

**GOVERNANCE EN PYMES**  
**CASO METALMECÁNICA PORTEÑA S.A. (MMP)**  
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**Overview of MMP**

Metalmecánica Porteña S.A. (MMP) is a producer of kitchenware located in Buenos Aires, Argentina. Established 55 years ago, during its golden era MMP reached a maximum of 50 personnel in its plant. During the 90's, hard competition from imports led to a reduction in the plant's activity, and the production team was reduced to only four workers. Today, under a new economic environment, the company is regaining strength and 20 people are employed in the factory, in addition to other 10 employees in administration and services.

Corporate culture affects daily operations and the relationship between the company and the market. Unfortunately, a large part of the general director's time is consumed dealing with an old culture with "outdated" features. Older employees are aware of the importance of product quality, but they are not equally aware of the many faces of a business and do not view the "customer as a whole". Nowadays there is a change taken place at MMP, from the old culture to a new one. The old culture is family-centered, based on oral tradition; the new culture is still family-centered, but relies more on written records, formal procedures, and market signals.

Factory workers belong to two generations: the founder's generation, with several decades of work at the firm, and the younger generation. Among the latter there are some workers with experience in international firms, where they were in contact with sophisticated industrial organizations. But it is the founder generation the one that creates plant climate and job culture; it is also this generation who resists change the most. Even young workers experience strong affective links with the firm. The quasi-familiar setting and the respect for the individual and society displayed by the company are appreciated.

Management believes that the company has to restructure its operations and incorporate new machinery (or improve the old one) in order to increase productivity and quality. In late 2003 a change process started, conducted by a three-member consultant team. Major changes include a complete renovation in plant layout and improvements in machinery, in addition to workforce training. The general director, with strong academic and professional background in international firms, leads the

process. Part of the workforce shares his enthusiasm, but others show inertia and resistance to change. This is particularly true of the founder generation, but not exclusively. There is some skepticism in the workforce about the success of new approaches.

### **A family of performance measures at MMP**

MMP's change process is monitored by a measurement system. All four production areas—Factory, Polishing, Painting and Assembly—were involved in the creation of a family of performance measures on which the effectiveness of the governance system is evaluated. Thor's rules were applied, as can be seen in Table 1.

Application results are shown in Table 2. Plant mission is included in the table, as well as its main objectives. From that information a list of candidate items was proposed, from which the family of measures was chosen by consensus.

Selected measures are relevant, in principle, only for the current year. They evaluate top priority items for 2005, such as quality, employee participation in work life, and elements of a JIT system, such as cycle time and machine set up time. Individual and group behaviour that strengthen the foundations of modern manufacturing are priorities for evaluation. In future stages, other objectives will be sought.

This information is integrated in matrix form in Table 3. For each productivity criteria a performance measure (with physical units) is taken and, through a specific procedure, converted to a value. Details are not relevant to this presentation, but a general index for the area is calculated. Similar indexes could be obtained for other factory areas, for comparison and evaluation over time.

A key stakeholder, MMP's personnel, actively participates in creating and updating the performance measurement system. The proposed approach is flexible; at the end of the year possible changes to the measures will be decided. Six conditions that have to be met before starting performance measurement in a plant. These conditions, shown in Table 4, are relevant for governance and management at MPP and its future systems.

### **Governance issues at MMP**

The discipline of corporate governance deals with a number of themes. Following Williamson (2000) 'we work predominantly on partial mechanisms rather

than general theories at this stage of development”, and “ask each would -be-theory to advance refutable implications to which the data are applied”. In this section we show how some of the “partial mechanisms” of corporate governance are applied to MMP and what their implications are.

