

# Prism

First Semester 2003



**Arthur D Little**

**Back to Basics**



*Richard F. Teerlink, a CPA by education and training, has served as an auditor, controller, strategic planner, plant manager, and vice president. His greatest success is the turnaround of Harley-Davidson. He joined the company in August 1981, two months after the management buyout, as Chief Financial Officer. In 1982 Teerlink was elected to the Board of Directors. He was one of the driving forces behind the financial strategies and tactics that led Harley-Davidson back to success. In 1986, he led the effort to guide the firm back to public ownership. He was appointed Chairman of the Board of Harley-Davidson, Inc. in May 1996 and served as President and Chief Executive Officer from March 1989 to June 1997.*

*Teerlink graduated from Bradley University in 1961 with a Bachelor of Science in Accounting and received his Master's of Business Administration in 1976 from the University of Chicago. He serves on the Board of Directors of Johnson Controls, Inc., Snap-On Incorporated, and Firststar Bank of Milwaukee.*

*He has been honoured by many organizations for his leadership and humanitarian accomplishments. These include the Sales and Marketing Executives International Association for Corporate Growth, the American Jewish Committee, and the Harvard Business School Alumni of Wisconsin.*



<b>Harley-Davidson: Roaring to Success</b>			
	1982	1986	2002
US Market Share	15.2%	19.4%	46.5%
Units Shipped	32,400	36,700	263,653
Revenues (\$ Millions)	210	295	4,091
Operating Profit (\$ Millions)	(15.5)	7.3	882.7
Employees	2,289	2,211	8,538

## Back to Basics at Harley-Davidson –Interview with Richard Teerlink

*Richard F. Teerlink talks to Hubertus M. Mühlhäuser*

**Mühlhäuser:** What was the biggest challenge during the MBO of Harley-Davidson?

**Teerlink:** The biggest challenge was reality. Which is always difficult when you are facing problems. We obviously were making products which didn't work and were priced higher than the competition. So we had to focus and wonder how we were going to fix those problems in an environment where we were constrained dramatically by our borrowing agreements. Being an MBO we didn't have any cash. So we always had to be very cautious about cash and how we were going to deal with it if we didn't have enough borrowing capacity. But that was a mechanical exercise. We forecasted our cash out by day for sixty days based on the question: what's our borrowing ability based on our assets?

**Mühlhäuser:** And how did the leadership team overcome these challenges?

**Teerlink:** The challenge was recognizing we couldn't change overnight. So we had to do things in a sequential manner. For us back to basics meant three very simple things. Number one to provide value in our products and services. Number two that we had to help our dealers get and keep customers. Number three that we really wanted people to buy motorcycles and use them. So the question was how do we give the riders a reason to ride and have fun?

**Mühlhäuser:** What was your conclusion?

**Teerlink:** For the products that we were making we had to recognize that many had design limitations or that the machinery had capability limitations. It meant that we could not get the perfection we wanted to have. But we could certainly improve. Other questions arose as well: How could we get employees involved? How could we get into a just in time environment? How could we introduce statistical process control techniques to the shop floor?

**Mühlhäuser:** What was the time frame for the three measures: improving quality, helping dealers and getting back customers?

**Teerlink:** These all occurred substantially between 1981 and 1986. They started around 1982 and it took time to implement. It was a good four year period that it took us to get things up and rolling.

**Mühlhäuser:** Did that help you get back on track in terms of market share?

**Teerlink:** Yes. But it took time. During the seventies we had well over 50 percent market share in the United States. And by 1983 it had dropped to 13 percent. In 1982 which was our first full year after the MBO our market share was 15.2 percent. In 1986 it was 19.4 percent. But in 2002 our market share was 46.5 percent. In the same time revenues had gone from 210 million in 1982 to 4 billion in 2002. So while the turnaround was going on it was a period for dramatic growth - at a time when the market was falling. For us the message is very simple: if you have your platform you better keep working on it.

**Mühlhäuser:** So how did you handle management issues during that period?

**Teerlink:** If we wanted to sustain success we really had somehow change how leadership looks running the business. And leadership traditionally is very top down command and control. We started to change that model to one where we wanted to say that leadership is not a person but a process where people work together to achieve mutual goals because they want to, not because they have to. That means they have to have a lot of awareness of what's important. And for that you really have to tap into them as human beings and not just say these are the requirements. So you have to be far more participative in what the management structure is.

