

TURNING AROUND COTE CONSTRUCTION COMPANY

By Cynthia Ingols, Professor of Practice
School of Business, Simmons University, Boston, MA

Tupper F. Cawsey, Professor Emeritus
Wilfrid Laurier University, Waterloo, Ontario, CA

Gene Deszca, Professor Emeritus
*Lazaridis School of Business and Economics,
Wilfrid Laurier University, Waterloo, Ontario, CA*

INTRODUCTION

When Liam Cote decided to help his cousin Felix Cote turn around his business, he had no idea that things were as bad as they were. Liam knew that the bank's loan was coming due and the company could not pay it. However, Liam was shocked at the number of other problematic issues there were at Cote Construction. In his mind, the company's business model was straightforward: renting out specialized heavy construction equipment, either with or without operators, to a relatively easily defined set of customers, that is contractors who needed such equipment. Liam believed that the business had solid prospects that could sustain a solid return on investment. However, it certainly was not doing so now. Perhaps the strategy was clear, mused Liam, but things were a mess!

Nevertheless, three weeks earlier, Liam and Felix had signed papers at their local bank and at their lawyer's office. Based on Liam's reputation as a successful entrepreneur and his willingness to make a significant investment to improve liquidity, the bank agreed to renegotiate the operating loan and line of credit. This would provide the company with the breathing space needed to execute a turnaround. At their lawyer's office Felix authorized Liam to take on the role of CEO, while Felix became Head of Equipment and Operations.

After they signed the various papers, Liam and Felix enjoyed lunch together and then returned to the workplace to set up Liam's office. Since Liam was optimistic—and wanted—Felix to be an active partner with him in the areas that Felix found compelling, Liam took the office down the hall from Felix. While the office was slightly smaller, Liam wanted to send a signal that Felix was still an important partner in Cote Construction. About 4 p.m., Liam went to look for Felix and learned that he had left the offices an hour earlier with no word about where he was going or if he would return for the day. Alice Williams, the bookkeeper, said that Felix had stayed in the office later than he usually did and she did not expect that he would return that afternoon.

Liam found the supply room and searched for wall-sized flip chart paper to put up on his office wall. At the top of the paper, he wrote, "Problems at Cote Construction." His first entry was "Felix left the office about 3 pm without communicating to anyone where he was going or what he intended to do." Liam decided that he would give himself three weeks to diagnose what was wrong at Cote Construction and that he would write down every problem on the flip-chart paper in his office. He debated with himself about how he should manage the flip-chart papers: keep them up for all who entered his office to see;

or, take them out each night in private as he added to the list. Liam was still ambivalent as he closed and locked his door at 7 p.m.

BACKGROUND

Felix founded the company in 2003. He had grown it steadily through the first five years, but the Great Recession of 2008 had dramatically slowed construction in the area and Felix's business had been hit hard. In fact, a key competitor went bankrupt. By 2011-2012 the economy and area businesses had largely recovered, and business at Cote Construction began to boom. From 2013 to 2016 there was unprecedented growth in the area and Cote Construction grew dramatically, too. Staff levels more than doubled during the three years to 57 employees. Fifteen employees worked in the office area, handling administrative, sales, and accounting/finance functions. The remainder were in the repair shop, in the yard, or on the road, dealing with maintenance and delivery of equipment.

In the past year, however, sales had begun a modest decline. Other financial indicators showed worrying trends. Margins had gone down by almost 30%, and cash flow was negative. For two years, operating expenses had risen significantly. While Liam wasn't sure why, he thought that equipment purchases had led to higher interest charges and that labor costs had risen dramatically. It was as if Felix and his fellow managers had lost their capacity to manage the company's business and its cycles.

For the previous six months things had gone from difficult to worse. The company's bank loan was coming due. Felix had varied his management approach from requesting to pleading and finally to avoiding issues at work. Because Felix was impossible to find to make decisions or ask questions, employees referred to him as Waldo, after the character in the children's book, *Where's Waldo?*

When Felix turned over decision-making authority and power to Liam, he agreed to focus on what he knew best: the equipment and operations. He had grown up with a love for heavy equipment, and family members said that the only reason that he was in business was so that

he had newer and bigger toys to play with. He had specialized knowledge about which equipment was suitable for which jobs and, prior to the past couple of years, had been adept at developing relationships with customers that generated repeat business. However, the agreement and Liam's arrival did not reverse Felix's disappearing act. To his direct reports he seemed depressed and distant, with little appetite for assuming a more active operational role in the business.