<b>Rules for planning a measurement system</b>	
<b>Thor's rule</b>	<b>Application at MMP</b>
1. Clearly identify your purposes for measuring.	Measurement objectives have been a topic of in-depth consideration throughout 2004, during training and improvement group activities.
2. Choose an appropriate balance between individual and group measures.	Three group measures and one individual measure were established.
3. Measure the key elements of performance: productivity, quality, timeliness, creativity, and many others... a family of measures.	The family of four measures evaluates the variables that top management considers more relevant for 2005.
4. Be sure the measures adequately reflect the customer's point of view—Whether the customer is external or internal.	The external client is adequately considered, since objectives and measures are based on MMP's mission statement. Perhaps more importance should be given to the internal client.
5. Use care in generating competitive benchmarks.	N/A
6. Give some time to tedious technical adjustments ( <i>Garbage In, Garbage Out</i> ).	N/A
<b>Rules to install and manage a performance measurement system</b>	
<b>Thor's rule</b>	<b>Application at MMP</b>
7. Develop (or modify) the system with as much participation as possible.	Personnel participation, which is promoted by the General Director, is satisfactory at all levels.
8. Cost/benefit analysis applies to data availability also.	There are examples at MMP: customer service data (claims, returns) are kept at the Dispatch area since long ago, and they are also used as input to the quality system.
9. If strategies change, so can measures.	It is anticipated that new measures will be introduced in 2006, after a set of immediate objectives of the measurement system are achieved.
10. Performance improvement is a long-term process; top management patience is needed toward newly measured results.	The General Director is aware of these issues. It is important that all board members and all management levels share the same viewpoint regarding measurement.

**Table 1.** Thor's 10 rules for building a performance measurement system and their application to MMP. Rules 5 and 6 have not been applied at MMP yet.

<b>Areas: Factory, Polishing, Painting, Assembly</b>
<b>Plant mission:</b> To process aluminum sheets to shape products, polish and paint them for final assembly, according to the production plan using the minimum amount of resources and giving priority to personal safety, in the context of MMP's mission.
<b>Objectives:</b> <ul style="list-style-type: none"> <li>• Comply with the production plan.</li> <li>• Check the quality of raw materials at delivery time and previous to production.</li> <li>• Consistently reduce lot size.</li> <li>• Prevent raw materials and intermediate products to advance in the productive process.</li> <li>• Complete in time and form process control documents.</li> <li>• Contribute everyday to 5S movement.</li> <li>• Actively contribute with suggestion system regarding: personnel safety, machine safety, process flow, work processes, setup time reduction, quality of life in the plant, product quality, etc.</li> <li>• Perform routine preventive maintenance.</li> <li>• Train according to the company's plans.</li> </ul>
<b>Candidates to the family of measures:</b> <ul style="list-style-type: none"> <li>• Hourly production by person (weighted by task difficulty)</li> <li>• Cycle time at the factory.</li> <li>• Percent rejected (by the following process) in each work station (identifying the operator)</li> <li>• Number of suggestions by operator by month.</li> <li>• Number of safety suggestion by month.</li> <li>• Number of implementations of suggestions realized or lead in one month.</li> <li>• Number of training hours in one year.</li> <li>• Number of machine breakdowns attributable to machine age (to plan for a change)</li> <li>• Rate of absentee or late arrivals.</li> <li>• Efficiency in production record preparation.</li> <li>• Number of interventions in 5S movement over one month.</li> <li>• Supervisor's evaluation (qualitative and quantitative), every three months.</li> <li>• Number of late arrivals.</li> </ul>
<b>Selected family of measurements with weight:</b> <b>COLECTIVE MEASURES:</b> <ul style="list-style-type: none"> <li>• Rate of rejection by area (Polishing, Painting, Assembly: 35%; Factory: 25%).</li> <li>• Average cycle time by area (Polishing, Painting, Assembly: 30%; Factory: 25%).</li> <li>• Percent reduction in lot size (Factory only: 25%)</li> </ul> <b>INDIVIDUAL MEASURE:</b> <ul style="list-style-type: none"> <li>• Employee initiative index (resulting from adding the number of general and safety suggestions, the number of 5S interventions) (Polishing, Painting, Assembly: 35%; Factory: 25%).</li> </ul>

**Table 2.** Elements that shape a family of measurements for MMP in 2005. In the Polishing, Painting and Assembly areas, three measures are weighted; in Factory, four.

