

The Reluctant Manager

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ABSTRACT

This is a field-based disguised case which describes how a small family business deals with small business management, leadership, and subcontractor supervision. The problem for the owners is how to deal with their work foreman's inability to manage the work of their subcontractors so that homes pass inspection and are built in a timely manner. The case has a difficulty level appropriate for a junior level course in small business, principles of management, or organizational behavior. The case is designed to be taught in one class period and is expected to require between three to six hours of outside student preparation.

Introduction

"Rank does not confer privilege or give power. It imposes responsibility."

"Where the willingness is great, the difficulties cannot be great."

The sun was shining, the birds were singing, and the flowers were in full bloom. The snow covered mountains served as a breathtaking backdrop to the quaint lakes and pastures that dotted the Mountain Trail development. Not a more tranquil and serene panorama existed for all was right with the world for James Kennison, the foreman and acting contractor for DHR Patio Homes, LLC, as he drove up to the firm's most recent construction site.

Richard Davis, the operating manager and senior partner of DHR Patio Homes, LLC, could scarcely notice either the sun, the birds, the mountains, the flowers, the lakes, or the awe-inspiring vista since he was fifteen miles away, working in his home office. What Richard did notice, to his great dismay, was the large pile of past due bills, the numerous phone messages from aggravated customers, quite a few subcontractors not showing up on the job site, buildings failing inspection, and little to no progress being made on the construction of his customers' custom patio homes. This was another day to be dreaded, another day of heartache and stress, another day of lies, excuses, frustration, and eventually despair. And this day would be no different from all other days; past, present, or future. He was absolutely miserable, and since misery loves company, he was going to share that misery with the one person he thought who deserved it the most, his foreman James Kennison.

Company History and Background

In August 2002, the Dow Jones Industrial Average dipped under 8000. Richard Davis and Stephen Hodgetts, academics, friends and coauthors, decided that they needed to take control of their own economic fate. Davis had done enough preliminary research on the real estate market in their area to convince Hodgetts that there was money to be made becoming landlords.

After forming D&H Management, LLC, and acquiring six homes, Davis and Hodgetts realized that they needed to raise additional funds for investment purposes and decided that if they finished off the basements of their rental properties they could re-mortgage those properties and pull out an additional \$10,000 - \$20,000 per home. They formed a construction company in January 2003 and hired one of their renters to finish off all of the basements.

One of Davis' students, the individual who was designing their basements, thought that Davis and Hodgetts could cut out the middle man in terms of the rental business if they built their own homes. Davis and Hodgetts then backward integrated their operation building homes to be purchased by D & H Management as rental units but also for public consumption. In May, 2003 DHR Construction broke ground on their first construction site in the St. Andrews development.

By January 2004 DHR Construction had completed three homes at St. Andrews and by April of 2004 had built three homes in another development (Florence), with plans to build five more in that area. Unfortunately the Florence developer did not pay his landscapers and each of the properties that were owned by Davis and Hodgetts in the development had a mechanic's lien placed on it for \$450,000 making it economically unfeasible to build upon them.

While a deal was being brokered to clear the properties of the liens, Davis and Hodgetts' formed a third firm in the summer of 2004, DHR Patio Homes, LLC, in order to work on their latest construction project, Mountain Trails. This was a large and challenging project for Davis and Hodgetts in that it involved building nearly forty custom homes in an upscale community.

