ACEMI

مدیریت کسب‌وکار در صنعت ساخت
(Construction Business Management)

ماژول ۴: توسعه کسب‌وکار

بخش چهارم: توسعه نیروهای کلیدی

ارائه دهنده:

سید محمدرضا علوی‌پور

(PhD, PMP, CMIT)

CMAA Authorized Trainer

دانشگاه Illinois Tech آمریکا

What we will learn?

- Identifying Key People
- Partners
- Founders and Succession
- Inactive Founders
- Succession Case Study
- New Management Team
- Adding Key Personnel
- Management Dilution
- Exercises

Identifying Key People

Identifying key people

- The term **"key people"** can be described as those **critical** to the **success** of the enterprise, and as such, are **not easily replaced**.
- The key people in the **majority of smaller construction** companies are therefore usually **easy to find**—they are the owners.
- In **mid-size** and **larger** companies the key people are the owners and closely associated top managers

  that **may or may not** be minority stockholders.
- For **many construction** enterprises there may be as **few as three** key people, and

  for **smaller-sized** businesses there may only be **one or two**.

The term "key people" can be described as those critical to the success of the enterprise, and as such, are not easily replaced.

Identifying key people

- This section **may not** be very popular with **middle managers** (who are a very important part of any organization),

  as it concentrates on the **one, two, or several people** without whom a company **cannot function**.

- The definition of these key people are included in the definition of a contractor used here,

  as **anyone who** is personally responsible for one of the **three primary functional areas** of a construction organization (described next)

  whether or not they **own a piece** of the business.

Identifying key people

- In **each successful construction** organization, **someone has direct personal responsibility** for each of these functions.

Partners

Partners

- To develop this point further, in a **two-partner breakup**, the ideal approach would be to **fall back to a business**

  no greater than half the size of what the partners did together as a simple matter of risk control.

- **Neither individual** is likely to have experience managing the original-size business **alone.**
  - Thus, to attempt to operate on the original scale is to **assume the missing partner did nothing,** or whatever they did, the remaining partner can do in the spare time.

Partners

- The **50 percent solution may be impractical**
  - as few contractors would voluntarily accept a **50 percent reduction in volume** under any circumstances, and
    - **cutting a business back** by half may actually cause **more problems** than it cures.
    - However, **limiting growth** for a couple of years would definitely be **prudent**
      - to **determine if success continues** in the absence of one of the key players.

ACEMI

Partners

- **Many partners who founded** and ran a construction company successfully found that when they split up, they were **not nearly as successful as they were together**.

- Very often, it takes **more than one person at the top** for a construction business to flourish because **many people are only good at their own specialty.**
  - A person who can <u>get the work</u> may need a partner to <u>do the work</u>.

Partners

- **They can, of course, hire someone** to do any of these jobs, **but typical entrepreneurs** tend to be doers **rather than managers** and **most haven't** had the formal management training to manage staff.
  - It's **difficult, if not impossible**, to find someone to do a task as **diligently** and **conscientiously** as a partner would do the task.
    - ✓ **Simply sharing ownership** with an employee **doesn't necessarily transform** an employee into a contractor.

Founders and Succession

ACEMI

Founders and succession

- The organizations are **fashioned** and **shaped** by the **contractor** as they progress and grow.

- Since many sizeable construction companies were started by **relatively young people**,

  it's **not unusual to find 30- and 40-year-old** companies **still** being managed by the **founder**.

Founders and succession

- As a company grows, it often **changes how it operates** or at least appears to, but the **founder's values** and **approach** are usually interwoven into the fiber of the organization.
  - The values and business methodology of a founder are the **real reasons successful companies overcome** the low survival rate for construction start-ups and are able to **grow** and **prosper.**
    - ✓ After many years and the addition of numerous managers, these **values are often all but hidden.**

Founders and succession

- **Unfortunately**, these values are often seen by the people **who will assume control in the future** as roadblocks to the company's further growth or expansion and are often described as antiquated or old-fashioned.
  - When the **successors take over**, the values **change too much** and **lose the formula** for the company's success.