**Mühlhäuser:** What did that look like in concrete terms?

**Teerlink:** Basically we said leadership had to change. Most organizations talk about alignment. We opted instead by

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saying what we have to first create is employee awareness. Employees had to be aware of what the company was trying to do and ultimately they could be a part of that. The organization should be able to answer four questions for the employee: How should we behave? What's important? Who do we serve? How do we measure success? We used those four questions as the umbrella for our business process because the first one addresses values, the second issues, the third stakeholders, and the fourth is about vision.

**Mühlhäuser:** During the Nineties employee participation was a big thing. How do you rate that in terms of what you did at Harley?

**Teerlink:** Casual Friday is not employee participation. What we were providing was a framework so everybody could understand what was going on. The difficulty is that we have a lot of false participation going on. The leaders will say we want you to participate but understand that we are going to make the decisions. That's not participation that's asking for input.

**Mühlhäuser:** What are your leadership principles? And if you look at today's leaders where do you see them fail?

**Teerlink:** My first passion is to recognize that the only sustainable advantage in any organization is its people. Organizations talk a lot about it. But what do they do about it? I think employees have a lot to say and the environment they feel when they are representing the company either on the shop floor or out in the field. It doesn't mean that one has to have a feel-good organization. But I do think that passion is very important and that we have to allow people to express their passion the way they want to. But too many leaders seem to believe that they are the fountain of all wisdom and that they are the only ones responsible for the results. I don't believe that. I believe the power is vested in everybody. And for the success of the organization I needed the help of a lot of people who were as committed as I was for the success of the organization.



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**Mühlhäuser:** How important is the financial incentive in that process?

**Teerlink:** I think everybody wants to be paid fairly. But the first thing they look at is: how am I compensated compared to others inside and outside of our organization and is this fair? And how are they rewarding people who are performing better? But by the same token everybody doesn't always have the opportunity to be a super performer. So how should you pay them? At Harley everybody is on a compensation plan that is a mixture of a base salary, benefits and variable compensation. The qualitative measure of compensation is: Do I like getting up in the morning and going to work?

**Mühlhäuser:** If you look at the current discussion of corporate governance and relate this to the sometimes superstar-like status of managers what is your stance on this status and what is your advice for good corporate governance?

**Teerlink:** Superstar status is baloney. No CEO is a superstar. They are only what their organization creates. I think we all have the benefit of a very committed workforce and in the culture that we live in we happen to be the ones identified as the ones responsible for. And we are not. We are part of the responsibility. But unfortunately the culture encourages that. With regard to corporate governance I think all the hoopla is highly overrated. Let's say we have as many as five percent abusers - which I don't think we have - all these rules are going to protect us from the five percent. While we abuse the 95 percent that live by the rules.

**Mühlhäuser:** The whole story of Harley is one of huge creation of shareholder value. At the same time the company is long term oriented. How would you call your approach?

**Teerlink:** The vision of a corporation boils down to the question how do we measure success? At Harley we measure success by continuously improving the development of mutually beneficial relationships with all our stakeholders. So how do we create a win-win situation? It doesn't mean that at times one stakeholder isn't more impor-



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tant than another. It's the question at those times which stakeholder has to be balanced first before others.

**Mühlhäuser:** You were quoted once saying “you cannot live on tradition and not change”. What is your trigger to being innovative?

**Teerlink:** We encourage riders to participate in ride-in shows where they show off their bikes to other riders. This is real-time market research when you see hundreds of motorcycles parked side by side and you see the innovations that people come up with. That triggers and adds to the innovations that the people inside the company come up with. But you have to be open to see where innovation could come from. It can be internally or externally. We did not have a dedicated innovation process in the meaning of “this is how we innovate”. Instead we should focus on engineering and manufacturing technology and our customers value proposition. We had more of a process of people looking at what would be exciting and then doing it.

**Mühlhäuser:** So is that sustainable?

**Teerlink:** I would think so. The focus remains the same even if we do different things today. I would look at innovation as being constructive change to provide the customer with equal or higher value. That change might in some circles not be considered innovation but just enhancement.

**Mühlhäuser:** What are your plans for the future?

**Teerlink:** I am going to evangelise about leadership and change.

**Mühlhäuser:** Richard, in the name of Arthur D. Little and the readers of Prism I would like to thank you for your time and the sharing of your insights.