



THE CEO &
THE GENERAL

BY STEVEN B. WEINER // PHOTOS BY NEIL COWLEY

JOSEPH KLEIN
AND JOHN BATISTE
ARE DETERMINED
TO TAKE KLEIN
STEEL TO THE
NEXT LEVEL OF
SMALL-COMPANY
EXCELLENCE.

in 2004,

when Joseph Klein realized the family business needed new leadership, he found himself in the quandary that dozens of other family owners in the metals industry have faced.

Klein believed he had reached the limit of his own ability to manage a growing Klein Steel Service, and no other family members were involved in the business. Yet, at age 54, Klein had many working years ahead and no interest in selling the Rochester, New York, metals service center operation.

What's more, Joe Klein is a student of management, and he knew Klein Steel wasn't yet the company he wanted it to be. One of his business heroes is the late Ken Iverson, former chairman and CEO of Nucor Corp., who shaped a corporate culture based on an exceedingly lean decentralized management, a belief that the success of the business is in the hands of employees, not managers, and the conviction that equal treatment for all employees, eschewing perquisites for managers, is essential. "Keeping things simple works for us," wrote Iverson in his 1998 book, "Plain Talk: Lessons from a Business Maverick."

Klein always tried to live the Iverson ideal. He now drives the most expensive car he has ever owned, a Subaru, and he has no designated parking spot. His office furniture is utilitarian.

Another business hero is Peter F. Drucker. Off the top of his head, Klein can cite, accurately, the pages where important management ideas are discussed in Drucker's seminal work, "The Effective Executive: The Definitive Guide to Getting the Right Things Done."

"On page 89, he tells you that to keep a person who is not doing the job is cruelty to that person. It erodes their self-confidence; it destroys the person," says Klein, who sometimes felt as though those words were written about his own self-described limitations as a CEO.

What, then, was the solution for Klein Steel? After a year of working with a head hunter, Klein was stumped. The problem was not that good candidates couldn't be found; he interviewed seven of them. Rather, the issue was one raised by yet another cornerstone of recent business publishing, Jim Collins's 2001 book, "Good to Great," and its compelling description of the "Level 5" leader. All great companies have a Level 5 leader, Collins says.

"The term 'Level 5' refers to the highest level in a hierarchy of executive capabilities that we identified in our research," Collins writes. A Level 5 leader is "an individual who blends extreme personal humility with intense professional will. ... They were self-effacing individuals who displayed the fierce resolve to do whatever needed to be done to make the company great."

The Klein Conundrum

Joe Klein is picky. He would settle for nothing less than a Level 5 leader.

"'Good to Great' is a cookbook, and a Level 5 leader is part of the recipe, so I put a lot of effort into looking for a Level 5 leader," he says.

But of course, Level 5 leaders are comparatively rare in a business world that seems to celebrate self-promoting, take-charge personality types. Collins, after extensive study by a team of 20 researchers, identified fewer than a dozen of them in his book. Executives such as Alan Wurtzel, former CEO of Circuit City Stores Inc., and Lyle Everingham, former CEO of Kroger Co., hardly are household names.

Rarer is the Level 5 leader eager to work for a metals service center company with sales, at the time, of less than \$40 million from plants in Rochester, Syracuse and Buffalo. The best things going for Klein's recruiting effort were his beautiful, new 132,000-square-foot Rochester plant, opened in March 2004; the towering, sophisticated KASTO Maschinenbau GmbH & Co. KG computerized metals storage system inside; and the startling, immense yellow steel sculpture outside. The landmark work is called "Threshold," and it was assembled by renowned sculptor Albert Paley, a Rochesterite who has had his metal custom-cut at Klein Steel for decades. "Threshold" is one of those monumental, soaring, abstract metal sculptures that is simultaneously evocative, somehow stable and complex, but also eerily organized and coherent.

In some respects, "Threshold" is a lot like Klein—blunt, prickly at times, yet exceedingly honest.

Frustrated by the presidential search and stressed by his personal sense of the Peter Principle at work, Klein turned back to his emotional roots of meditation, first learned in 1986 as a way to help his wife fight cancer. A Syracuse University biology graduate, Klein's personal research into cancer treatments led him to studies that demonstrated a pronounced beneficial physical impact from progressive relaxation and meditation. Klein tried it for himself, liked the result, and has meditated off and on for the past 20 years. "It weaves in and out of my life," he says.

Klein signed up for the 2005 business leader meditation retreat conducted annually by Jon Kabat-Zinn, the University of Massachusetts Medical School physician whose studies of stress and meditation, or "mindfulness," are considered pioneering in the Western world. It was at Menla Mountain Retreat in Phoenicia, New York, that Klein met Frances Hesselbein, former CEO of the Girl Scouts of the U.S.A. and a long-time Drucker disciple.