Founders and succession

- This does **not imply** that companies **can't succeed** and **prosper** following the loss or succession of a founder.
  - However, it is an **unfortunate reality** that many construction enterprises have **not survived succession**, demonstrated by the very **high succession failure rate** in the industry.
    - ✓ Most of the failed businesses **could have survived** if they had developed a proactive, appropriate **plan for the transition** including a healthy, objective understanding of what made the company a success.

. . . organizations are fashioned and shaped by the contractor as they progress and grow.

Inactive Founders

Inactive founders

- A **less obvious variation** on the preceding scenario occurs when a founder **becomes inactive** in an organization, and

  everything continues smoothly for years until the founder **dies**.

  - Often, the **loyalty of long-time employees** prevents them from leaving the **new management** as long as the founder is alive.
  - In other cases, the **new management doesn't have** the strength to change things too drastically while the **founder remains in the background**.

ACEMI

Inactive founders

- Actually, it has been observed that, as **few as one to three key people** can drive a construction company.
- If **one of them is gone**, the company is in jeopardy **until a replacement is found** and **tested**.
- **Even a replacement with equal** skills and talents will lack the missing key person's contacts and connections as well as their loyalties.
- These **intangibles are lost** to the company and are part of the reason that **key people are so hard to replace.**
- It will **take a year or more** to determine whether or not a **replacement will work.**

Succession Case Study

Succession case study

- Keep the three functional areas in mind as the following case is described, their importance to a construction organization, and the fact that a change in the person primarily responsible for any of these areas puts the company at risk and should be treated with great caution.

Succession case study

- Consider a successful, second-generation, heavy industrial construction company doing about $200 million a year that found itself in serious difficulty after the loss of its chief financial officer (CFO). After a successful transition following the loss of the founder (which included some substantial changes in ownership), the company was financially solid and working in a growth market. The successor's chief executive officer (CEO) was a good leader and was picked by the founder for his conservative approach to the business. He was also chosen to offset a partner who was a wizard in the field, but lacked good business sense.

Succession case study

- The two partners had built the business together from nothing and had decided not long after they started to bring in a third partner to run the accounting department. While the new partner wasn’t given equal ownership right away, they wanted someone with an ownership interest in this critical area because they had some close calls in the past with bad figures during a tough growth period.

Succession case study

- Even before the transition, one of the partners had been pushing for the company to buy a firm that did much of the design engineering on their jobs. The design fi rm was not very profitable. Consequently, the partner thought they could buy it at a reasonable price and increase their competitive edge by expediting the design of their own work. The other partner liked the idea, but a stumbling block was that their only option was a cash deal. Since their debts were extensive, the CFO (original accounting partner) was violently against the deal. He said that using all available cash and borrowing power, even in a good market, would leave them at the mercy of their creditors for three or four years because the debt service would consume 50 percent of their current annual profits.

ACEMI

Succession case study

- The CEO, who by now was a full partner, refused to take the risk, but the pressure to purchase continued, and the issue finally had to be settled by the board of directors. The board decided against the purchase, and the decision really turned on the CFO's financial presentation. The CFO was well respected by all concerned and had an excellent understanding of the business, particularly when it came to cash flow. He could remember both the good and the bad years and understood that with a cyclical, high-risk business like construction, a modest cash reserve and some unused credit were not a luxury, but a necessity. He kept constant watch over every financial aspect of their business and reported to the board that, while they were financially sound and in a growth market, increased competition was eroding their profit margins.

Succession case study

- The company's primary market was construction and renovation of industrial facilities for the auto and steel industries. While there was plenty of work around, road building and commercial construction had slowed in the area, causing an increase in competition from other contractors and a decrease in profit margin.

Succession case study

- Increasing competition was not the primary reason the board found the purchase too risky. What tipped the balance were graphs showing the impact on the company's cash flow eight years prior when their markets declined, following a dip in the national economy and a lengthy steel strike. The company had remained marginally profitable during the period in question, but their cash flow had turned critically negative from suspended jobs, where retainage could not be collected, and from slow-paying clients. In addition, numerous canceled projects added to their profit problems, but what no one realized was that the chief accountant had saved the day by insisting that overhead be cut immediately. His charts showed that without their reserves of cash and credit at the time, they could have gone under.

