

Chapter 1

THE CHALLENGE

“Hold it,” a voice rasped from the darkness inside his office. Startled, Harvey Wilkerson caught his breath, jerked his hand away from the light switch and stepped back. Then, standing in the dimly lit hall, he peered into the shadowy interior to search out who had spoken. On his bookshelves along the far wall, he could just make out the gray outlines of his three-ring binders. Against the opposite corner, where he had leaned them before leaving on his vacation, were thick rolls of construction blueprints. Next, he noted all the client contract files stacked in gray rectangles on his backup table—the paper trail of his role as president of a commercial general contractor. But again, before he could see who was speaking, the voice announced, “Grinnell defaulted.”

“Is that you, Frank?” Harvey asked and with an upward flick of his wrist he turned on the switch for the overhead fluorescent lights. Frank Sears, slouching in a chair at the office back wall, held a green legal-sized file in one hand and, with the other, dabbed at his eyes with his orange bandanna.

“You could have waited another moment, Harvey,” Frank said.

Harvey had seen Frank like this before, the company’s fifty-eight-year-old controller sitting alone and grieving in the dark. All it took was some disastrous surprise to destroy his carefully crafted financial projections. Instead of getting mad and yelling, which Harvey was more used to, Frank was prone to get mad, go off alone and shed a few tears.

“What’s happened?” Harvey asked.

“Friday afternoon, suppliers put a lien on our Tempe project because Grinnell defaulted on its payments.”

“No one called me.” It was early, very early, Monday morning.

“Bill said to hold off. You couldn’t do much anyway.”

“Grinnell defaulted? That’s Guy Hadilance, isn’t it? Have you paid his invoices?”

“Yes, but Guy went bust anyway.”

Guy was a longtime friend of their CEO, Bill Foster, founder of Blue Range General Contractors.

“He’s with Bill right now,” Frank said, then enunciated, “F-I-V-E H-U-N-D-R-E-D thousand,” and blew his nose before he stood up and pushed the bandanna into his back pocket.

Guy’s drywall company, Grinnell, was the subcontractor on the Tempe dormitory project. A five-hundred-thousand-dollar loss on this single project could wipe out the Blue Range annual profit margin, even without any other project disasters. It meant low employee bonuses and unhappy Blue Range employee-owners. It meant answering angry questions from board members. It meant demands to reorganize and to make sure someone paid.

Harvey stepped over to his desk. It was covered with shingles of little pink post notes, like butterfly wings, stuck to the surfaces of everything—an accumulation of phone messages from his two-week vacation. The picture of his wife, Virginia, with her cascade of curled dark hair resting on her shoulders, sat to the left of his computer in its narrow silver frame. On her lap, she held their daughter, Constance. Harvey loved having family vacations with the two of them. He was delighted with Constance as she squealed at all the new sights and sounds. When she, with Virginia, rode along in his golf carts, she clasped her little hands and stared wide-eyed at all of the details of their outings. Her pointy-fingered questions made him almost see his world afresh—even now, at the thought of her

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and Virginia, he felt relaxed as though he was back on vacation. Then, with a sigh, he picked up a single butterfly message placed at the top edge of Virginia's picture frame. It was Bill's handwriting, dated two days before, Saturday—*See me first thing when you get back.*

Attempting to comprehend the extent of this loss for the company, Harvey repeated Frank's numbers back to him and then asked, "Who filed the lien?"

"Suppliers. Guy's payments are months behind. Not just for our project, either. To make matters worse, we think someone might file another lien for his employees' back pay." Frank paused and then said, "Guy was an idiot."

"Oh?" Harvey said.

"When the suppliers asked for some arrangement to pay off his bills, he told them to get lost. Then he even swerved his pickup at them as he drove away."

All of sudden, the sounds of shouting voices came from Bill's office doorway at the far end of the hall. Harvey motioned to Frank and they headed for it. The shouting grew louder. They looked in to see Bill Foster wearing a white dress shirt and tie, standing tall in a stance of respectful attention, his wide-spread shoulders framing the dumpy, unshaven and bleary-eyed Guy Hadilance who waved his arms as he shouted.

