great Game 2-Day Session:** An intensive session including more discussion on the culture of SRC headquarters and SRC Electrical, principles of open-book management, implications for employee behavior, techniques for monitoring business measures and incentive systems.

Scheduling employee training during work hours, while maintaining production levels, is a tricky balancing act requiring considerable cooperation, negotiation and flexibility from managers and staff. To date, approximately 65% of the workforce has completed the entire series; others are moving through the classes at different paces.

These trainings are packed with concepts not easily grasped. "Sometimes even after the sessions," says Human Resources Manager Tim Baltes, "some of our employees may not have understood everything. It can take months and can be intimidating to talk in big groups. Some are afraid to admit that they do not

understand, for example, what a material variance is and why it is a negative number, not a positive one.”

In response, Human Resources staff developed tools to aid in the learning comprehension including:

- A comprehensive self-study guide which details a number of topics on SRC Electrical and open-book management practices. Employees read the guide at their own pace and come to Human Resources or the Financial Literacy Committee with questions.
- The Financial Literacy Committee is made up of a small number of managers and production employees who act as advisors helping staff work through the concepts in the self-study guide.
- To encourage frank and open discussion at the weekly, all-staff meetings, employees can confidentially submit questions ahead of time. This is especially useful for those employees who may be too timid to speak up in large groups.

## Developing Production Talent

SRC Electrical invests heavily in developing all employees’ skills, knowledge and business acumen. Their annual training budget averages around \$25,000<sup>2</sup>. Each year all employees are expected to participate in a minimum of 40 hours of training. In addition to the



open-book management, the direct production employees build additional capacity through SRC’s skills-based certification program and through external education.

### Skills-Based Pay for Performance Certification

Probably one of the most far-reaching and labor intensive development efforts at SRC Electrical has been their skills-based certification program complemented by a pay grade system. This effort, aimed at building an agile and cross-trained workforce, has taken years to develop and refine.

Since its founding, SRC Electrical has had some semblance of a pay grade program, but it was not organized, well-defined or understood. To reinvigorate this program, in 2007 the Human Resource Manager, with assistance from other managers, reevaluated all the production jobs documenting the required skills and

<sup>2</sup> This figure does not account for the substantial support from SRC corporate headquarters and training subsidies received from the State of Missouri.

**Skills-Based Certification**

Pay grades

**Tuition Reimbursement**

External degrees, certifications & trainings

**The Foundation**

Open-book management & financial literacy

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assigned a value as to how important a particular job is to the functionality and profitability of the company. Today, the skills certification and pay grade system are stronger, more closely aligned with business goals and better communicated. Consequently, it is better understood, seen as fair and accessed by a greater number of direct production employees.

The certification program consists of 32 skills grouped around a few core competencies including: Disassembly, Assembly, Parts, Remanufacturing, Reclaiming and Testing. This is supplemented with a pay system broken down into eight grades with wage increases associated with each higher grade level. Production employees work side by side with a certified operator to acquire the skills. Once they master four skills, they

receive a \$.35 per hour increase; mastering two more skills brings an additional \$.35, and after nine total skills, an additional \$.60 increase. Employees must maintain their certification or risk losing the pay increase.

Almost every SRC Electrical production employee has been certified in at least two skill areas; others have mastered eight or more areas.

A large 9 ft x 5 ft bulletin board, showing a matrix of production employees and the number of certifications they have attained, is prominently displayed in the plant. This enables employees to monitor each others' progress which, for many, provides the critical motivation – not to mention the competitive spirit – to gain new skills and knowledge.

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## Success Story



Landon, 26 years old, works as a product tester in the Engineering Department, a position created specifically for him.

Five years ago Landon was hired in maintenance where he worked under the head of the department, a 30-year employee who became his mentor. During this time Landon was also in school, pursuing a degree in industrial technology. After two years of repairing and testing machines, management saw that Engineering was having trouble keeping up with the rate at which certain components were coming in. Though he did not have the typically required Engineering degree, management created a new job so Landon could focus upon these components. What he lacked in formal education, he made up for with his deep understanding of machines and his natural curiosity. *"It is a real challenge here,"* says Landon. *"Every day there are surprises and new learning experiences."*

There were many things about SRC Electrical that surprised Landon, especially the open-book management training. *"I was pretty young and I thought it was neat that they showed us what*

*happened behind the scenes,"* he says. *"All my other jobs were different – you just did your job and went home. Here if you don't do your part, it matters. You're not just a grunt doing the work for someone else, there's a purpose. With open-book management we understand how decisions affect the bottom line and our bonuses."*

Landon has taken advantage of many development opportunities and more than doubled his wages. Most recently, in response to a request from engineering, he received a Certificate in Building Operations from the Department of Natural Resources. This six-month training showed him how to generate cost savings by decreasing utility consumption, a real benefit for the company.