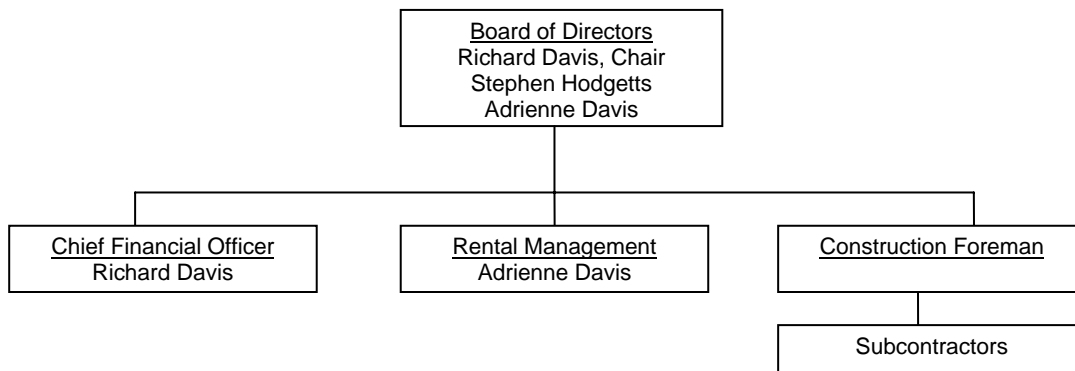
Management and Operation

The overall management of the three firms was done by committee with Richard Davis as the chair. Davis and Hodgetts met on a weekly basis and communicated daily through phone calls and e-mail. Richard Davis was in charge of the financial management of the firms including working with suppliers, creditors, and subcontractors (obtaining bids and construction loans). Davis had developed formal processes for working with these individuals by employing competitive bidding and purchase orders. This was not the norm for small home builders in the area and met with mixed reactions from suppliers and subcontractors yet very positive feedback from creditors.

Davis earned a reputation for honesty, promptness in paying bills, and professionalism; rare commodities for a small home builder in his area. However, he was also considered very demanding – if you promised him a job was going to be completed or supplies delivered by ‘X’ date and you did not meet your deadline, you were going to hear from him. Repeated miscues would result in not being asked to bid on future projects. As one might then expect, Davis’ bidding process and his demands for timely work and deliveries resulted in some supplier/ subcontractor turnover.

Adrienne Davis, Richard’s wife, handled the day-to-day issues related to the rental properties and also attended the weekly planning meetings. Hodgetts was a silent partner. He could not handle on-site management of the construction projects since his efforts were focused upon research and publishing for himself and Davis. The role of project foreman was delegated to either one of their subcontractors or a hired employee, and, in the worst case scenario, filled by a petulant Richard Davis. See Exhibit One Organizational Chart, below.

Exhibit One
Organizational Chart: D&H Management, DHR Construction, DHR Patio Homes



Since both Richard Davis and Stephen Hodgetts had academic backgrounds and had worked as co-authors for many years, they felt very comfortable working with each other and were well acquainted with each person’s work habits. They were both hard working, very task oriented and individualistic, although they worked well as a team and had mutual respect for each others’ opinions and capabilities. Davis would normally take the lead when it came to discussing the financial and operational aspects of the three firms while Hodgetts played the role of outside consultant, asking questions and offering suggestions. Hodgetts left day-to-day operational issues to the Davis’ unless a major problem was brought to his attention.

Their collegial and open manner were quite evident at their weekly meetings, which usually was over the Davis' dinner table. Here Davis and Hodgetts would mix academics, business and family matters, and include anyone in the conversation who was present at the time (usually Adrienne Davis and the Davis' daughter, RJ). At times these meetings included some of their subcontractors, suppliers, tenants, and creditors. They saw these individuals as colleagues and eventually some as extensions of their family. Many were invited to family events including holidays, birthdays, and social gatherings. They were quite protective of the way they treated their business associates and expected to be treated in like manner. This was not the norm for their subcontractors and suppliers who were polite yet far more cliquish and less convivial.

James Kennison

James Kennison was a successful retired corporate executive who was good with his hands and liked to build things. His mild mannered, laid back approach to life was perfect for the professional environment of his former firm MicroTech, a business that produced highly specialized electronic parts, gauges, and sophisticated equipment. As an account manager Kennison had excellent interpersonal and team building skills, an understanding of numbers and financials, a keen intellect, and an overall sophistication that marked him as vice-president material. Kennison left the corporate world in order to simplify his life, reconnect himself with nature, and to become self-actualized.

In order to keep busy and to supplement his income, Kennison decided that he would put his passion for building to good use and hire himself out as an independent handyman/subcontractor. Kennison was familiar with every aspect of home construction and repair and felt quite comfortable working on a ladder, tool belt on, hammer in hand. His aptitude, acumen, and even-tempered style made it very easy for Kennison to fit into any work crew that would hire him. After a few jobs, Kennison decided to work on his own and hired himself out as a finisher on home construction projects. It was in that capacity that Kennison was originally hired by Davis and Hodgetts to work as a subcontractor on the homes in Mountain Trails. Kennison's wit, charm, and polished demeanor sat well with Davis and Hodgetts and he became a fixture at their weekly meetings. Davis and Hodgetts felt that they had found a kindred spirit in this born-again blue collar worker.

