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CONSULTING FOR GEORGE LANCIA

Cam Matthews shook his head as he looked over the financial statements in front of him. It was June 1993, and he had been hired as a consultant to bring George Lancia's organization under control. George, who wanted a break from the management of his various businesses, was concerned about the successes of his investments. Cam, a 24-year-old recent business graduate, knew upon reading the statements that the financial position was worse than George realized. Cam's foremost concern was how to manage and to relate to George. Cam believed significant changes would have to be made. He wondered what problems he should anticipate.

GEORGE LANCIA

George Lancia was the 45-year-old owner of the organization. He had worked on his own in order to support himself through high school. Upon graduation, he worked as a surveyor's assistant for two years, after which he sold securities for five years. At various times during these years he had owned a movie theatre, a drive-in theatre, and a restaurant. He had also begun to buy and sell real estate, including rental properties, and had created a substantial amount of wealth through these dealings.

In 1985, George was approached by Kevin Gibson with the idea of leading a syndicate to invest in several fast food restaurants in Eastern Ontario. George agreed to invest in this venture. By 1988, the restaurants' performances had failed to improve and George was forced to buy out the other investors.

Three years later, George was approached with another investment opportunity, a nursing home and retirement lodge in the small town of Sterling, Ontario. George responded with an offer that was accepted in principle; however, the actual agreement was still being completed by the lawyers.

George built a new house in 1991. By this time, all of his cash was tied up in six restaurants, the retirement home, the rental properties, and the new house.

MANAGEMENT STRUCTURE

George's investments were set up as individual, numbered corporations. In theory, this structure was intended to protect him from personal liability and to save the structure from problems in a single unit. However, two sources of exposure could not be avoided. Both George's reputation and his borrowing ability within this very small town would be hindered if any of the individual corporations were to go bankrupt. The banks and creditors had recently begun to ask for personal guarantees on any new debt requested by George.

In general, George made all decisions and approved all spending. His primary source of control was monthly financial statements, which he often viewed several months late and did not trust the accuracy of. He seldom had direct contact with his front-line employees.

George's secretary, Sharon, was 23 years old and had received a college diploma in bookkeeping. Sharon had been named the controller of the company. She prepared financial statements, managed the payroll, and handled supplier relationships. Her assistant, Caroline, who was 24 years old with a commerce degree from Brock University, helped Sharon prepare the financial statements. Both women had a difficult time remaining productive during the day; statements were occasionally late or inaccurate. George was aware of this situation but wondered how the office computers would be run and the filing and banking handled without Sharon and Caroline. Because George wished to avoid any conflict, Sharon had an effective veto on the decisions in her area.

Restaurants

Kevin Gibson was the general manager of the restaurant operations. He was 22 years old when he started working for George. Kevin had no formal management education but had managed fast-food restaurants since the age of 18. George had given him full control over decisions at first, claiming that he "would totally step aside and let Kevin do his thing." When commenting on his own management approach, George said he "preferred to sell an idea rather than tell people what to do." George would review the monthly financial statements and then hold "grilling sessions" during which he would ask Kevin for explanations of any apparent poor results. Kevin would then be asked to project the next month's results. George would write down these projections and file them to be pulled out and pointed to during next month's "grilling session." George received other information informally from time to time, in the form of phone calls from banks, suppliers, employees, or the franchiser, whenever there were problems.

For various reasons, Kevin was unable to provide positive results over time, causing George to lose patience and to take back the formal authority. Currently, Kevin had no authority to make any decisions without George's approval; however, he did anyway. Most of the restaurant staff and suppliers had never heard of George and assumed Kevin was the owner. George wondered who would manage the restaurants if Kevin left and therefore did not want to create any friction between himself and Kevin. Additionally, George hoped Kevin would repay the money he had loaned him on a handshake to finance Kevin's house.

Jeff Cranney, a 35-year-old with no management education or former management experience, managed the restaurant in Cobourg. He had invested a substantial amount of cash to build the store in 1991 and currently held 49 per cent of the shares. However, this restaurant was not managed effectively and had significant operating problems. George was worried that he would be forced to buy Jeff out if these concerns were addressed.

John and Lucy Wilson approached George in September 1992 and asked him to sell them the restaurant in Peterborough. They provided two houses as a down payment and intended to pay the rest over time. From the perspectives of the bank, the employees, and the landlord, George remained responsible for the asset. John and Lucy were middle-aged with no management education or supervisory experience. John worked as a linesman for a power company; Lucy was a health care aide. George wanted to avoid any conflict here as well to prevent "being left with a real mess."

The Sterling Manor

The Sterling Manor was a nursing home and retirement lodge that housed 62 residents and employed close to 50 employees. The negotiations between George and the retirement home's initial owners, the Vaughans, were intense. The Vaughans, the Ministry of Health, and the bank had expressed considerable doubt about George's ability to run the home successfully. It was expected that any additional conflicts or problems would further hinder their perception of him.

