

Chicago Continental Can Company

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ABSTRACT

This case examines the Chicago plant of the Continental Can Company whose product lines were old and not maintained. The new plant manager, John Prieto was recently named plant manager and was able to personally select and bring in managers from across the company to help return the company to profitability. As the case unfolds, it becomes readily apparent that there are many more problems at this facility, including labor problems, sabotage, theft, and numerous payoffs required to operate in the city.

Keywords: manufacturing, strategic management, production management, ethics



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Case Objectives and Use

The focus of this case requires a strategic review of the company, its' personnel system, and the production system used in the plant. The case was developed by field research and one of the co-authors is in fact, the Mr. Channing referred to in this case. The student will quickly find that there are many issues within this case that need to be addressed, though the primary focus centers on ethical issues a manager might face while employed at a major company operating in a major city.

Case Synopsis

John Prieto was brought into the Chicago Stockyard plant as plant manager in early 1968. The plant was not running efficiently and was not earning its potential. The division headquarters was faced with options whether to close the plant and transfer the business to other Chicago area plants or try to make the plant profitable. Prieto was given the decision and the opportunity to hand pick four or five managers throughout the company to come in and put the plant back on its feet. R. Henry Channing was part of that group.

Continental Can Co.'s Chicago Stockyards Plant was in Chicago's south side at 39th and Pershing, directly across the street from the famous Chicago stockyards. The cattle and hog stockyards grew with the city of Chicago in the early 1900's. Livestock from all over the United States were shipped by railroad to Chicago to be traded or slaughtered.

Chicago Continental Can Company, Part I

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R. Henry Channing was 27 when he joined the Chicago Continental Can Stockyards management team. He reported to the Plant Manager, John Prieto and Dick Griffith, Assistant Plant Manager, as a part of a team of managers handpicked to save a declining manufacturing plant located on Chicago's Southside.

Background:

Continental Can Co.'s Chicago Stockyards Plant was in Chicago's near southside at 39th and Pershing, directly across the street from the famous Chicago stockyards. The cattle and hog stockyards grew with the city of Chicago in the early 1900's. Livestock from all over the United States were shipped by railroad to Chicago to be traded or slaughtered. Major companies typically built slaughterhouses in the stockyards area. It seemed obvious, then, that it would be a wise move to have a can manufacturing plant as close to the packers as possible. That was the original purpose of the Continental Can Chicago Stockyards Plant; to supply cans for the meat industry, the main market being in the South Chicago packers' area.

Several trade unions were involved with the approximately 1,200 workers. The United Steel Workers represented the bulk of the group. The machinist group represented the groups in the machine shop. Electricians were hired through an outside service and did not actually belong to their work force. A general prosperity had prevailed in the stockyard area.

As the country and rail system developed, the meat packers began moving closer to the other Western railheads at the point of delivery of the cattle, starting a general decline for the Chicago meat packers, and a lesser need for cans. Continental Can built a big can plant in Omaha to service the western market. The stockyards plant in Chicago lost that and other business. (Continental Can had over 160 plants in the USA.)

With continued decline, survival of the Chicago plant was a problem. The plant was running at about three-quarter capacity. All Continental Can plants were generally organized according to the following organizational structure: Plant Manager, Assistant Plant Manager, Assembly Manufacturing Department Manager and a Press Department Manager.

Before Channing took over the Press Manufacturing Department, he was Chief Industrial Engineer of the Elwood, Indiana, Industrial Plant. In early October, he accepted the position, and arrived to take over as the Press Department Manager in mid-October. When he arrived, the press department had been running leaderless for approximately four months. Scarcely any organizational structure or controls existed.

The press department was the plant's largest manufacturing entity. The plant was a multi-story, ancient building. Press manufacturing was done on three floors. Each was a separate, distinct entity. About 30 complete production lines were on the first floor. The second floor housed the production equipment for supplying cans for packing ham ends. Some 40 production lines that made tops for various other sizes of meat products such as Spam, etc., were on the third floor. Seven management foremen and 30 lead men managed this operation. When they came to work, they informally checked what had to be done and managed the operation on a day-to-day basis.

The department had long been running in the red. Various acts of sabotage had been committed on the third shift. The first shift would come in to find equipment out of adjustment, wrenches left in dies, and compound mixtures diluted. Spoilage was running at almost double the standard rate.