Succession case study

- Two years after the board rejected the purchase of the design firm, the CFO had a serious illness and was unable to work again. The company faced another serious succession exposure that ended when they hired an accountant from their auditing firm who was very familiar with their finances. Everyone was happy with the selection, and since the marketplace was still strong, the future looked excellent. Six months later, the partner in charge of construction again proposed the purchase of the design fi rm. The firm was still available, and the partner felt the company needed to make the purchase now more than ever to improve their profit margins in the field.

Succession case study

- The other partner was skeptical and again it went to the board of directors for a decision. The partner in charge of construction presented a good argument for the purchase, claiming a minimum 2 percent increase in field productivity based on better design service and faster deliveries of design modifications. The new CFO reported that he had studied the figures given to him by the field people as well as the purchase price information from the design fi rm. He thought they could definitely afford the purchase. When asked if the purchase would tie up all their cash and borrowing power, he reported that it would be a simple matter to increase their line of credit. The purchase was approved on the condition that a certain size increase in the line of credit would be negotiated before the purchase. No one asked how the new accountant had made his calculations.

Succession case study

- As it turns out, the new accountant had taken the average profits for the company over the previous two years and calculated an increase on the basis of 2 percent across the board. This increase was reported to the board as being more than enough justification to purchase the design company. Consequently, the purchase was approved. No one questioned the fact that the design firm was involved in only one-third of the work that the company performed. The board didn't know that the calculations presented were based on an increase in profits for the entire company, and not just an increase in efficiency on the work associated with the design fi rm.

Succession case study

- After the purchase, it was discovered that the design firm was even less profitable than originally thought and some additional cash had to be put into it. However, the increase in their efficiency did increase profit margins on the work involved even greater than originally projected, so the purchase was considered a success. Two years later, one of the company's major steel industry clients became insolvent. This loss in work cut the design firm's volume almost in half.

ACEMI

Succession case study

- At the same time, the auto industry was slowing down because of import pressures and reduced car sales. In less than six months, the construction company saw the cancellation of three major projects they were to start and had five capital improvement projects that were in construction stopped without notice. The company's volume was cut by a third, and they were suddenly losing money daily. In spite of valiant attempts to cut overhead and find work in other areas, they could not reverse the trend. Their next financial statement was a disaster, and their cash flow made it impossible to pay their debt service, let alone reduce principal on the outstanding loan.

ACEMI

Succession case study

- The new CFO’s attempts to renegotiate and restructure their loans failed when the bank wanted a written commitment from the construction company’s surety carrier that all necessary bonding would continue to be available to the company. The bonding company said that each project would be looked at independently. Filing for reorganization was being considered, when a buyer for the company was found. The value of the partners’ stock was practically worthless, and the engineering company was given back to the original owners at no cost.

Succession case study

- A change in one key person in this company had cost the partners their business because the key person was the only one who really understood the long-range measure of risk. Until the original CFO left the company because of serious illness, he prevented the partners from making the ultimate business mistake— taking on any single risk that had the potential to jeopardize the entire business.

New Management Team

New Management Team

- For all intents and purposes, **changes in the key personnel** of a construction enterprise create an **entirely new company**.
  - The **reality** is that a **formally successful construction company** with a **new management team** has yet to complete its **first year** of **profitable operation**.
  - The best that can be said of the new organization is that it is **untested**.

. . . changes in the key personnel of a construction enterprise create an entirely new company.

New Management Team

- To reduce the exposure of an untested organization a **reduction in volume**, at least **not growing** for a year or more, **allows time** for the new management team to **prove** they can work **successfully** together.
- It is prudent to at least **restrain any growth** until the new organization completes at **least one year of profitable** construction operations together.

New Management Team

- The definition of team is “any group organized to work together.”
- A new person added to an existing management team drastically and dramatically alters the team regardless of the size of the team.
- It may be for better, worse, or neutral, but the entire team is changed.