Among other things, Hesselbein is chairwoman of the Leader to Leader Institute, a Drucker organization based in New York City that recruits leadership for social service agencies (see "Need a Boss? Hire a General," below). One Leader to Leader program is Generals in Transition, which pairs retiring U.S. Army generals with social service leadership jobs.

"It was just a chance encounter," Hesselbein says. "I was just sitting next to him. He casually asked me, 'You know anyone who would be a great steel company president?' Why he would ask someone who looks like me, I don't know."

Predestination? An exchange of compatible energy among meditators? We will never know. But Klein also told Hesselbein about Rochester Prep, a successful charter school that Klein helps lead, and that was enough of a not-for-profit link to persuade Hesselbein to send Klein a resumé from one of those retiring

generals—a fellow by the name of Major General John Batiste. A Level 5 leader if ever there was one.

Enter Batiste

John Batiste grew up in an Army family. His father was a career officer who served in Europe and the Pacific in World War II, then later in Korea and Vietnam. He retired as an infantry colonel.

Young Batiste loved the Army life. He attended West Point, where he earned an engineering degree, and joined the Army as an infantry officer in 1974. His life followed the path of a promising career officer as he rose through various leadership and staff positions, moving 19 times in 31 years of service.

Among other things, he served as operations officer for a brigade of the 24th Infantry Division during its deployment to Kuwait and Iraq in 1990 as part of Operations Desert Shield and Storm. He was promoted to colonel in July 1995 and assumed command of a 1st Armored Division brigade deployed to Bosnia in December 1995 for a year-long Implementation Force mission under the Bosnia and Herzegovina peace agreement.

Promoted to brigadier general, he was assigned as the plans officer in NATO's Southern Region, an assistant division commander in the 1st Cavalry Division and, beginning in June 2000, a member of the Joint

NEED A BOSS? HIRE A GENERAL

Several dozen Army generals retire each year, most in their mid-50s, and many of them naturally gravitate to lucrative jobs with defense contractors. But for many of these talented individuals, the goal is to continue a fulfilling lifestyle in a job with a true sense of mission.

"These are people who have been in high-pressure, stressful, tough, demanding jobs, and all their life they've succeeded at every position they've been in," says Robert E. Gaylord, president and CEO of the Leader to Leader Institute of New York City. "They are mission-focused, passionate individuals, and every one of them cares about people because that's the nature of our military. It's all about people."

Leader to Leader was founded in 1990 as the Peter F. Drucker Foundation for Nonprofit Management to help social service organizations improve their performance. One specific goal always has been to find highly qualified leaders for the social sector.

In late 2003, the group launched Generals in Transition as a way to acquaint retiring generals with opportunities at social service agencies. Recently re-employed generals and the Leader to Leader staff meet

quarterly at Fort Belvoir, Virginia, with generals likely to retire in the next six to 18 months.

"It is not government, it is the social sector that may yet save our society; it's the equal partner to business and government," says Frances Hesselbein, chairwoman and founding president of the Drucker Foundation. "We are the bridge that tries to connect generals with great opportunities to work and serve."

Examples include retired Major General Wallace C. Arnold, now president of Cheyney University, Cheyney, Pennsylvania; Major General Arthur T. Dean, chairman and CEO of Community Anti-Drug Coalitions of America, Alexandria, Virginia; Major General Robert Ivany, president of the University of St. Thomas in Houston; and Major General Alfonso E. Lenhardt, president and CEO, National Crime Prevention Council, Washington, D.C.

"What better way is there to infuse values-based leaders of character than to help generals transition from one calling—service to their country—to another—service to society?" says Gaylord, a retired brigadier general.

Metals companies interested in Leader to Leader can contact the group at (212) 224-1171.

Staff at the Pentagon, becoming senior military assistant to the deputy defense secretary in March 2001. Along the way, he picked up a master's degree in financial management from the Naval Postgraduate School.

Batiste gained his greatest notoriety with the general public after he became commander of the 1st Infantry Division in August 2002. During the three years he

"You've got most of industry being run by greedy, empty suits. So I didn't think we'd have any competition from other companies for the right person, and then John walks in."

As startling as it might seem for a little company to hook a big fish like Batiste, the new president says it made perfect sense to him.

"We fell in love with Rochester; it's a great city," Batiste says. "In an infantry division, we had 400 trucks on the road, day and night. We ran a complex distribution system with warehouses and enormous inventories. That's exactly what we're doing here. There's little difference."

What's more, as an Army commander faced with continual insurgency and roadside bombs, Batiste took a short course in metals suitable as armor for military vehicles. "I had to work with local job shops to provide armor for our vehicles," he says. "I learned about chemistries and metals from those job shops. It was my first real exploration of metals on several levels."