Down the road, Landon intends to pursue an Engineering degree, but for now he is focused on his job. *"At any other company I wouldn't have been able to do what I've done here. They would have required formal degrees – not just the know-how,"* he says. *"At this company, if you're willing and have knowledge they will try to get you to where you want to go."*

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## Education for Tomorrow

The company encourages employees to pursue outside education and training and will pay 100% for most degree programs.

One degree program, heavily marketed by the company is the Manufacturing Technology Associate Degree. This was developed in partnership with the State of Missouri's Workforce Board, Ozarks Technical Community College and funded by SRC corporate headquarters. This program includes curricula customized specifically for SRC employees and takes place both onsite at the plant and offsite at the college. It is a portable degree, and transferrable to other accredited institutions for employees interested in pursuing a Bachelor's degree.

The three year degree program offers hands-on experience in computer aided drafting, basics in

machining, computer numerical control and computer assisted manufacturing. Two years ago, 25 employees from SRC Electrical enrolled in the program, 19 remain today and hope to graduate over the next couple of years.

In addition to the Manufacturing Technology Associate Degree program, SRC Electrical encourages other development opportunities including:

- Leadership and Supervision Training
- APICS Certification in Supply Chain Management
- Certificate in Building Operations
- Six Sigma/Lean Manufacturing
- Quality ISO 9000
- Welding Certification
- Engineering Design Theory



**"We look for those people that are more entrepreneurial – not those with just an assembly mindset. We need people who are willing to ask questions, think critically and speak out."**

*– Tim Baltes, Human Resources*

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## Benefits At A Glance

Along with the extensive employee learning and development, SRC Electrical provides a comprehensive package of benefits and performance incentives.

- **Health Insurance:** 90% employee premium paid by employer
- **Health Insurance:** 90% dependent premium paid by employer
- **Dental Insurance**
- **Employee Assistance Program**
- **Life Insurance**
- **Long and short term disability**
- **401K**
- **Paid Time Off:** Hourly one week; salaried two weeks vacation each year. All employees receive 11 paid holidays.
- **100% Tuition reimbursement**
- **SRC onsite fitness center** access, discount to local fitness center.
- **Health screenings** for employees and spouse.
- **Flexible spending account**
- **Performance Incentives:**
  - ESOP where employees, from Janitor to General Mgr., receive a % of salary in company stock annually
  - Scheduled incremental pay increases based on merit and tenure
  - Quarterly bonus programs based upon achieving company goals



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## Career Advancement Strategies

SRC Electrical's leadership is very intentional in how it develops its direct production employees and grooms them for promotions. In addition to the multitude of learning opportunities, the Role of Manager, the Career Planning Process and the Annual Succession Planning Process are all essential strategies.

### Career Planning/Role of Manager

Once a year, employees sit down with their supervisor to discuss their accomplishments and interests in relation to their personal and professional development. They create a

future plan that includes their goals, action steps, deadlines and obstacles that they may confront along the way. What is unique about this planning process is that, upon completion, employees and managers both sign what is called a "Commitment Statement." In these statements, the employees declare that they understand they are responsible for their own development and will remain committed to achieving their goals. Managers declare an understanding that achieving development goals is a mutual responsibility and that they are committed to providing the critical resources, counseling and feedback necessary for employees' success. Management has found that this practice helps to impress upon employees the need for them to be proactive in their own development.

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## Success Story



When Tricia started at SRC Electrical she was 23 years old, a scared, single mom recently laid off from another manufacturing company. She was also very determined to make something of herself. *"I tried to stand out and I had a very big determination to just get in there and get it done,"* she says.

In her 10 years at the company she has been exposed to nearly all facets of the business and has been promoted several times. She started out in production on the assembly line and after two years was transferred to the alternator line for another two years. Before long, due to her growing confidence and leadership, she moved into a Group Leader role. *"It was a difficult transition going from working on the line to supervising my peers. The production manager had also come from the line so I had his backing and advice. I needed to separate my business life and personal life and take on a different role with my peers,"* says Tricia.