From Apreda (2003) a number of topics particularly relevant for MMP were chosen, as follows:

1. Board of Directors and Trustees. Allocation and control decision rights
2. Managers' fiduciary duties towards owners and their management decision rights

FACTORY AREA				
PERFORMANCE MEASUREMENT AS OF 12/31/2004				
PRODUCTIVITY CRITERIA	GROUP MEASURES			INDIVIDUAL MEASURE
	Reject rate (%)	Cycle time (Hours)	Lot size reduction (average)	Average employee initiative (number)
Performance	5	24	418	0.3
Points	3	3	3	3
Weight	0.25	0.25	0.25	0.25
Value	0.75	0.75	0.75	0.75
Area general index	<b>3.00</b>			

**Table 3.** Performance evaluation matrix, Factory Area.

Condition	Comments	Situation at MMP
Functional integration	Assumes cooperation among areas.	Integration exists at the factory level and at the General Manager's level.
Customer driven	The customer is the engine of the organization, which must meet customer requirements in its plans and actions.	There exists consciousness about the topic's importance at the top management's level and at a good part of the workforce.
Participation	All employees participate in all job aspects.	Participation in innovation is more and more common. It should increase participation in routine maintenance of facilities and 5S movement.
Motivation	To make sure that all employees and managers are motivated and receive adequate benefits through the payment and price systems.	There are initial guidelines to give a systematic treatment to this topic, in addition to the policies being applied.
Flexibility	Particularly in the productive arena.	New production techniques and layout provide greater flexibility.
Stockless production	Set of actions to make sure delivery and timely production, with the plant functioning without excess, useless materials.	Training during 2004 emphasized stockless production, although operational change is not complete yet.

**Table 4.** Conditions previous to performance evaluation. Sources: Sadler (1993) and author.

3. Managers' performance and incentives
4. Production and disclosure of information to markets, regulators and stakeholders
5. Company's founding Charter by-laws, statutes, and codes of good practice
6. Accountability to regulators, stakeholders and investors
7. National and international institutional constraints (the Judiciary, traditions, regulations, and law enforcement).

Brief comments related to these issues are in order.

**Board of Directors.** MMP's board is formed by six directors, four of them with college degrees. Five directors belong to the founder's family. The sixth one is a close business associate, the manager of another firm belonging to MMP owners but, living at 600 km from Buenos Aires, he does not take active part in the life of MMP. President of the Board responsibilities and CEO responsibilities are assigned to different people—father and son, respectively. The CEO, called General Director, a grandchild of the founder, is thoroughly supported by the Board. The General Manager—not a family member—in charge of all key financial and operations affairs, has been with the company for more than 40 years, and, needless to say, the owner family trusts him absolutely. There is a regular board meeting, where at least three main directors participate.

**Allocation and control decision rights.** The distinction Fama and Jensen (1983) make between decision management rights (initiation and implementation) and control management rights (ratification y monitoring) are relevant in the context of a TQM change project. (See also Jensen et al. (1990).) In effective organizations, decision rights are given to different people than control rights, in order to lessen agency problems. If resource allocation is not regulated, agency problems can appear due to conflicts of interest among different actors. For example, differences might occur between different levels of the organization about the use of time, which could be taken away from routine work to devote it to improvement work<sup>1</sup>. Likewise, there might be reluctance from middle management and general management to assign time to improvement implementation, something that occurred at MMP. This behavior could have “anti-systemic” consequences, for improvement work—attractive to employees due to the creativity it allows—might not help to achieve the organization's goals. At MMP the division between initiation-implementation (decision rights) and ratification-monitoring (control rights) was clearly seen during 5S activities, where workers propose decisions and managers ratify them.

**Managers' fiduciary duties towards owners and their management decision rights.** Decision management rights (initiation and implementation) play a key role at the change process taken place at MMP.<sup>2</sup> Specific knowledge (Hayek (1945)) not only increases efficiency, but plays a fundamental part in assigning decision rights. The assignment role of decision rights naturally emerged at MMP. Work teams, with their

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<sup>1</sup> TQM divides work between daily work (routine) and improvement work (innovation). Shiba (1996) calls this distinction “the dual nature” of work.

orientation to practical problem-solving, are granted decision rights that originally were assigned to superior hierarchical levels; there is, in fact, some decentralization. The role of managers and consultants during the process is to try to induce decentralization, so that specific knowledge and decision rights are in the same hands.