New Management Team

- A more specific definition of "team" from the book, Wisdom of Teams, sheds more light on the impact of changing a member of the team:
  - *"A team is a small number of people with complementary skills who are committed to a common purpose, performance goals and approach for which they hold themselves accountable."*
- The key phrases are "small number," "complementary skills," "common purpose," "goals," and "approach."
- The likelihood of all of these matching when there remain few members from the original team is slight.
- If you substitute an ingredient in a cake mix you still get a cake, but not the one defined in original the recipe.
- Most people can think of their own sports team analogy. It is undeniable that one person changes a team's potential.

Adding key personnel

- The loss of a key person is not the only exposure in replacing key personnel.
- As a company grows, it must continually add to its management staff and, in rapid or sustained growth, new people are regularly placed in key roles.
- The company now has a newer, larger, untested organization, and they are performing a greater amount of work.
- The original team of key individuals may have proven itself, but the new larger group has not yet operated as a team and proven profitable.

Adding key personnel

- Few growing companies take the time to analyze their situation after adding key personnel because it is difficult to isolate specific variables when the entire company will likely be occupied with the new growth in various facets.
- If problems develop some years down the road, there will likely be new people or circumstances on which to blame.

Management Dilution

Management dilution

- A potentially more serious problem a growing construction enterprise will face, particularly during periods of rapid growth, can be referred to as a change in key personnel by “**dilution**.”
- As a construction company expands, it usually takes on larger and more sophisticated projects, which often **requires additional managers** and some with more or **different experience** than existing team members.
- **Hiring new people** into an organization and making them managers over long-term employees very often **creates problems and jealousies**.

Management dilution

- Contractors find themselves **determining to grow and expand** their businesses because of, and with, the loyal team that worked so hard to **generate the current success.**
- Contractors then find that the company outgrows the **original team's capabilities** and new managers with more or different experience are required to **maintain the growth**.
- **Existing managers** are often **offended or feel their years of loyalty** are being repaid by bringing in someone above them, and **worse, at a higher salary**.
- There is a certain amount of what may loosely be referred to as "hero worship" in the construction industry, whereby **charismatic entrepreneurs** are able to generate **tremendous loyalty** and attract people that will **work extreme hours** and put in staggering effort just to work with the contractor.

Management dilution

- As the **company grows**, contact with the contractor diminishes and new managers are placed between the **contractor and loyal hardworking** employees, creating **discontent**, and many leave.
- Experience shows that a company that **grows at a rate that doubles** the organization's volume in as little as **three years** will lose at least half of its core group of key employees as a **result of the growth**.

Management dilution

- From the standpoint of an **entrepreneurial organization**, it is clear that something **inevitably will be lost** as the organization makes the **transition** to professional management.
    - However, something will also be gained.
        - ✓ Just as a **plant that has outgrown** its container must be t**ransplanted if it is to continue** to grow and develop properly,

          an **organization that has outgrown** its infrastructure and style of management (and people) must also make a **transformation**.

          Failure to do so will lead to a variety of other problems.
- The **problem of dilution** of key personnel during rapid growth probably **cannot be avoided.**

Exercises

Discussion

- What could potentially be some of the signals that replacing of key personnel is being performed and may not be favorable to the organization?

مدیریت کسب‌وکار در صنعت ساخت
(Construction Business Management)

ماژول ۴: توسعه کسب‌وکار

بخش پنجم: بلوغ مدیریتی

ارائه دهنده:

سید محمدرضا علوی‌پور

(PhD, PMP, CMIT)

CMAA Authorized Trainer

دانشگاه Illinois Tech آمریکا

What we will learn?

- Start-Up Construction Companies
- Importance of Management Skills
- Company Growth Phases
- Limit of Managerial Effectiveness
- Company Growth and Management Thresholds
- Telltale Signs of Insufficient Managerial Maturity
- The Challenge of Management Changes
- Delegation of Authority
- Test of Delegation
- Managerial Maturity Case Study
- Exercises

Start-Up Construction Companies

Start-up construction companies

- The **exciting business** of construction **attracts many new start-up companies** each year and has been doing so **for a long time**.

- **Even the largest** construction companies in the country today were at **one time start-ups** and were **oftentimes started** by a single person.