From there, Tricia was promoted to Alternator Scheduler and has more than doubled her salary. She is currently being groomed to learn production scheduling, a more complex assignment in which she will gain exposure in product development.

Tricia has been certified in 10 skill areas, underwent the extensive open-book management training and recently completed a leadership training program at an area community college. The open-book management training was significant because it made her feel more secure about her job and the company as a whole. *"At the first few staff meetings I was blown away. I didn't understand many things, but being able to see how much was in the checkbook every week made me feel secure,"* she says. *"I didn't need to worry about my next rent payment or if I had a job. I know what the sales are and what shipments are going out. The open-book training encouraged me to learn more about finances so I took a few accounting classes."*

Her plan for the future is to continue taking computer and accounting classes, complete her associate's degree and hopefully move on to a bachelor's program. She has no plans to leave the company. *"The culture at SRC Electrical is family-oriented, very open with lots of freedom,"* she says. *"I've had opportunities to leave and go to other divisions, but this is home. I've had so many experiences between these four walls and have many more that I want to experience."*



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## Succession Planning

To prepare for the future, all managers identify a minimum of three people from within their ranks who could be candidates to succeed them if they were to leave or retire from the company. Managers identify these individuals, develop a Career Plan with the candidates and convey their choices to Human Resources. To instill accountability, Human Resources staff, in conjunction with SRC Electrical's General Manager, meets annually with the leadership from SRC corporate headquarters to review their company's three-year succession plan.

## Lessons Learned Along the Way

Developing a structured, skills-based pay for performance certification system in an open, transparent work environment takes a strong commitment from management, constant evaluation and the willingness to make continual adjustments. Management at SRC Electrical has learned a few lessons along the way in this journey.

### Do's and Don'ts of Skills-Based Pay for Performance Certification

- **Know what skills are in demand:** If too many employees become certified in certain areas they will not be able to practice their newly acquired skills and may not pass the recertification test. When employees are unable to pass recertification, through no fault of their own, it risks tainting the entire certification system as unfair. Management must stay abreast of how many operators and back ups are needed for each area in the company.
- **Don't assume all employees will jump at the chance to upgrade skills:** Initially management

thought employees would "jump for joy" when they learned they could make more money by acquiring new skills. "What we discovered," says Baltes, Human Resources Manager, "was that some employees really only want to do one or two things, especially the older employees." The challenge here is to keep communicating the rationale behind the system, its potential for increased pay and publicly recognize those who do acquire new skills.

- **Supervisor's role is essential:** Supervisors can make or break the system and must be totally on board for it to work. If a new position opens up, it can be easier for the supervisor to approach a particular employee and suggest he or she acquire the skills and bid on the job. However, to maintain a sense of fairness, employees must believe there is a "level playing field," no partiality and that the most qualified person is hired for the position. All positions must be formally posted.

### Do's and Don'ts to Practicing Open-Book Management (OBM)

- **Keep OBM staff meetings upbeat and motivational:** This helps employees remain engaged and energized as they learn about the business.
- **Maintain balance between employees' empowerment and entitlement:** This can be a challenge, as in these open environments there is more trust and people will ask a lot more questions. Employees may want to know why a particular employee is absent, why a certain vendor is used or why a person was promoted over another. To handle this, managers at SRC Electrical tend to act more as coaches reiterating

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the big picture, encouraging employees to put themselves in the manager's position to help them follow the reasoning behind organizational decisions. Over time, while they won't always agree with management's decisions, most employees will accept them because they feel they were listened to and their input was taken into account.

- **Deliver the good news but don't be timid about delivering the bad as well:** Leaders at SRC Electrical and at its corporate headquarters believe that the only real way to build trust and credibility is to give people the good and bad news. *"Trust is essential,"* says Jack Stack, Founder and CEO of SRC Holdings, *"because you are bound to make mistakes. People will accept the mistakes and forgive, in large part, because of the trust you have established in the workplace."*

**SRC Electrical has come a long way since its founding 19 years ago. Going forward, the company is leveraging its track record of steady growth and its well-prepared workforce to focus on doubling revenues in the next few years. Its leadership believes its success, in large part, is due to the strong culture it has purposefully created and its commitment to developing employees and providing them a real stake in the financial success. While the company strives to maintain its participatory culture where the workforce is equipped to think and perform at the highest levels, there is still much work to be done. "Our work will never really be done," says Tim Baltes, Human Resources Manager. "What we hope and plan for is to just get better and better."**



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