Kennison Becomes the Foreman

It was not overly surprising then that Davis and Hodgetts approached Kennison about temporarily taking over the position as contractor/foreman on a part-time basis when a sudden vacancy occurred. (See Appendix A History of Management Succession at the Foreman's Position for further details.) Kennison had a plethora of experience, a head for business, and was respected by the other subcontractors as a fellow artisan, one who knew his work and was not afraid to get dirty doing it. The situation worked out quite for both parties and

Kennison agreed a few weeks later to permanently fill the position on a full-time basis, still maintaining his subcontractor status.

Davis would normally drive out to the work site before he taught his college classes, or before he settled into handling office paperwork, usually two to three times a week just to check up on things and to let the subcontractors know that he was available to deal with any issues that arose on the site. The subcontractors were quite used to working on their own, requiring minimal supervision, and in many cases had worked with each other for other home builders. Davis was accessible to them via his cell phone with Adrienne serving as backup if Richard was in class or in a meeting at school.

With Kennison at the helm, Davis went out to the site everyday just to make sure that things were going smoothly and, if Kennison had any questions, he could then ask them and have them immediately answered. Davis always would go directly to Kennison on the job site, allowing the subcontractors to see Davis and Kennison conferring each day. If there were any immediate problems the subcontractors could then approach Davis and Kennison as a team to discuss the situation. Davis felt that it was important for him to buttress Kennison's position as the foreman and he felt that this team approach reinforced Kennison's authority. Davis also wanted Kennison to build his own strong working relationship with the subcontractors and that foundation started with Davis' respect for Kennison's and his subcontractors' distinctive competencies. Davis would demonstrate this respect by deferring to Kennison's and the subcontractors' expert judgment on construction-specific issues. Davis would also refer all calls from the subcontractors about day-to-day, job-specific issues to Kennison. If there was a disagreement between Kennison and the subcontractors, Davis would normally let both parties work things out amongst themselves. After Davis left the site, Kennison and Davis would be in contact through cell phones as needed.

First Warning Signs

Although Kennison seemed open and honest in his dealings with Davis (with Kennison consistently indicating that all was going well) it didn't take more than a month before Davis realized that all was not going as planned. Davis' Gantt chart indicated that several homes were falling behind schedule with one of the homes failing electrical inspection. Building these homes within the scheduled timeframe was critical since the firm's construction loans were tied directly into each building phase – once a phase was completed a bill could be submitted to the bank for reimbursement. Cash flow, like in any other business, was critical and home construction delays meant delays in paying subcontractors and suppliers since Davis and Hodgetts had already tapped out most of their own personal funds in order to start their businesses and had little cash reserves. These payment delays would aggravate the subcontractors, and negatively impact their motivation and work performance, while invoking interest and late

payment charges from suppliers. Davis was quite proud of the strong reputation he had built up with his subcontractors and suppliers and did not want these relationships jeopardized through tardy bill payments.

Davis and Hodgetts talked about the situation at some length and decided that both of them needed to talk with Kennison and find out exactly what was happening at the job site since Kennison hadn't commented on work delays or problems with the inspectors. A friendly and frank conversation ensued, as with any other dinner meeting. Kennison admitted that getting subcontractors to show up as scheduled was starting to become a problem and that he thought that the electrical problems would be quickly dealt with. He apologized for the delays and said that he would keep in better contact with Davis and let him know exactly what was happening, especially if there were any new problems. Davis reminded Kennison that he needed to keep a close watch on the subcontractors since they had a tendency to work for a multiple builders simultaneously and therefore would jump from job to job. Kennison assured Davis and Hodgetts that he would manage the situation and that things would improve.