Still clad in yesterday's wrinkled overalls, Guy barked, "You owe me."

"Not anymore," Bill snapped back.

Frank stepped in to speak and Guy slurred, "Aw, and here's your chiseling bean counter." Then, noticing Harvey, he scoffed, "and tin-horn president." He turned back to face Bill. "You call your punks in to gang up on me?" Guy rocked back and forth on his heels as he spoke.

"You're drunk," Bill said. "You stiffed your payroll. What about their families? You left thirty drywall workers standing outside the fence on my project kicking sand—with no grocery money."

Guy's face went blank, as though his mind had left on a search for answers to Bill's question.

"What'd you do with the money we paid you?" Frank added.

Bill waved him back.

Guy teetered. He struggled to grasp what they said and then growled, "You paid late."

"Within forty days," Frank retorted, and he stepped forward to add, "I checked." Then Bill waved him off again.

With a calmer voice, Bill said, "We know you're bankrupt, Guy."

Silence. Guy said nothing. He had only a vacant stare. Was he about to burst into a rage? Bill offered, "Tell us what's going on. Can we help?"

"Lemme alone," Guy blurted and steadied himself with one hand rested on the back of a nearby chair.

"Then go sleep it off," Bill said.

"Pay me what you owe and then I'll leave."

"We've already paid," Bill said.

"Ah bull," Guy said and he wheeled about on his dusty leather boots then caught himself just in time to avoid a tumble to the floor.

"Frank, call a cab," Bill said, but Guy cursed and threaded his way around Frank toward the office door. On the way out, he tilted to one side and almost collided with Harvey, who two-stepped out of the way. Guy only growled, "Yeah, yeah," and then he left the scent of whisky to hang in his wake as he bumped along the walls of the front hall to find his way out of the lobby door.

Bill's long arms still trembled at his sides, but not from fear. He was clenching and opening his massive fists.

To let Bill gather himself, Harvey paused a few moments and then asked, "Want me to come back later?"

"Stick around," Bill mumbled.

For a few uncomfortable moments they remained standing, then one by one all three found chairs and sat. Bill clasped his hands behind

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his neck, interlacing his fingers, and turned to look out his west-facing window. Even though he could bluster as well as any construction crew boss, his first instinct when anyone yelled at him was a nagging sense that somehow he had brought this on himself and he was at fault.

He loved pulling big crews together. Then he was delighted at how their new buildings drew fresh profiles against the blue sky.

Bill had started Blue Range after a Navy tour in Vietnam. He started as a finish carpenter, operating out of Molyville on the western edge of Denver. In those early days, the bed of his tan Ford pickup was his office, under a red fiberglass topper, which protected his tools. Framing it all was a pipe rack over the top where he used to carry his lumber and ladders. It was his office, tool shed and warehouse, all in one. He went after commercial jobs, larger jobs than he was capable of handling alone. He loved pulling big crews together. Then he was delighted at how their new buildings drew fresh profiles against the blue sky.

To build his business and win the clients' trust, he skipped the charges for any oversights he or his crews might make on his projects. He made his project corrections with free labor, if necessary. A client could always count on Bill to deliver everything he promised, no matter what it cost Bill's profit margin.

"Why absorb this problem?" Harvey asked. "What about filing a claim on our insurance?"

"We're mostly self-insured," Frank said, "and our huge deductible is almost as much as paying for this problem ourselves."

"Frank, could you excuse us?" Bill said. "I want to talk with Harvey."

After Frank closed the door, Bill swung around to face Harvey from behind his wide desk. Harvey dreaded what might come next, and he still jumped when Bill shouted, “We’ve never, ever,” and he slapped his large right hand down onto the top of the desk so hard the noise shook the walls, “let a subcontractor onto our projects without a bond. I don’t care who it is. I’d like to rap someone up the side of their head.”