Surrounding the Continental plant were the Stockyards to the south, a mostly Polish-American neighborhood to the west, an African-American neighborhood living to the east, and to the north was an Irish-American neighborhood. Almost 20 percent of the work force at the plant were comprised of African-Americans, with the remaining 80 percent being about 20% Irish and 40% Polish heritage. The remaining 20% migrated from the hills of Missouri, Oklahoma, Arkansas, Tennessee, and Kentucky.

The Polish-Americans were willing workers and easy to manage. The African-Americans were despondent because of the existing social barriers, a general lack of education, and job understanding. The management of the group of employees who had migrated from the hills had been an issue in many industrial settings in which Channing was involved, because of their low social ethic and work tradition. These three groups, because they shared a common need for employment, found themselves working together.

Since the plant's future had been in question over the past few years, each project or added piece of equipment was put on a temporary basis. The wiring for the second-floor ham lines had been temporarily put in more than 10 years before and was still considered temporary when Channing arrived. The work conditions were extremely dirty around the first-floor production lines. The production control department scheduled changeovers and shipment at will, with little coordination with the manufacturing entity. The department had earned the distinction of leading the entire company in repair costs. The costs for repairing,

mending, and installing broken and worn parts was about \$250,000. Worker morale was very low. A high degree of frustration and a lack of sense of accomplishment were apparent.

When Channing agreed to take the job, he was given almost free rein, the only condition that he made upon accepting it. He was confident and didn't want someone constantly looking over his shoulder at every move he made. Prieto and Dick Griffith were startled when he made this a condition of accepting of the job but agreed to his terms.

R. Henry wondered, what to do first? "How do we get this department back on track?"

Chicago Continental Can Company, PART II

Background

The department had long been running in the red. Various acts of sabotage had been committed on the third shift. The first shift would come in to find equipment out of adjustment, wrenches left in dies, and compound mixtures diluted. Spoilage was running at almost double the standard rate. Morale was at an all-time low. Channing did not know what to do first.

Channing talked informally with as many people as he could those first few weeks. Channing took each management member out to dinner and spent time listening and explaining his managerial philosophy. Late in October he set up a general machine cleaning and housekeeping project. The objective was more than just cleaning house; he had hoped that it would make a psychological impact. A new management regime was beginning. He brought in each production-line head. The objective of that first weekend was to get the key management team, the lead men, and the maintainers who headed each production line, tuned into a new management philosophy. They spent that full Saturday having each maintainer go through and check out his production equipment, cleaning up the main working parts, and generally making sure his work area was well organized and presentable. Channing moved from man to man, generally encouraging, communicating, and listening, and in the best way he knew how, letting the team know that they were moving ahead. Each maintainer received time-and-a-half-for his day's work.

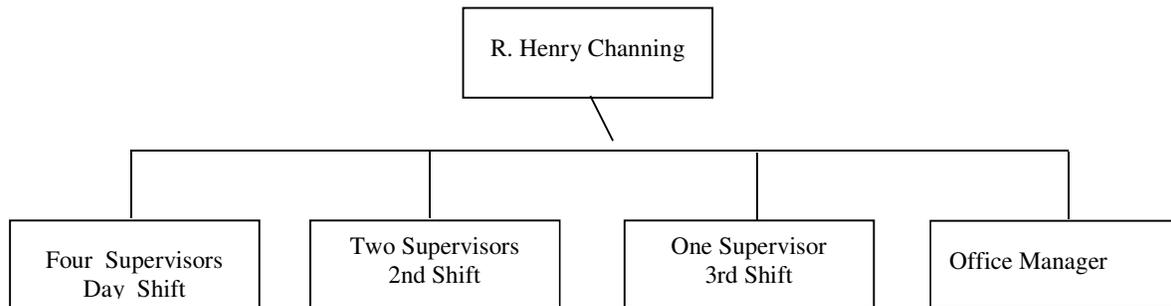
The next week Channing added four men to the third-shift crew to begin a methodical painting of the equipment. The lifeblood of the manufacturing organization is its equipment. Channing addressed what he considered to be the major problems. By early November he had identified: (1) lack of planning, organization and clearly established objectives; (2) high equipment breakage and repairs; (3) poor manufacturing efficiency; (4) a poor attitude, and a poor co-ordination with other plant departments, especially production control.

Production

All floors had both Assembly and Press departments. Round presses were only on the first floor. Here the ends were made for cans. The ends were then sent to the assembly department where they were affixed to one end of the can. The ultimate customer would fill the cans and the assembly department would then close the can by affixing the other end to the can. There were two managers on the second shift while only one manager was assigned to the third or graveyard shift to oversee operations. Besides Channing, there were four managers on the first or day shift (Figure 1).