Start-up construction companies

- Attesting to this is the fact that **most construction companies** carry the name or initials of the founder.
- **Most founders** probably **never expected or envisioned** that their initial efforts would develop into the **big and successful** enterprises that exist today.
- **Very few** of these contractors started out with clearly **defined long-range plans** to become nationwide or multinational construction companies in a predetermined number of years.

Start-up construction companies

- **Interviews with numerous founders** of large U.S. construction companies offer **managerial challenges** as the company grows in size.

- **Different managerial skills** are **needed** to maintain success as a construction company grows, and

  contractors must be cautious that their **growth does not overreach** their **managerial capabilities.**

Start-up construction companies

- This leads to the curious question: *"If large construction enterprises were for the most part unplanned, where do big construction companies come from?"*

- The answer in most cases is **evolution**—they evolve from smaller organizations rather than being carefully planned.

- To be sure, most **large- and medium-size** construction companies today have sophisticated planning strategies with **elaborate** systems and are managed by highly **competent businesspeople**.

Start-up construction companies

- **But that’s today.**
  - Almost all of these successful enterprises can point to a time in their history when their longest-range **plan was how to make payroll the following week**, or the **most sophisticated** system they used was the **back of an envelope**.

Importance of Management Skills

Importance of management skills

- The **only discriminating variable** existing between the successful construction businesses and the early and midterm failures is **management skill**.
- **Management skills** are **not** just more **sophisticated leadership skills**, which most entrepreneurs have in abundance.
- Different analytical skills and thought processes are involved

  as well as the **patience to sacrifice shortcuts** for long-term optimum results.
- Management skills include a certain amount of vision,

  so that **planning** for and even **dreaming of the future** can take place.
  - Because **start-up contractors** may not be trained in management science or inherently gifted managers,

    they need to develop the **mature managerial skills** to enable their companies to grow beyond the start-up stage.

Importance of management skills

- **Start-up contractors** find out very quickly that there is a **lot more to running** their business than putting the work in place in the field.
- They need to **attract and capture** new work, account for the money, administer all the details associated with subcontractors and ordering materials, meet the payroll, acquire business insurance and bonding capacity, and so on.
- **Some start-ups do not continue** because the **principal never anticipated** all of this responsibility, or they simply do not want to do it.
- This last group makes up the huge number of start-ups that **don’t go beyond the first five years** in the contracting business.
- The single most important reason these companies do not succeed long-term is a **lack of management skills.**

Company Growth Phases

Company growth phases

- If a business remains **stable in size**, it can be operated in the particularly **proven and successful style** of the founder.

- But when a company grows, its **management approach** must also **mature**.

- If a business is expanding even at a modest rate of **10 or 15 percent a year**, it will **periodically grow out** of its own systems and procedures, which in turn dictates that its **management needs will change.**

. . . when a company grows, its management approach must also mature.

Company growth phases

- If a construction company's **growth rate** is above the 15 percent mark, the need for management development is **compounded**.

- When growth is this rapidly paced, management must not only manage the company's operations but also the **growth process itself**.

- Planning for and handling **growth** is an important factor in an expanding business, and

  dealing with changing plans becomes a process that must be managed.

- In spite of this reality, many contractors **double** and **redouble their growth** year after year with **little attention** to **organizational needs**.

ACEMI

Company growth phases

- Other factors that are **commonly blamed for failure** include
  1. Working in a good or bad marketplace as well as
  2. Having a good or bad labor pool.
     - Yet these factors do **not correlate** to construction company failure because every other construction **organization operates under the same** conditions in a given area.

Limit of Managerial Effectiveness

Limit of managerial effectiveness

- **Medium-size companies** often **lack someone** in the management team who is vocal, sophisticated, or objective enough to **warn** the management team of a **problem**.
- For other contractors, the biggest obstacle is an **inability to delegate authority** within their management teams.
- **Strong entrepreneurial contractors** in large companies often surround themselves with **weak top managers**

  because they **won't give anyone real authority** within the organization;

  yet many of these same contractors then **wonder why they are working so hard**.