This made Harvey nervous. Bill’s temper exploded like flash lightning. Then, like the end of a short mountain storm, he was quiet, working to recover his self-control. “I’ll bet Guy couldn’t get anyone to sell him a surety bond anyway,” Bill mumbled, but then flared again, “But we didn’t have to let his company on our project.”

“Ronnie’s head of project management. He knows every sub has to be bonded.”

“Yes, and no exceptions,” Bill almost yelled, then more softly he said, “But how can I blame him? He’s young. He’ll make mistakes.”

“But why would he even allow Guy’s drywall company onto a project in Tempe?”

“Good question,” Bill said. He paused. Bill seemed deep in thought. Then he said, “Years ago, it would have been me letting Guy onto our projects—my little payback for a favor he did in my early days.” Bill reached over and massaged a deep ache above the elbow of his left arm.

“In those days I kept him out of trouble and watched him like a hawk,” he said. “He knows nothing about running his business. I made him let me see his financials. I checked with his suppliers to make sure he was up to date. I paid his invoices with checks made out both to him and his suppliers so that they would always be able to be paid. He didn’t like it—my mothering. But it kept him alive.” Then, with a chilling thought, Bill exclaimed, “What if Ronnie brought him on the Tempe project because they thought I wanted them to?”

Bill’s construction industry relationships were like an extended family. Lance Wuthering, head of preconstruction, and Ronnie McGeehan,

head of the projects department, knew Bill liked to favor his longtime friends. Yet Bill had never pressured Ronnie or Lance to bring a friend on as a subcontractor on a project. Of all the subs available, most of his friends already had the best credentials and were the low-cost bidders anyway. They knew Blue Range would protect their interests and that Bill would keep them whole.

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Bill's mood brightened. "Mister Harvey." Though his grin was still a bit thin with tension, he made a special effort to look happy. "A good problem solver is a blessing, and you're the best problem solver I know. Look what you've done for our marketing. Plus, you didn't make this mess." As though he had just made a great joke, he gave a hearty laugh and said, "So that makes you the most qualified person to clean it up."

Harvey had not let Grinnell onto the Tempe job. After a two-week vacation, he was clear-headed and rested. He was an objective shoulder for others to lean on. He had no significant history with Guy Hadilance and his drywall company, Grinnell. In Bill's mind, the person with no role in creating a problem might just be the best one to solve it.

Changing the subject, Harvey said, "Bill, last Friday, Trayaught, the merger broker, took me to golf at Shadow Creek." At the mention of a merger broker, a dark cast covered Bill's face like some kind of ultra-fine coal dust.

"The red ink is not even dry on this Grinnell fiasco and that guy calls." Bill frowned. "They can smell when we're down. We've got to watch 'em, Harvey."

"Now Bill, they're not all out to get us," Harvey answered. "Anyway, he asked me some personal questions."

“Yeah, I’ll bet I know,” Bill answered. “They all think I’m getting too old. They heard about our Grinnell problem.” Then he leaned back to give a rueful smile, paused and said, “Or they heard about all of the padding in your expense account.” He laughed again, much too loud, as though such extra effort would erase the hurt of Guy’s default.

At the expense account comment, Harvey could not help giving a contrite smile before he continued. “But there’s a question about your retirement. The merger broker knows an interested buyer for our company. I told him I’d have to let you know. Then he left right after we’d played the second green.”

On the extreme right side of Bill’s window-wall, where it wrapped around to the west, Harvey could see a gray cumulus cloud building up over the foothills. “I know you have to tell me about this,” Bill said, “but I’m not and we’re not for sale—period—interested buyer or not.” With that, he brushed off the news about the merger broker, leaving Harvey with a troubled feeling.

Bill stood up and rubbed his hands together as though the friction could warm his enthusiasm. “I’ve got an idea. I want to call one of my buddies from my CEO roundtable—Phil Shearson in Baltimore. He’s had problems like this.”