The oblong presses were on the second and third floors and did the same operations as the round presses, except for working with cans that were not round. As an example, meat-canning companies used oblong cans for their canned hams.



Figure 1 - Press Department Organization

One cause of a high incidence of breakage was the lack of training and the attitude on the part of the maintenance personnel. Company engineers had developed proper preventive-maintenance programs to be used companywide, but they were not being used properly in this plant.

Safety and housekeeping was practically non-existent. Management and all rank-and-file blue-collar workers ignored common safety rules and permitted the equipment to get dirty without cleaning. It was at this time that the Plant Manager, John Prieto had set up a plant-wide goal to work a million man-hours successfully without an accident. Channing purchased a home first-aid kit for every employee in the plant as an incentive to encourage success.

Human Resource Management

The Polish workers were quick to respond and support the new regime. The others maintained a "let's wait and see" attitude. During those early months 28 workers were fired. Many people working at the plant had criminal records, i.e., posted bond for murder, were drug addicts, and were basically non-productive malcontents. Most had not completed their apprenticeship in the union and were easy to discharge without stiff union opposition. The Polish workers seemed to like this because they didn't like the people who were fired. Due to the heavy union influence, employees were dismissed because of nonperformance. Heavy pressure was put on nonproducers to produce.

Channing started an intense motivational campaign aimed at running production in the black for the first time. It was a subject that was brought up frequently. What he wanted was to let people gain self-confidence in their own ability and in his ability to manage effectively. It was, in effect, a struggle for the credibility of the new management regime.

Sabotage on the third shift got so bad by mid-year that Continental Can had hired a private investigator. He went to work on the third shift and assumed an identity with the workers on that shift. He got in with the "gang." He reported the incidents and collected evidence for Continental Can. They learned that two employees were the ringleaders in this particular action. They gathered the evidence and worked closely with Industrial Relations. They determined they had a case good enough to warrant discharge. Channing came in with the assistant plant manager, Frank Sudholt on the third shift during the summer, and they suspended both employees. The union obviously backed the employees. They began the long struggle through the various grievance stages, and it appeared the case was going to arbitration.

As arbitration neared, they began to run into problems with the investigative firm. In arbitration the actual witnesses are subpoenaed and brought before the arbitrator. The

detective agency reminded them that it had contracted to supply information but would not interpret that contract to mean that their man would have to go on the witness stand. Obviously, reprisals were feared, and of course the detective's identity would be revealed. Then Channing realized that the case would not stand up in arbitration.

By refusing to arbitrate, the company had to fully reinstate both employees at full pay and benefits. This naturally influenced morale, but not overwhelmingly. It did, however, stop the sabotage and the third shift became more productive.

Research & Development

The opportunities and problems that began to face them in the summer included the handling of research-and-development projects. Continental Can's Central Can Making R & D Center was at nearby 69th at Racine. All projects must be brought into full manufacturing through a series of phases. The research and development personnel must work closely with a manufacturing unit. Their plant was nearby, and the lack of full capacity made it ideal for R & D to experiment on their equipment. If there were not many projects, it became a good means of making money (there would be a dollar transfer of credit for supplying labor and a contribution to overhead for using their equipment).

What happened, however, was that the company ended up with the following projects: (1) an airline's new coffee can, (2) the cheese can for U.S. soldiers in Vietnam, and (3) the new equipment and manufacturing techniques for making easy-open coffee, nut, and tobacco cans. This research overload became a big problem. They got so many projects going that they tied up too many key people during the summer vacation months, and it lowered normal manufacturing efficiency.

Production Controls & Maintenance

Part of the problems with production control was bad wiring on the second-floor oblong press. The maintenance shop had to shut down the second-floor ham equipment to complete the temporary wiring. An engineering consulting report had indicated that the second floor would not support the heavy equipment and constant pounding much longer. They were faced with the expensive necessity of a complete reorganization of the equipment layout. An employee committee was organized to implement the consulting firms' new layouts.

Channing had learned, as a staff head responsible for industrial engineering and long-range planning at the Elwood Industry plant, some of the natural hedging that takes place in production control. Production control is responsible for warehousing costs, and a long production run increases the department's cost. Production control naturally aspired to keep the production run short and make direct shipments to the customers, thereby keeping product out of the warehouse. They had cut the line changeovers in half at Elwood to yield longer production runs when they forced production control to establish goals and guidelines to maintain delivery and keep warehousing costs at a minimum.