ACEMI

Limit of managerial effectiveness

- The **number of contractors** who have **enjoyed many years of success** only to **fail** because they let their companies **get larger than they could effectively manage** is staggering.
- This happens when **contractors' businesses outstrip their managerial ability**, or when the **contractor is not able or wise** enough to bring in the new management talent that the organization needs.
- A **high level of managerial and personal maturity** is required to know and admit when one has **reached** the **limit of one's own effectiveness**.
- If a **company cannot adapt** to changing circumstances, it will either fold or drop back to a marginally **surviving company**.

Company Growth and Management Thresholds

Company growth and management thresholds

- The **issues** of resource allocation, personnel, planning, and systems **gradually increase** in **importance** as a company progresses from start-up through slow initial growth to more rapid growth.
- These resources must be acquired somewhat **in advance** of the **growth stage** so that they are in place when needed.
- **Yet the point** at which growth will outstrip management ability is **not easily predicted** because the **threshold is different** for
  1. Each contractor and
  2. Each management team.

Company growth and management thresholds

- There are **no specific limits** for an operation of a given size or type.
- The contractors must therefore be **able to identify** when company growth is **outpacing their managerial maturity**.
- The **best judges** of this are the contractors and their management teams, who are usually **too busy to look** for signs of **growing pains**.
  - Unfortunately, the **easiest way** for a company to identify if they have outstripped their management ability is by retrospective analysis;

    that is, **only after** they have already approached or exceeded their real limits.

> *. . . contractors must therefore be able to identify when company growth is outpacing their managerial maturity.*

Telltale Signs of Insufficient Managerial Maturity

Telltale signs of insufficient managerial maturity

- It is critically important that contractors are aware of the <u>risk of overextending</u> themselves

  beyond their <u>managerial threshold</u> and

  to **continually** be on the <u>lookout for telltale signs</u> that change is needed.

- An organization that is managed by **more than one person** has a slight edge in that several observers provide a **better system** of <u>checks and balances</u>.

  - Managers are able to observe and **critique** <u>one another's methods and results</u>,

    which tends to bring management **shortcomings to the surface faster**.

Telltale signs of insufficient managerial maturity

- There **are several telltale signs** that a construction **company is trying to manage** more than its leadership team is actually **capable of.**
  - Especially disturbing are complaints from
    1. Long-time trusted employees,
    2. An increased turnover among middle managers and field forces,
    3. An increase in owner and designer complaints,
    4. A drop-off in the performance or response of trusted subcontractors,
    5. An increase in job site accidents, and
    6. Increased absenteeism.

Telltale signs of insufficient managerial maturity

- All of these factors tend to **grow proportionately with the growth** of the business.
- Yet **when several** of these challenges **occur at once**, and for no apparent reason, it is usually a **sign that something is wrong**.
- When management **reaches a point of reacting** to business pressures and concerns as **opposed to acting on new** issues and planning, continued growth is a mistake.

Without management improvement, expansion could break the organization.

The Challenge of Management Changes

The challenge of management changes

- When a construction organization **doubles or triples in size**, it is **no longer the same** company it was **before growth**, and it usually will **not be successful if it maintains** pre-growth management methods.
- Yet **changing** existing management practices is extremely difficult for some contractors and for good reason.
  - One of the **more difficult changes** is to **evolve** from the **close-knit, team-oriented** camaraderie of a **small company** into to a **mid-size** organization in which close contact is no longer possible.
- Sometimes the **old-line, trusted employees** are unable to develop personally or professionally to function well in the larger, **more complicated organization**.
  - These employees may even **blame the contractor**, who must try to accommodate and cope with both progress and personal loyalty.

The challenge of management changes

- **Replacing top management** personnel is also a **key challenge** that many companies are **unable to overcome**.
  - All too often there is **no formal succession plan** in place.
    - ✓ Most construction companies have a **limited number of qualified personnel** to choose from during the succession process, and

      many are reluctant to go outside their own **ranks for new leadership**, even if the need arises suddenly.
      - This **reluctance** is even **more common in smaller and more closely held companies**,

        where the **new leader** will at **best have worked** with and learned **under the retiring leader** and have no outside or independent managerial experience.

The challenge of management changes

- If the new leadership **lacks managerial maturity** in terms of

    1. Competence,
    2. Experience, and
    3. Confidence,

  the success of the entire company is at **risk**.