“While you’re doing that, I’ll start a little fact-finding expedition with our managers,” Harvey said.

“Good idea. Let’s both do a little person-to-person. I’ll talk to Ronnie and Sam. You talk to the others. Then we can meet back here this afternoon and compare notes.”

“It’s a plan. I have Frank and Lance.”

Harvey left and Bill, still standing, dialed up Phil Shearson, of Shearson Construction. After pleasantries, he said, “Phil, a few months back, at the roundtable, you said you had to correct some management problems. Do you mind repeating what steps you took? We may need the same. It’s only Monday and we’re already having a bad week.”

Violated Expectations

While parking his pickup, Hal Sanchez shouted at Harvey across the parking lot. It was a sunny February day. Hal had spotted Harvey on his walk to Frank's office, across the parking lot. Harvey liked to use this outdoor route; the morning sun warmed his face as he walked. He waited while Hal ambled over to him across the oil-spotted concrete.

Harvey was a slender man with a youthful countenance. Strangers he might meet in a new golfing foursome could mistake him for a flat-bellied, scratch golfer. Instead of spectacular drives off the tee followed by knifing shots down the fairways, he most often won their respect with a relentless series of straight, medium-length jab shots, to a concluding short putt at the pin—not spectacular, but consistent and accurate.

Hal marched right up to Harvey and started inquiring about his vacation. Then, turning sideways, he made a show of taking furtive glances around the parking lot as though to check for listeners, finally leaning close to talk in confidence. "I've heard someone's interested in buying us." He paused, waiting for Harvey to feel obliged to lean over to answer, but Harvey waited him out.

In his early fifties, Hal had recently been promoted to supervisor of the tool yard. Like most people, he was shorter than Harvey, who stood taller even than Bill. Hal's middle was thick under his western belt, and he wore sun-weathered wrinkles on his face. His shoulders, rounded by his tool lugging muscles, stood straight out from his neck. Even this early in the morning, the front of his snap-button work shirt was streaked with brown rust, probably from hefting tools onto the back of field superintendents' dented pickup truck beds.

Others might lose tools and equipment to thievery or carelessness, but not Hal. He had set up a checkout process for tools, forms and concrete blankets that gave the company its best inventory control in twenty years. Plus, as the head of the Blue Range tool warehouse, he had a

first-name relationship with almost every construction superintendent at Blue Range and many more in other companies.

“Harvey,” Hal said, “why haven’t you told us who inquired about buying Blue Range?” Leaning back, he watched with wide eyes for Harvey’s reaction.

“Bill just heard of it himself,” Harvey answered.

Impatient with Harvey’s low-key response, Hal said, “You could have said something to us sooner. Trout, the merger broker, contacted you, right?”

“Trout? Oh, you mean, *Tray-ought?*”

“Whatever,” Hal said. “Anyway, we board members need to know about any acquisition inquiries.”

Bill had arranged for employee-ownership in the 1980s as part of a profit-sharing plan. He wanted financial incentives to keep the employees committed to the company. At the same time, he wanted to switch the employee retirement program out of a defined-benefit pension plan. Thus, after one-year tenure, all employees became Blue Range shareholders, with their proportionate number of shares based on the percentage of profit-sharing dollars deposited each year to their retirement accounts. In addition, employees could invest their retirement savings in bonds or mutual funds in an attempt to balance out any downturns in the Blue Range stock valuation. Benefits counselors recommended the employee-owners carry 50 percent in company stock and the other half in a variety of external investments. Of course, a few people were 100 percent invested in company shares and others had their total investment in external funds.

“I’m sorry,” Harvey conceded, “I should have contacted you as soon as I knew. But you’re pretty well informed. You already know it was an inquiry and not an offer.”

“For your information, I didn’t hear that until late Friday night,” Hal rejoined.

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“Friday night?” Harvey asked. Then he thought, I only met the guy Friday myself.