**Managers' performance and incentives.** Performance evaluation and management incentives are closely related to corporate governance. An important issue is the formulation and management of an incentive system. The main idea behind an incentive system is that companies must reward employees according to their performance in those activities that management considers important.

Incentive management issues are summarized in Table 5. In its three columns, the table shows: (1) MMP's current incentive system; (2) some principles that, in our opinion, should be followed from now on; and (3) recommendations for an expanded system, emerging from the situation and the principles.

1. Elements of MMP's incentive system	2. Guidelines for an expanded system	3. Elements for an expanded system
<ul style="list-style-type: none"> <li>• Utility of improvement groups.</li> <li>• Improved communication.</li> <li>• Public recognition.</li> <li>• Pay for knowledge.</li> <li>• Education and training.</li> <li>• Employment guarantee.</li> </ul>	<ul style="list-style-type: none"> <li>• Attention to culture, values, mission and leadership.</li> <li>• Education and training.</li> <li>• Evolutionary system.</li> <li>• System linked to performance evaluation.</li> <li>• Respect for the individual.</li> <li>• Simple system from the employee's viewpoint.</li> </ul>	<ul style="list-style-type: none"> <li>• Training for everyone, including board members, as an incentive measure.</li> <li>• Personnel participation.</li> <li>• Exercise of leadership.</li> <li>• Consideration of money rewards.               <ul style="list-style-type: none"> <li>○ Pay for knowledge.</li> <li>○ Need to evaluate pay for performance.</li> <li>○ Group compensation.</li> </ul> </li> <li>• Constancy of purpose.</li> </ul>

**Table 5.** Sketch of incentive issues at MMP.

There is coherence between the principles (column 2) and the elements of the current system (column 1). Attention to MMP's culture, values and mission has been clear to the improvement groups from the first day of training. The General Director's leadership is displayed through frequent interaction with workers and visits to the improvement group meetings; visits promote communication across levels as well. Respect for the worker is shown in the (implicit) employment guarantee. We believe that the major divergence between the system's elements and the principles is in the lack of a direct and explicit relationship between performance evaluation (still in its early stages) and rewards.

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<sup>2</sup> See Miller (1992), Hayek (1945), Fama and Jensen (1983).

New elements in the system (column 3) should help to close this gap. Training of the board, in particular, aims at creating at the top a uniform and thorough understanding of basic principles of a modern management system, including performance evaluation and incentives. This would be a first step to strengthen policies at all levels. Personnel participation and the exercise of leadership can be improved with adequate feedback mechanisms and training at the supervision level. Constancy of purpose is an important value, as is the consideration of money rewards: these two issues should be on the board's agenda. The CEO has among his duties the integration of all these ideas and resources.

**Other governance subjects.** The existence of stakeholders is always in the mind of the general director. There is concern for employees and customers, and communication efforts to both constituencies have been advanced during the past few years.

Other topics on the list have not been examined yet by this author. MMP's founding charter is available, since the company is a registered corporation according to Argentine law. (The author of this paper so far has not consulted the chart.) Production and disclosure of information to regulators are, likewise, themes not yet studied. The same is true of accountability to regulators and investors and of national and international institutional constraints. Among these constraints, the obligation to prepare the firm for ISO 9000 standards is being met during 2005-2006. The standard poses new challenges to the company.

Table 6 summarizes the status of governance subjects at MMP.

