THE BATHTUB PERIOD

The award of the Scott contract on January 3, 2010, left Park Industries elated. The Scott Project, if managed correctly, offered tremendous opportunities for follow-on work over the next several years. Park's management considered the Scott Project as strategic in nature.

The Scott Project was a ten-month endeavor to develop a new product for Scott Corporation. Scott informed Park Industries that sole-source production contracts would follow, for at least five years, assuming that the initial R&D effort proved satisfactory. All follow-on contracts were to be negotiated on a year-to-year basis.

Jerry Dunlap was selected as project manager. Although he was young and eager, he understood the importance of the effort for future growth of the company. Dunlap was given some of the best employees to fill out his project office as part of Park's matrix organization. The Scott Project maintained a project office of seven full-time people, including Dunlap, throughout the duration of the project. In addition, eight people from the functional department were selected for representation as functional project team members, four full-time and four half-time.

Although the workload fluctuated, the manpower level for the project office and team members was constant for the duration of the project at 2,080 hours per month. The company assumed that each hour worked incurred a cost of $120.00 per person, fully burdened.

At the end of June, with four months remaining on the project, Scott Corporation informed Park Industries that, owing to a projected cash flow problem, follow-on work would not be awarded until the first week in March (2011). This posed a tremendous problem for Jerry Dunlap because he did not wish to break up the project office. If he permitted his key people to be assigned to other projects, there would be no guarantee that he could get them back at the

Jerry estimated that he needed $240,000 per month during the "bathtub" period to support and maintain his key people. Fortunately, the bathtub period fell over Christmas and New Year's, a time when the plant would be shut down for seventeen days. Between the vacation days that his key employees would be taking, and the small special projects that his people could be temporarily assigned to on other programs, Jerry revised his estimate to $200,000 for the entire bathtub period.

At the weekly team meeting, Jerry told the program team members that they would have to "tighten their belts" in order to establish a management reserve of $200,000. The project team understood the necessity for this action and began rescheduling and replanning until a management reserve of this size could be realized. Because the contract was firm-fixed-price, all schedules for administrative support (i.e., project office and project team members) were extended through February 28 on the supposition that this additional time was needed for final cost data accountability and program report documentation.

Jerry informed his boss, Frank Howard, the division head for project management, as to the problems with the bathtub period. Frank was the intermediary between Jerry and the general manager. Frank agreed with Jerry's approach to the problem and requested to be kept informed.

On September 15, Frank told Jerry that he wanted to "book" the management reserve of $200,000 as excess profit since it would influence his (Frank's) Christmas bonus. Frank and Jerry argued for a while, with Frank constantly saying, "Don't worry! You'll get your key people back. I'll see to that. But I want those uncommitted funds recorded as profit and the program closed out by November 1."

Jerry was furious with Frank's lack of interest in maintaining the current organizational membership.