“But that’s not the way I’m supposed to be hearing about these clandestine meetings, Harvey. As a board member, I’m supposed to hear direct from you or Bill as soon as it happens, and the same goes for the other board members. I’m not supposed to have to hear about it secondhand from some panicky employee calling me at home after the mamma and I have gone to bed. That’s not respectful of the board.”

“How’d anyone know so soon?” Harvey marveled. “The speed of the rumor mill is amazing. Did Trayaught call you? We didn’t talk about anything urgent.”

As if to remind Harvey this talk was on his time, Hal pulled out his pocket watch and took a moment to study the time of day before he gave an offhand answer. “Well, you know, merger brokers are paid commissions.”

“Commissions?”

“Of course, Harvey; get with the program—commissions. A broker could make some contacts and try to stir up a merger deal to generate some commission income for himself. I hear it happens.” Then Hal stopped to say, “And that reminds me about Grinnell. I knew Guy was going to tank someday.” Hal mimicked the sound of drinking, “Glug-glug-glug,” as he tilted his thumb to his mouth. “Bill should have dumped him long ago. Can you even imagine what our employee-shareholders will say?”

Before Harvey could answer, he continued. “They’ll say, ‘Whoops, management blew a year of our profit sharing.’ Now hear me, Harvey. You and I know exactly which manager let Grinnell on to our Tempe job without a bond. And everyone knows the house rule—no sub is allowed on a project without a bond. So what do you think is going to happen now? Employees complaining, that’s what. They’ll get together and say, ‘Let’s exercise a little upward pressure, boys.’ It’s pressure on you, Bill,

all of you, and maybe on me at the same time, with me being on the board and all.

“With this Grinnell fiasco,” Hal said with a snort, “I wouldn’t be surprised if our employee-owners don’t decide to send top management a little wakeup jab. It’s like, ‘We can vote to sell this company, you know, even out from under management.’”

“I’m only a little bell ringer, pulling on a rope that goes up into the top management belfry. Hear the bells? That’s me, trying to shoo out the bats from the steeple you all live in.”

Harvey’s interest in Hal’s story was growing.

Looking at his watch again, Hal said, “Oops, got to go. I’ve got superintendents waiting. You know, Harvey, it’s been a relief to talk with you out here in the fresh air, manager to manager, informal, you know, to hash out issues. You guys ought to come out here in the real world more often.”

Harvey stammered, at a loss as to what to say.

“Some might say,” Hal continued, “I’m too honest with you people. But I’m no pussyfooter. Of course, I’m not as high up in the company steeple as the rest of you. But maybe someday. Who knows, right? Today, I’m only ringing my little fiduciary bell, you know, I’m only a little bell ringer, pulling on a rope that goes up into the top management belfry. Hear the bells? That’s me, trying to shoo out the bats from the steeple you all live in.” Then Hal snickered at his joke.

“Hal,” Harvey asked, “do you think one of our managers contacted Trayaught?”

With a pained expression, Hal answered, “Now let’s not start trying to avoid the point of all this, Harvey. What if someone did? Do you blame them—we’re talking about the Grinnell default, you know. It’s not a real confidence builder.”

“Nevertheless, Hal, I want to make sure you don’t talk about Grinnell or any of our other problems outside of our board meetings,” Harvey said. “We can talk about it among ourselves, like now, but not with anyone else, at least until I think we’ve figured out a way to recover from all of this.” Harvey made a mental note to give the same message in person to all of the other board members and to all of the department leaders of the company.

Hal’s pained expression returned. “Harvey, are we going to argue?” he asked. “There’re more important things to deal with, like how much your managers’ mistakes cost our retirement and bonuses. People could lose their jobs, you know. Another slip-up like Grinnell and you could have a revolt—I’ve heard the message from our employee-shareholders. I’m bringing it to you. I’m doing us all a favor. The people say, ‘Stop those managers before they ruin this company. Sell it while it still has some value left.’ I’m sorry. It’s what they’re telling me. So I’m telling you.”