The challenge of management changes

- **Leadership transition is difficult** no matter the circumstances, but in the closely held **family businesses** that are common **within the construction industry**,

  the succession process is **even more complex**.
- The job of operating a **family-owned business** is often grievously complicated by friction arising from **rivalries that exist** between the various family members who **hold positions** in the business or derive income from it.

Leadership transition is difficult no matter the circumstances . . .

Delegation of Authority

Delegation of authority

- An **important skill needed** by contractors who are managing a growing business is the ability to **delegate authority**.
- Delegation has **two key benefits**:
  1. First, it builds the **company's managerial maturity** because the contractor provides their subordinates with experience in **making business decisions**; and
  2. Second, it **lessens the workload** that is placed on the contractor.
     - However, the **true delegation of authority** within the construction industry is a problem in and of itself.

Delegation of authority

- There are **far too many large construction** organizations with layers of **vice presidents and managers**

  that will **not or cannot** make even the **smallest decisions** **without** the contractor’s input.

- The **contractor often thinks** it’s a **good system of checks and balances**,

  but they **can’t be** **every place at the same time** and

  end up making **every major** and **minor decision** in the company,

  all while wondering **why they’re working** **such long hours**.

Delegation of authority

- When employees are given **titles** and **not the corresponding authority**, they will eventually leave or mentally retire.
- **Few will** put the required effort into **quality decision making** when they know they **cannot make a real business decision** on their own without **clearing it with the boss**.

Test of Delegation

Test of delegation

- The test of true delegation of authority is when a person is **allowed to make a mistake**.
  - That is, when a person to whom authority is delegated can eventually m**akes unsupervised decisions** that may or **may** not be correct.
- Contractors **frequently resist** the suggestion that they should **allow their subordinates** the latitude to make a mistake **because mistakes can cost** the company money.
  - Why not, they reason, **allow people to make decisions** in their area of authority but then require them to **check in with the contractor** to receive approval prior to implementation?

Test of delegation

- **Mistakes are an inevitable** component of management development, but the **reward** is that developing top managers can genuinely take some of the **workload off** of the founder or top manager.

- This also contributes to the company's long-term success by developing the **top management capability** to lead the company through **leadership changes**.

Test of delegation

- Personnel who are **qualified to lead** in the construction business will **strive to become** contractors, and

  these types of qualified personnel will **not stay long** with an organization that is **unwilling** or **unable to delegate** true authority.

  - This is even **more challenging** for relatives in family businesses because those **in line for succession** oftentimes are **not allowed to practice** decision making.

Test of delegation

- Achieving managerial maturity **doesn’t just happen**; the need for it must be recognized and its skills <u>learned</u> or <u>hired</u>.
- Educator and management consultant Peter Drucker writes:
  - *Entrepreneurship is risky mainly because so few so-called entrepreneurs know what they’re doing.*
    - ✓ They lack the methodology.
    - ✓ They violate the well-known rules.

The inability to truly delegate has affected the capacity of numerous contractors to hold on to key personnel . . .

The true delegation of authority is when a person is allowed to make a mistake.

Managerial Maturity Case Study

ACEMI

Managerial maturity case study

- Consider a building construction company worth **several hundred million dollars** that has had **several executive vice presidents** in addition to a score of **other vice presidents** over its **50-year lifespan**.
- The growth of the company was skillfully **managed by its founder** for years.
- To the casual observer the founder had a **strong management team** to **back him up** and carry part of the load,

  but **upon closer scrutiny** there was very **little true authority** among the **senior executives**.

Managerial maturity case study

- There was **loyalty and plenty of hard work** and long hours, but most of the serious decisions were made or given **final approval by the founder himself**.
- As he aged, he spent **less time at the business**, but given the size of the company the important decisions could still be **handled by him** even if they **had to be delayed awhile.**
- Because he maintained all of his **personal contacts in the political and business community**, the founder remained a **critical element in the continued success** of the company even after he **formally retired**.