Channing became actively involved in the setting of objectives with production control to avoid being forced into too many unnecessary changeovers. Each changeover would require 8 to 20 hours to get the line back into production. The industrial engineering standard for a die change, for example, gave the department credit for about 3.5 hours. The curlers and other equipment gave it about 6-line hours and 18 man-hours. Only through the generation of standard line-hours could they earn spoilage materials and other dollars. To compound this changeover problem, they have found that many of the smashed dies came through with improper setting. This meant that they were exchanging a few dollars in

warehousing costs for the tremendous expense of actual production downtime, repair costs, and repair material generated through increased frequency of die-change problems.

There were no preventive-maintenance programs on the equipment. They only did preventives maintain when the equipment was almost completely inoperable.

Channing had learned through his experience that the nesting pins (on the Minster Presses) would likely have a high frequency of breaking between the eighth and the tenth day. When the nesting pins broke, anywhere from \$10,00 to \$50,000 damage would be suffered. Preventive maintenance cost one full day's production on each piece of equipment every seventh day, but it had a tremendous effect on repair costs. In the long run, they got as much production time as before when the machine would be broken down and being repaired at the same time. Maintenance was only done when the machines quit working.

Management

Although the management team functioned much better, they still had problems. The basic attitude of most of the management team was a very strong, "Let's see what happens."

A problem was that four levels of management lay between Channing and the blue-collar worker. The older foremen and department staff did not formally greet the young additions to the team. Channing had hired the lower-level management persons without consulting the supervisors.

Marketing

Another problem that summer ended up being the "Keep Cool" can, promised for famous Indy racecar driver, Andy Granatelli. Channing learned of the project while driving down the Dan Ryan Expressway one day in late February. Someone on the radio was announcing the product and promising consumers it would be on the shelf for the hot summer months around Memorial Day.

Channing remembered thinking, "That's going to be some kind of project; I wonder who is going to get stuck making it?" Channing learned a few days later that he was the lucky one. The sales people had promised delivery on a can that hadn't been through research and development and had no tooling or equipment with which to make it. A grueling period was ahead.

Production Controls and Preventive Maintenance

The problems were resolved when it was determined that the new tooling in some equipment was not functioning properly. Slack in the cams and gears caused a buildup of centrifugal force in rotating parts of the production process. It was an interesting combination of the buildup of centrifugal force, a certain base weight of aluminum that had a grain that when all combined, would present a situation where there would be a leak.

It had taken a full six to eight weeks of around-the-clock work to nail down these variables. They had wasted the first four weeks using stopgap and nickel-and-dime procedures. They finally realized, after a month of all-out effort, that they were going in circles.

During this entire process, the company had put a tremendous amount of pressure on Channing. Granatelli was raising the roof because he was spending a fortune advertising a product that wasn't on the shelf. Marketing has a lot of clout and was causing a ruckus in the head office. All the head office cared about was results. Unfortunately, they were given the task to have those ends manufactured by Memorial Day.

The solution of the marketing problem appeared to be in productivity. Their grand scheme was to make the plant productive and profitable. They then used that as a lever to show the division office that they could competently handle new orders. Their strategy was to go after the Michigan fruit and berry business, specialty orders, and government business. They were converting capacity to pick up this new business. Top management went with them and started moving this business in. This necessitated acquisition of the latest technology available in can making. They had six brand-new production lines. Four of these were installed after Channing arrived. They were making the specialty products from their Chicago Stockyards plant.

They got the business because they proved they could produce, and the plant was only a mile from the Dan Ryan expressway. The Dan Ryan and the Calumet expressway provided a fast, easy four-to-six-lane shot into Michigan and all the profitable canneries. They continued making the ham cans and sending them into other parts of the country. The overhaul program, preventive maintenance, and lubrication programs had increased the capacity of the ham lines by a full 25 percent. The plant was running seven days a week on the ham lines when Channing came, and was still running that way when he left. The demand for ham cans in that section of the country was insatiable. They could sell everything they could make. With a 25 percent increase in productivity, all the gains were gravy. Since it was a profitable item, it obviously added tremendously to the profitability of the plant and generated handsome increases in standard line hours.

The third-floor press had brought in the new cheese can and had taken it through research stages. This provided another new product. Their marketing plan paid off. They got new profitable business, which generated new opportunities and new capacities.

The old equipment, to his knowledge, had been almost fully depreciated. It was obviously combined to make an asset base with the new equipment that was brought in. Channing didn't have information on the profitability of the plant. His management bonus the last year was 17 percent of his annual salary, which is an indication that they were having a pretty profitable year.