The Meeting

Davis continued to monitor the situation at the work site through Kennison only to find out from his customers that less and less was being done each day. Kennison, it seemed, would be promised by the subcontractors that the work would get done yet they would immediately disregard their promises and do as they saw fit. Kennison was happy to fill in for the missing subcontractors whenever possible, but he could not keep up with a work demand that required far more than one or two people. It got so bad that when the framer did not show up to start framing one house, Kennison and a friend of his spent five whole days doing a job that the framing crew would have completed in just one.

Davis and Hodgetts were perplexed. Why, when Davis used to work with the subcontractors (the times that the firm did not have a foreman), would they usually fulfill their promises yet when Kennison got involved, the actual guy at the work site, they merely paid him lip service? Also, why wasn't Kennison letting Davis know what was actually going on at the site? Davis, after conferring with Hodgetts, decided to talk with Kennison alone and reiterate what he thought were the job responsibilities, the important tasks to be accomplished, and the need to have open and candid communications. The discussion went as follows:

Davis: Your most important job is to keep the work at or as near to schedule as possible. I need you to make sure that the right subcontractors are at the right place, doing the right work, at the time. That means being in constant communications with them and keeping on them to fulfill their obligations. Most of these guys are quite busy and will find any excuse in which to go to another job site. Let me know who is giving you problems and I can then deal with them where it counts – in their wallets!

Kennison: Yes, I am very aware of the need to coordinate the subcontractors and to keep them within the prescribed schedule. However, they'll tell me that they'll show up at a certain time and date and then not only not show up but never even call me to let me know what is going on. I can't tell you how many times I've had to complete the work so that another subcontractor isn't standing around twiddling his thumbs.

Davis: I understand completely, but you have to be proactive and go after these guys. Call them the night before and remind them of their promises. Get to the site early and call them again to make sure that they're coming. Have a backup plan, another subcontractor, who you can call on just in case the first one doesn't show up. That's what management is all about, anticipating problems before they become problems.

Kennison: Yes, that's exactly how we did things at MicroTech. But, I have to be honest with you, our subcontractors do not act like the managers and coworkers I worked with. They're far more independent, do not perceive themselves as being under anyone's thumb, and really seem to want to come and go as they please. They wouldn't last five minutes in a corporate environment, which is why they're probably doing exactly what they're doing; working for themselves!

Davis: You're right of course, but that just describes why we have a problem, not what that solution to the problem is. All I know is that when I call these guys I tend to get a straighter answer than you do and they tend to show up more consistently. You're the one with the management know-how, what are we going to do about it?

Kennison: OK – Let me think about it some more. I must admit, however, that I really enjoy working on building these homes, except for the framing. Being out in the fresh air, soaking up some rays, looking out over the lake at the mountains, now that's the life.

Davis: Yes, yes. It is all very invigorating I am sure but your main job now is managing subcontractors that do the construction. Yes, I want you to pitch in and help but that is secondary to making sure that the subcontractors get to the work site on time and fulfill their obligations. Also, I need to know if we're having problems at the work site. I need to keep our customers informed as to our progress. Me telling them the bad news is better than them telling me!

Post Meeting Debriefing

Davis decided that he needed to talk with Hodgetts and his wife Adrienne about his meeting with Kennison and to get feedback on the situation.

Richard D.: I've given you the facts of the meeting as I see it – what do you both think?

Adrienne D.: You were a little heavy handed in my opinion. We bought out David Russ as our partner because we felt that he was too dictatorial in dealing with our subcontractors. It seems now we're asking Jim to do the same thing. That is not the way we do business, at least I hope not! We have gotten pretty close to some of our subs and I thought we had grown to trust them. Am I wrong in the way I feel?

Stephen H.: Adrienne, you have a point. But Richard is also right in that we are in no position to allow our subs to determine when they will work and at which house. We've tried to treat our subs and suppliers with respect and care but it is hard to respect and care for someone when he seems to lie through his teeth and costs you real money. Not to mention the aggravation. Failed inspections are a very bad sign and predisposes inspectors to find more building code violations.

Richard D.: I'm trying not to be too pushy with Jim and perhaps I did go a little over board. I'll talk with him privately at the site tomorrow, apologize for my belligerent behavior, and ask him how I can help him deal with the subs. How does that sound?