"I could have worked in the defense industry, and a lot of people do that because it is the path of least resistance. I had plenty of opportunities lined up. But that was not where my heart is. This is a lot more fun and what I wanted to do."

But does it make sense to move from an organization of 22,000 people—not to mention their families—to one of just 135 people? And does an individual who, for three decades, has obeyed orders and expected others to obey his, have the business skills necessary to run a metals warehouse as a team-oriented Level 5 leader?

Of course, say Klein and Hesselbein.

"At first I thought, 'Generals, command and control—how can it work?'" Klein says. "What I learned was the military leadership is among the best in the world. If you read about their training, it's like reading Ken Iverson and his theories about management. It's the same thing."

"John gets out on our shop floor and sees the people—the men and women, blacks, whites and Hispanics, immigrants from Asia, immigrants from Eastern Europe and the Caribbean—and he sees that it's like the Army. He loves the people out in the shop. And he loves the equipment, too."

Says Hesselbein, "These people have been using the team approach to management. The 'Army of One' idea means that everyone is a leader. The generals I've worked with all have a quiet leadership presence. In fact, they are some of the most inspiring people I've ever met. People like General Batiste provide principled, ethical leadership and long experience in developing strategy and commitment to the mission."

For Batiste, a critical issue was whether he could succeed as a salesman. Then he told Klein about his experience preparing infrastructure in Turkey for a potential invasion of Iraq from the north and his subsequent experiences in Iraq itself.

"He's telling me how he had to win over the sheiks and work through the tribal culture in Iraq," Klein recalls. "He made repeated calls—sales calls—on every sheik to get them to stabilize their area. To me, this seemed like a tougher sales environment than we normally have. It was marvelous sales training."

Klein Steel

In the year since Batiste joined the company, Klein Steel, a full line service center that carries carbon,

stainless steel, aluminum and plastics, has grown substantially. Sales were \$41 million in 2005, then jumped to \$48 million in 2006 and are projected to reach \$65 million this year. The added business comes from a combination of more business from existing customers, volume from new customers and a continued shift toward higher-margin processing service for a range of customers, from tiny job shops to substantial manufacturers.

"We're building a processing center of excellence," says Batiste, 54. Although Klein's Rochester plant is just three years old, it already is too small, and a 60,000-square-foot addition largely dedicated to processing services will be built this year.

Much of the growth has come because Klein and Batiste feel a sense of mission that benefits customers, says Bill Simpson, vice president, global supply chain, for Gleason Corp., a Rochester-based multinational manufacturer of machinery tooling. The company's local Gleason Works sources "tens of thousands" of manufacturing blanks—cut-off bar and round steel stock—from Klein, which took Gleason's processing machinery and hired the company's parts employees in an outsourcing partnership.



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commanded the 22,000-soldier division, it saw duty in Kosovo, Turkey and Iraq. In Iraq, he commanded 22,000 soldiers in an area the size of West Virginia. Batiste, by now a major general, had doubts about the conduct of operations in Iraq. In particular, he was among those generals who believed that the strategy was fatally flawed and that more troops were needed. The war, he says, “was being conducted on the cheap,” with insufficient resources to crush the insurgency and set up the country for self-sufficiency.

He privately chafed at many decisions made by then Defense Secretary Donald Rumsfeld. Told that he would be promoted to lieutenant general and sent back to Iraq, Batiste felt he had no choice but to retire to free himself to speak publicly about the war. “I was not going to compromise what I thought was right. I needed to speak out for my soldiers and their families,” he says.

As of Nov. 1, 2005, he was no longer on active duty. A few weeks later, he joined Klein Steel as its president.

“Everybody told me that if you find a Level 5 leader, you won't be able to hire him. All along, I told them that if we find a Level 5 leader, he or she will come because my dream is to have a Level 5 organization,” Klein says.

"Klein made the commitment to be the best supplier we have," says Simpson, who has worked with Klein Steel since June 2005. "Their turnaround time for parts is quicker than when we had it in house, within 48 hours and often the same day. They've done a good job finding and addressing inefficiencies. Joe, John and everyone at the company have reduced our costs, reduced our fixed asset requirements and provided very positive economic value."

Klein Steel has now captured 40% of the steel orders of Ultron Lift Corp., a Buffalo-based manufacturer of truck lift gates. That's four times as much business as Klein had with Ultron before Batiste joined the company.

"They worked with us to set up a program to cut steel to the lengths we need and deliver the parts quickly when we need them," says Russell Lanski, Ultron's materials manager. Other service centers would not keep the parts on hand, so every order with them required a lengthy turnaround time. "Our turnaround time on most orders now is about two days, and it used to be eight days. That means we've been able to reduce in-plant inventories, and that saves us money."