<b>Subject</b>	<b>Situation at MMP</b>
<b>Board of Directors</b>	<ul style="list-style-type: none"> <li>• Mostly integrated by family members.</li> <li>• CEO and President: different people.</li> <li>• Holds regular meetings.</li> <li>• Would benefit from training on governance and general management, including performance measurement, incentive management, change management and corporate culture management.</li> <li>• Need to understand that efficiency is increased when decision rights are closer to specific knowledge.</li> <li>• Consideration of design and application of a corporate governance code, that includes things such as: cost accounting, human resource management, a communication policy towards stakeholders.</li> <li>• Would benefit from seeking consensus to (explicitly) debate corporate governance issues at board meetings.</li> </ul>
<b>Allocation and control decision rights</b>	<ul style="list-style-type: none"> <li>• Plant people are somewhat aware that decision rights related to everyday operations are better located near those with specific knowledge.</li> <li>• Top management (except for the General Director) are probably less aware of the convenience of some decentralization towards specific knowledge.</li> </ul>
<b>Managers' fiduciary duties towards owners and their management decision rights</b>	<ul style="list-style-type: none"> <li>• There is a need to decentralize decision rights in a conscious way, because this will lead to greater efficiency.</li> <li>• All management and board members should understand the theory behind this recommendation.</li> </ul>

<b>Managers' performance and incentives</b>	<ul style="list-style-type: none"> <li>• Performance evaluation is quite sophisticated in design, but implementation has to be completed.</li> <li>• There are good elements for an incentive system.</li> <li>• There is a clear need to strengthen the incentive system and link it to the performance measurement system.</li> </ul>
<b>Relationship with stakeholders</b>	<ul style="list-style-type: none"> <li>• There is an explicit consideration for the market (focus groups, surveys) and the employees (improvements in communication and accountability towards them), that can be strengthened.</li> </ul>
<b>Other subjects (not analyzed yet)</b>	<ul style="list-style-type: none"> <li>• Production and disclosure of information to markets and regulators</li> <li>• Company's founding Charter by-laws, statutes, and codes of good practice</li> <li>• Accountability to regulators and investors</li> <li>• National and international institutional constraints (the Judiciary, traditions, regulations, and law enforcement). Need to comply with ISO 9000 standards.</li> </ul>

**Table 6.** Status of governance subjects at MMP.

### NEXT STEPS

The MMP case study reveals a number of areas that could benefit from further work. The study attempted to develop a comprehensive family of performance measures, aligning governance and strategy with operations. Implicit in the exercise is the question of what the determinants of business performance are, and how business performance can be measured. In addition, there is a need to explore if, and how, the relationship between different dimensions of business performance and governance can be articulated. Assuming that relationships among governance, managerial action and performance can be found, leading indicators (predictive performance measures) could be identified and used in everyday operations.

In addition, the case can profitably be studied in the context of change management, at least from three avenues:

- (a) How to manage the evolution of a measurement system? (Measures most relevant to a firm change over time, something we anticipate at MMP.)
- (b) How to implement and maintain a measurement system? (It is not obvious at MMP which measures, among the many possible, are best, and consensus is not enough to decide; it is necessary to consider advantages and disadvantages of different measures, as well as the rigor with which they are taken.);
- (c) How can we induce good governance practices in SMEs? (To what extent can culture be used and modified to induce these practices?)

More basically: What are good governance practices for MMP and for a SME in general? What are the main contingency factors for decision making related to governance in SMEs? The study and diffusion of these ideas will be good for SMEs, even if they maintain their basic structure and attitudes toward business behavior.

Table 7 is a summary of issues for further study that arise from the MMP case.

General area	Specific problem
<b>Governance of SMEs</b>	<ul style="list-style-type: none"> <li>• How to apply to SMEs concepts of corporate governance developed in the context of large, publicly owned firms.</li> <li>• Idem above, applied to performance measurement.</li> <li>• Codes for the governance of SMEs.</li> </ul>
<b>Performance and performance measurement at SMEs.</b>	<ul style="list-style-type: none"> <li>• Selection of a specific family of measures.</li> <li>• What are the determinants of business performance.</li> <li>• Relationship between different dimensions of performance.</li> <li>• What are good predictive performance measures (leading indicators).</li> </ul>
<b>Change management at SMEs.</b>	<ul style="list-style-type: none"> <li>• How to implement and maintain a performance management system</li> <li>• How should a performance management system evolve.</li> <li>• How to introduce and maintain good corporate governance practices in SMEs.</li> <li>• Consideration of contingency factors in performance measurement and corporate governance systems.</li> <li>• The role of culture in the change process.</li> </ul>

**Table 7.** Areas for further study on corporate performance measurement and governance, with some specific problems that could be tackled.