Managerial maturity case study

- After the founder reached **full retirement**, the company was managed by a team **composed of some members** who had come up through the **field construction side** of the business and others that **were financial executives.**
  - There was **considerable friction** between these two factions.
- The **financial executives** who dominated the **board of directors**, which was made up entirely of **insiders**, continually **attempted to minimize the influence** on the business of the **field construction people in senior positions.**
  - In several instances they **attempted to remove senior managers** with field experience from the board of directors as they were thought to lack sophistication.

Managerial maturity case study

- Although the founder was completely **retired and in ill health**, **his influence was strongly felt** in the board room of the company **even when he did not attend** all the meetings.
- The construction personnel in senior positions had **worked for the founder** for many years and **spoke proudly of the history** and **values** of the company.
- As a result, they were **working hard to continue doing** business in a similar manner.
- The **financial personnel** on the board, however, pushed multiple changes but were **unwilling to fight for these changes** with the founder present in the background.
- The **company remained profitable** during this period, but the **differences among top management grew.**

Managerial maturity case study

- A number of years after retirement the **founder passed away**.
- Within months, a **board meeting** was held, which **barely made a quorum** because **several members were at job sites**.
- At this meeting, a **new management committee** was formed to govern the **day-to-day operations** of the company and the **chief financial officer** was elected **president**.
- Within a year the **entire construction organization** was subordinated to the **administrative/financial department**, and

  a **number of key construction people quit** or were fired.

Managerial maturity case study

- The company **expanded rapidly** and **more than doubled** in size in less than three years following the founder's death.
- The **profit** picture was **not very good**, but management attributed this to the cost of growth and predicted it **would improve over time.**
- The introduction of **new computer equipment and systems** along with the distraction of moving to **new corporate headquarters** produced an administrative **nightmare**:
  - *Data input was weeks late, and some critical data was lost.*

Managerial maturity case study

- This caused a **serious delay** in producing a **certified financial statement** at year-end, and when an interim statement six months into the next fiscal year showed **operating losses** and the prior year's statement wasn't produced yet,

  the **company's surety** became concerned and bonding was restricted.
- **Several months later** the prior year's results were determined to be a **loss in excess of eight percent on volume.**

Managerial maturity case study

- **At first glance** this might appear like a **change in key personnel** as the cause of the failure and **perhaps even that the founder** was in fact a **victim**.
- The organization did lose the founder—first to retirement and then death.
- In addition, they **subsequently lost several** very key construction people.
- A change in key personnel happened here, but it **was predictable and not untimely**; therefore, the cause of the problem was the **lack of preparation** for it.
- The real cause of this business failure was the **refusal or inability of the founder** to **delegate authority** in advance of his retirement and train his replacement.

Managerial maturity case study

- As a direct result of the founder's inability or refusal to truly delegate authority, there was no one in the organization that had any real authority prior to the founder's retirement.
- Consequently, no one who had really run their own department let alone an entire construction company.
- Everyone did their own job as the founder had taught them, and he was regularly consulted if any exceptions were encountered.
- There was no lack of talent in this company, although more aggressive managers didn't stay long.
- What the organization lacked was initiative. Everyone followed the founder, but they worked for him, not with him.
- There weren't any self-starters; they were jump-started by the hard-driving founder.

Managerial maturity case study

- It is **every manager's responsibility** to tutor and prepare his successors, and the founder of a successful company is **no exception**.
- In this case, the **founder was either unaware** of this fact or **was unable to successfully address** it, which ultimately indicates that he had **outstripped his management ability and lacked the managerial maturity** to lead the business at the size to which it had grown.

Exercises

ACEMI

Discussion

1. What are some of the managerial challenges that accompany rapid company growth?
2. What are some of the risks that are associated with an organization that lacks a formal succession plan?

موسسه مهندسی و مدیریت ساخت علوی پور (ACEMI)

دفتر آموزش

تهران، بلوار فردوس شرق، مجتمع آبگینه، طبقه سوم اداری، واحد C42

+۹۸ ۲۱ ۴۶ ۱۰۰ ۴۵۰

+۹۸ ۲۱ ۴۶ ۱۰۰ ۴۴۵

www.dralavipour.com

info@dralavipour.com

@acemi_social

@alavipour_pm

@IRANACEMI

@alavipour_pm