Adrienne D.: A good plan. I'll also invite Jim and his wife to dinner this weekend and make sure to include some of our most critical subs. I'll ask Jim who he thinks ought to come and we can then have a good talk amongst all of us about this topic over a good meal.

Richard D.: Great. If we're in agreement let's move ahead and hopefully we can solve this problem once and for all.

The Davis' each talked with Kennison and things seem to be back on track. Kennison asked Richard Davis to let him deal directly with the subcontractors while he provided Adrienne Davis a list of the subcontractors to invite to dinner. The subcontractors who were invited to dinner all showed up and, when the issue was raised about work scheduling, promised to do the best they could to perform the work as required. The next few days saw a flurry of activity at the work site as the subcontractors, guided by Kennison, tried to catch up with the construction schedule. The Davis' and Hodgetts felt that everything was back on track and that Kennison was going to work out.

Same Old Same Old

After a few days, the subcontractors were back to their old routine of not showing up at the work site when planned. After a few weeks went by, with Kennison trying to cover for the work not being done by the subcontractors, the situation deteriorated. Several subcontractors either had to be fired by Richard Davis (in consultation with Kennison) because they continued to not show up when scheduled and did not return phone calls from Kennison and the Davis'. Other subcontractors quit when they showed up when scheduled because they were told that the homes were not ready for them to work on and they had lost out on other work. Homes continued to fail inspections, especially electrical, and Richard Davis was beside himself since now he had to deal with enraged customers on top of the already unhappy subcontractors. This was a management nightmare!

And through it all, Davis and Hodgetts were befuddled as to how Kennison could remain cool, calm, and collected. Nothing seemed to phase Kennison, no matter what the problem was. Failed inspection? No problem, the inspectors will come back another time. Subcontractors MIA (missing in action), no biggie, he'll fire them, get others, or he'll do the work himself. Customers upset? Why that's why we have owners of companies – let Davis deal with the customers!

Owner's Lament

Back in the office, Davis was feeling very sorry for himself. Kennison, like the prior foreperson Davis' daughter RJ, could not obtain the cooperation of the subcontractors. Unlike his daughter, however, Kennison seemed unperturbed. Davis picked up the phone to call Kennison and fire him when suddenly he realized that if he fired Kennison he would have to literally live at the work site and also give up an otherwise good worker. How could he manage the work site, teach his classes, and manage the office operations? Davis could not afford to quit his teaching position so that was not an option. Davis had reached his breaking point but realized that it was time to get his partner Hodgetts involved. Misery does love company, and Davis realized that no matter what he would do short of firing Kennison, Kennison was still going to be a happy man. He then thought of his good friend and business partner Hodgetts, picked up the phone to call him, and smiled sardonically. He knew that he was not alone any more.

Appendix A
History of Management Succession at the Foreman's Position
(January 2003 – March 2006)

1. Alan Bronson – the tenant who finished basements. Worked with his wife Wilma and coordinated his work with the licensed electricians and heating and air-conditioning subcontractors. (January 2003 – May 2003)
2. David Russ – the student who worked with Davis and Hodgetts to form DHR Construction and became a minority owner of this firm. Alan, now with his brother Marvin, became a subcontractor dealing with wall hanging, lining, spackling, molding, and painting. Davis and Hodgetts felt that Russ was very autocratic and that he mistreated the subcontractors by treating them in a demeaning fashion and threatening to fire them. Davis and Hodgetts did not want to be associated with a partner who their subcontractors did not want to work with. (May 2003 – January 2004)
3. Alan Bronson – replaced David Russ when Davis and Hodgetts bought Russ out of the business. An audit revealed that Alan was misappropriating funds and inappropriately charging non-business expenses to the firm's credit card. (January 2004 – April 2005)
4. RJ Davis – the Davis' daughter. She received very little cooperation from the subcontractors and felt objectified and rejected by a very strong male dominated culture. After a few days, a few failed inspections, several run ins with the electrician, solicitations from a male worker, she resigned. (April 2005 – May 2005)
5. James Kennison – replaced RJ Davis. (May 2005 – March 2006)

The Teaching Note for this case may be obtained by contacting Herbert Sherman at hsherman@southampton.liu.edu.