An Obsolete Structure of Leadership Reduces Leaders’ Effectiveness

The most direct route leaders can take to ensure the long-term survival and prosperity of their organization is through the development of a more effective *structure of leadership*—all of those arrangements senior managers have in place to organize themselves and establish productive working relationships that will assure the reliable delivery of an organization’s critical outcomes.

When it is most effective, this structure of leader’s work relationships enables them to generate a doable strategic vision for their organization and leads everyone else to it. It helps leaders respond to emerging opportunities and anticipate—not just react to—customer demands.

Signs of an Outmoded Structure of Leadership

The early signs of an outmoded leadership structure show up in the way the leaders treat one another. These signs indicate a structure no longer fits the needs of the organization and its environment. Here are several examples that illustrate how leaders behave when their relationships are outmoded.

- One or more of the leaders begins to ignore the needs of the others. Attempts to improve teamwork keep falling flat. Repeated attempts to heal relationships and collaborate to correct mistakes fail.
- The leaders are divided. Each works in isolation, independent of one another and at cross-purposes.
 - They take action, but at the expense of the organization, its stakeholders, customers and/or the other leaders' best interests.
 - They threaten the life of an organization by forming self-serving political alliances and use favors to gain personal influence and control. Leaders sabotage or undercut the efforts of others. They may even feel betrayed by others at their level.
 - One or more leaders may try to take over, build an empire, perhaps by trying to occupy multiple positions of authority. For example, an executive vice president, as a member of a management team, may also seek to chair a company's finance, audit and operations committees.
 - Tricky situations, problems or quandaries are resolved at levels above or below the point where the trouble occurs. That is, those leaders directly involved in an issue are not allowed, or are not willing, to work it through together and defer it to another level.

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- One or more of the leaders is failing to meet performance expectations.
- Leaders are quick to agree with their boss's ideas but slow to implement them.
- Errors and omissions increase.
- When something goes wrong, leaders foster animosity by blaming others and making excuses for themselves.
- Little or no collaborative planning occurs, such as when launching new marketing campaigns, solving problems or seeking improvements.
- Leaders may feel helpless, overwhelmed and resigned as they try to comprehend the scope of their organization's problems.
- Leaders are reluctant to try anything new and feel defeated even before they can begin to make improvements. They fear it will be another waste of time.
- There is a noticeable increase in the levels of stress for the members of the leader group.

An Outdated Structure Drives Leaders to Sacrifice Teamwork

An outmoded structure of leadership causes operational performance to decline, but the pressure to produce better results often continues. Leaders caught between these pressures experience increased stress. To reduce their stress, leaders need to redesign their structure and bring it into line with their new conditions. But when they do not know the stress they have is a result of an obsolete structure, some try to cope in other ways.

Some leaders caught in this situation, for example, try to push through obstacles and barriers with bare-knuckle strength of will and admonish others to toughen up. Others urge people

to work harder or longer, as though more effort will compensate for flaws in a leadership arrangement. Some believe what is required is an inspirational talk, a new vision or a football game half-time exhortation about the importance of winning. Others think top-down reorganization will whip everyone back into line. Then there are those who believe it is time to fire someone to make sure everyone who remains is paying attention.

Some leaders attempt to cope with the stressors of their outmoded relationships by setting up special rules and procedures in their own units. For example, a unit leader might specify all communication and contact with any other units must occur only through him or her. Such a strict channel quarantines staff members against lateral communication and coordination with sister units and, without intending it, spreads stress to others. Restricting the natural ebb and flow of communication adds more stress to those who are responsible for producing this unit's products and services.

- When restricted from engaging in spontaneous give-and-take communication between units, people at all levels are unable to hear about, anticipate and correct problems before they occur.
- Communication bottlenecks slow and limit information flow, yet production deadlines are not relaxed.
- Without a prompt exchange of information between units, misunderstandings increase and relations become more strained, decreasing inter-unit cooperation. Inter-unit trust then declines.

Allowed to continue, the use of such protectionist rules and restrictive procedures can foster an unresponsive company bureaucracy bound up in red tape.