Ethical Issues

Channing saw a lot of ethical problems. It seemed to him that every political and social group was shaking down every organization in the district for pledges to support all kinds of things from parades to annual parties. A threat always seemed to underlie failure to contribute to any of these projects. They seemed to dole the cash out, no questions asked, whenever requested. The rail crews had interesting ways of shaking down different parts of the organization. If a proper cache of whiskey and other embellishments were not conveniently left, needed rail switching wouldn't take place. The situation once became so bad they couldn't get rail cars moved for any reason.

They protested to the railroad management, which had very little power over the "mistakes" made at the lowest levels. One of his foremen who had worked in the plant for years said, "Let me take care of this." Reluctantly Channing said, "Ok". Rail pickup and deliveries were never a problem again. Channing never asked how that came to be.

There was the ever-present evidence of the Chicago underworld. Channing was not new to this since he saw how it worked a few years earlier at Plant 5 on the other side of Chicago. A daily and nightly fence of stolen materials was going on throughout the whole south side of Chicago. The syndicate characters took orders and delivered contraband almost at will in the locker rooms, parking lots, and other areas.

One day as Channing was listening to the radio while heading into work and the announcer told about a Shaeffer pen truck that had been hijacked with all the pens stolen.

When Channing got to work at 6:45 a.m., the union steward walked up and handed him a package of about 50 \$3 Shaeffer pens. He asked Channing if he wanted a bargain for \$1.

Channing heard stories of custom delivery of stolen automobiles down to the color, engine size, and accessories. The bookies and numbers men were active all over the place. Channing could not and did not do anything about this situation. All Channing did was refuse to purchase all the bargains that were constantly available. Channing tried to set an example that even though these items were highly tempting, it wasn't right to become involved. Channing couldn't see that example rubbed off on anyone

Channing was offered a wad of bills as "thanks" and a "consulting fee" from a company trying to persuade him to go to its product. The company had been deeply involved in testing three major competitors for more than three months. Ironically, the company had just about decided to take its product anyway. Channing didn't accept the money but suggested that it might have a good effect on the people if they put on a grand feed for the troops. It would help them be in a good mood to be sure that their new product was successful.

Conclusion

If you were Channing's replacement, what would you do?



Teaching Note**Questions**

- 1) Identify and discuss the major problems at Continental Can Company.**
- 2) What are the major ethical issues in this case?**
- 3) What management issues need to be addressed?**
- 4) What marketing issues need to be addressed?**
- 5) If you were Channing's replacement, what would you do?**

Answers to questions

- 1) Identify and discuss the major problems at Continental Can Company.**

Continental Can faces many important issues that are negatively impacting the company. Some of these include employee morale, sabotage, the facility is only operating at about $\frac{3}{4}$ capacity, plant profitability, production and operations, sales and marketing not communicating with the production department, and a host of ethical issues. In short, there are many things that need to be taken care of before the plant could be said to be operating well.

- 2) What are the major ethical issues in this case?**

Some of the major ethical issues include: "shakedowns" for donations to local organizations, difficulty in getting cooperation with the railroad for shipping orders, stolen goods sold through organized crime, availability of a wide range of products for sale that were "hot goods", and attempted bribes for orders.

- 3) What management issues need to be addressed?**

Management issues needing to be addressed include better relations with the local union, hiring from a better labor pool, production controls and preventive maintenance, possibly too many levels of management (four), and hiring directly rather than delegating hiring of first line supervisors, and a general lack of communication and coordination between departments (for example, research and development and production).

- 4) What marketing issues need to be addressed?**

The marketing issue specifically mentioned in the case relates to the salespeople promising delivery on a can that hadn't been through research and development and

the production department didn't have the tooling or equipment with which to make the product.

5) If you were Channing's replacement, what would you do?

Poor productivity and profitability are not problems, but rather symptoms of some serious issues at Continental Can Company. Several things that Channing's replacement would need to accomplish immediately would be to reduce the levels of management from four to a more efficient number (two?). Processes and procedures need to be established and communicated starting with research and development.

Management needs to establish a better working relationship with the union in order to be able to hire better employees and fire them when necessary. The plant cannot continue to operate at a loss. Of course, better training upon hiring would likely improve day to day operations.

The company needs to develop a code of ethics for all employees and work with the union to ensure that all employees are held to the standard.

Together, these issues are so significant that if management is unable to work with the union to resolve them, the company might be forced to close this facility and relocate manufacturing, preferably to a non-union state.

Suggested References for teachers and students

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