At the same time, major changes in the industry were pending. The government had developed stricter regulations to increase the level of quality and service in the industry. These regulations stipulated how the funding should be allocated among nursing, food services, and housekeeping. These changes would reduce net profit considerably, and management would face a much greater challenge than before, when financing was plentiful and regulations minimal.

Linda Baxter was the administrator of the Sterling Manor. She had been a nursing assistant for 25 years and had a diploma in long-term care management. Linda was very personable and concerned about doing a good job. However, she lacked several important technical skills regarding computers, time management, and supervising. She had been hired by the Vaughans and continued to report to them on a regular basis. Whenever she and George disagreed, Linda stated that she still worked for the Vaughans and threatened to seek their decisions. The administration of the home was very disorganized. Phones went unanswered, and Linda's desk was piled with paperwork and mail dating back to 1989. Linda lacked focus or direction and felt that she was accomplishing very little. With the pending regulations, Linda was worried that others would question her competence; therefore, she reacted defensively when anyone attempted to get involved in her work.

Heather Irvin was the director of nursing at the Manor. She was a registered nurse with 30 years' experience. Heather found it difficult to organize and run a staff while dealing with all the conflict and confusion among George, Linda, and the Vaughans. She recognized the importance of management control in a nursing organization, where health and lives are at stake. It was her opinion that Linda did not understand how to operate a health business. So, in order to protect her own position, Heather refused to listen to Linda. Instead, she complained constantly to George about Linda. Because George knew very little about nursing, he could not effectively evaluate Heather's work. He worried about what would happen if she quit. He had not heard any negative comments from anyone else about her work, so he basically gave her complete freedom.

Real Estate

Margaret Dennett managed the apartment building in Belleville. She had been given authority to make decisions about the tenants and daily operations but continually called George about problems she encountered. George did not have the time to find a replacement for her and therefore, to prevent upsetting Margaret, did not attempt to change the situation.

PERFORMANCE

Restaurants

The restaurant operation had performed poorly for the past three years. The stores had reached their overdraft limit several times, and George had been forced to inject $70,000 from his personal line of credit. Labor productivity was low, quality and service were substandard, current marketing activities were expensive and ineffective, and relations with banks, suppliers, and the franchisers were very poor. In the spring of 1993, Kevin had diverted $70,000 cash from the restaurants to secure equipment and working capital for an ice cream store, a venture that had lost $3,000 per month since its inception.

The Sterling Manor

The Sterling Manor had been barely breaking even for the past several months and was near its overdraft limit. The new union was in the midst of contract arbitration that, when completed in late 1993, would likely expose the home to a retroactive wage settlement of between $200,000 and $500,000. Whenever George accumulated money in the business, the Vaughans withdrew it as advance payment on the Manor's purchase price. George did not want to jeopardize the sale and was therefore reluctant to approach the Vaughans about this.

George did not understand the Ministry of Health's new funding model and did not know whether the home would be a good purchase, or even if it would survive, under the new system. George did not seem aware of the severity of the Manor's financial position.

George had almost reached the limit of his personal credit line and could not count on significant cash flows from his businesses in the short term. He had pledged to limit his withdrawals from the Manor; there were minimal funds coming from the restaurant operations; and recent vacancies had eliminated any positive cash flow from his rental properties.

GEORGE AND CAM

George and Cam had met several times during the spring of 1993. By this time, George was tired and wanted nothing more than to hand over the reins of his business to someone else and step back for a while. He wanted to remove himself from day-to-day management of all assets and to remain merely as a hands-off investor. In June, George hired Cam as a consultant, asking him to prepare a plan to bring the organization under control, specifically, to "find a way to clean up all the junk on my plate."

Cam had graduated in 1992 with a degree in business administration from Wilfrid Laurier University and had started working as a consultant to medium-sized businesses. His experience consisted of co-op positions[1] with large companies, part-time restaurant management during school, and research and consulting since his final year of school.

[1]The university offered a business program that combined regular course work with work terms at various companies.

During their initial meetings together, George repeatedly said to Cam:

> I've promoted myself to the level of my own incompetence. I know that now, and so from here on, I'm going to be like Henry Ford — I'm going to hire the expertise that I lack myself. That's where you come in — you have the education that I missed out on. I'll give you the benefit of my 25 years' experience in business, and you give me the benefit of your education.

Cam knew from the start that it would be a grave mistake to underestimate the value of George's "school of hard knocks" education, but felt that he, too, had several significant contributions to make. Cam wondered where to start. He wanted to make sure he had a good understanding of the organization and its problems before he made recommendations or attempted any changes. Cam also wondered if he should expect any problems in dealing with George.