Batiste says teamwork, discipline and accountability for results, coupled with intensified internal communication,

are responsible. A sign stuck to the wall above Batiste's office computer reads, "Who else needs to know?" He has instituted a monthly Army-like "After Action Report" communications routine in which all departments list their accomplishments, what went well, what didn't go well, how to improve and how to enhance the company's new profit-sharing program, an idea borrowed from Nucor. Under the program, 40% of operating profit is distributed equally to all employees, with the largest monthly distribution so far \$432. "It's an incentive for employees to take ownership of the success of the business," Batiste says.

The communications effort has a continual impact, says Joe Bailey, Klein Steel's night operations manager and himself a retired Army sergeant major. During a talk with truck loading teams, one employee proposed a new staging area for outbound loads, while the processing manager suggested each bundle be prioritized with a color-coded flag to ease identification.

"This has increased our efficiency, because now the load team is not wasting time looking for a completed product,"

Bailey says. "Because of the communication that goes on, everyone knows why their job is important and how others depend on them. I can focus my attention on the cause of problems. We learned, for instance, that our processing schedule wasn't quite synched with our loading schedule. From that knowledge, the processing manager and I started a great dialog on how to improve. We're getting better."

Better, yes, but there's still a lot of work to do. Inventory turns for the company's 3,400 products should be higher. Truck-loading times should be more consistent. Error rates should decline. It's all a matter of hiring the right people, then setting standards and operational disciplines to meet or exceed those standards, Batiste says.

"If we can do what we want with the business, John will do it with his own hands, not because of the influence he had as a general," Klein says. "We are at an interesting point. We have the good base. We have the good people. But we aren't great. He can take this and make it great."

The Joe and John Show

Over the years, Klein says he has learned what it takes for a small business to succeed: Take risks and reward new ideas, even those that don't work perfectly. Be willing to laugh at yourself. Continually reinvest in the business, and share the success of the business with your employees who got you there. Focus relentlessly on ways to partner with the customer.

Also, in the case of the Klein family, be ready to speak candidly about the issues. Klein's grandfather, who immigrated to New York from Poland, started a junk yard in Rochester in 1923, made a fortune and lost it in the stock market crash of 1929. He was known as an exceedingly blunt individual, Klein says. Joe's father, Arnold, established Klein Metal, a scrap yard, after World War II, and the family went into metals distribution years later when Arnold bent the arm of a dumpster and couldn't find a local service center that would sell him a suitable replacement part.

Scraping together all available money, the Kleins purchased three truckloads of steel and, in 1971, opened shop as a metals center in a building formed by three linked garages formerly owned by Nabisco. Wretchedly unsuitable as the site for a service center, that facility forced all trucks to be loaded and unloaded by hand, with longer pieces painstakingly stored only after negotiating a 90-degree turn into cramped spaces. Although Klein Steel did have a forklift, it was undersized and required four men to stand on the back to counterbalance a full load carried on the front.

"You would hold on tight," Klein says. "It was the most dangerous thing, because if a bundle of steel slipped off, someone could have been killed."

The story of Klein Steel has not been a smooth one. Hard times have been the rule, and there has been a great deal of intra-family strife. Klein Steel eventually separated from Klein Metals, which was owned by other family members, and the company moved to two other locations before landing in its new showcase plant. Klein's father died in 2000 at 78.

Since then, first Klein and now Batiste have become known around Rochester as high-profile public policy dissenters. Klein has become a well-known critic of Rochester's public schools and serves as a founder of Rochester Prep, a charter high school. Klein sparked local controversy when, at an October banquet where he would be honored as small-business person of the year by the Rochester Business Alliance, he lambasted, by name, local labor leaders and legislators for their positions on issues critical to the area's prosperity. Klein says he was only speaking candidly and honestly about people who have hurt the business environment of upstate New York.

Batiste, of course, established a national profile as one of six prominent retired generals who called for Rumsfeld's resignation. He has been featured on the cover of *The Wall Street Journal*, testified before Congress and appeared on network news shows.

"The Army and Marine Corps are at a breaking point right now," Batiste says. "We went to war and inconvenienced the American people as little as possible." He has taken a strong role in local veteran's affairs and advocates extending full veteran's benefits to National Guard and Army Reserve units that serve on active duty.

No surprise, the Joe and John show has drawn a strong reaction at Klein Steel, most of it positive.

"There's a certain sex appeal to having a major general with the company, one whose picture was on the front of *The Wall Street Journal*," Klein says. "For the most part, the customers love it. My goal here is to avoid boredom, and I've got to tell you, my life has been more interesting since I hired John than you could possibly imagine."

Says Batiste of Klein's October outburst, "He was right. Everything he said was true. Sometimes you have to create a stir to get things done." 🍀

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