DIAGNOSING AND ARTICULATING THE PROBLEMS

As Liam began to investigate the problems at Cote Construction, he was shaken to find a culture of permissiveness and waste. As he walked through the parts and maintenance areas, he found parts, tools, and equipment scattered about. Grease on the floor made walking a risky proposition. Pizza boxes, pop cans, and bottles were littered around. He thought he smelled liquor on some employees. He observed lateness and absenteeism were problems. No one seemed to be doing anything about these matters. Part of the problem was a tight labor market: supervisors were afraid if they reprimanded employees that they would walk.

The housekeeping within the administrative office area was somewhat better than in other parts of the operation, but it still left much to be desired. Some employees smoked in work areas despite no-smoking rules. Dishes often sat in the sink of the small kitchen area and it was only when left-over foods began to smell did someone in the office begin the task of throwing away old foods.

While Liam noted problems to address on the flip-chart papers in his office, he took immediate action when necessary. One day, for example, Liam smelled alcohol on the breath of an employee who appeared to be under the influence. He fired him on the spot. On another day Liam entered the workspace of people with dogs and asked, "Are these employees or pets?" The next day the employees—but not the dogs—came to work.

After reviewing sales information, Liam also found himself wondering about the source

of orders. Most came from brokers rather than directly from customers. Taking into account their fee, he determined that Cote Construction was losing money by relying on brokers. Liam phoned one of their customers who regularly leased their equipment through a broker. After chatting and thanking the customer for doing business with Cote, Liam asked the customer why they did not place orders directly. The customer responded, "Because you never called us before!" Before he ended the conversation, he had a \$50,000 work order placed directly. When Liam relayed this conversation and its results to the sales staff, they were at first defensive. Further conversation assured Liam that the sales staff wanted to make money, but they seemed unsure as to how they should change their sales approach.

During his third week, Liam noticed that certain pieces of equipment that had been in for repair in week one were still inoperable. He asked, "Why?" He was told that the maintenance supervisor was in a dispute with the field service foreman and sales staff over the allocation of repair and maintenance charges, and as a result, needed repairs had not been undertaken. The argument had been going on for more than a month, and he was told this was not the first time. This resulted, Liam noted, in lost rental sales. He blew up and called an urgent meeting of those involved. He ordered the equipment to be repaired immediately and stated that this was no way to resolve conflict. When Liam went back to his office, he added "unclear lines of authority" to his list of issues on the flip charts.

The accounting and finance area had difficulty providing the performance data that Liam requested. When he asked them to calculate the profit margin for each piece of equipment, the initial response was "Why do you want that?" After he explained his rationale to them, they began pulling together the information. But, employees in other departments saw the new cost reporting requirements as more paperwork that might get in the way of sales and servicing.

When Liam began to explore equipment repair invoices, he noted that many expensive repairs had been done on-site at their clients' premises. Much of the work looked routine but was made much more expensive because of the location and because the company had to negotiate

with clients over operational losses incurred while the machine was down. Liam wondered why the equipment hadn't been serviced prior to leaving the shop. When he inquired, he learned that there was no formal preventive maintenance program in place. Back in his office Liam added more problems to his flip chart list:

1. No formal preventive maintenance system
2. Questionable inventory management system; missing parts in some areas and excess inventory in others; and a significant volume of obsolete parts that were held in inventory
3. Missing tools and equipment, including some big-ticket items, such as a \$35,000 loader and a \$25,000 compressor
4. Sales relationships not actively managed; clients not phoned in a timely manner; customer complaints not acted upon until threats were invoked
5. Logistics, scheduling, customer delivery and pickups, and on-site servicing of equipment not handled well. Customers complained about downtime and their inability to predict when tasks would be accomplished
6. Lags between order fulfillment and client billing; slow payment of accounts payable
7. Poor relations with suppliers of parts and equipment, due in part to slow payment; disagreements over terms and conditions; and lack of supplier responsiveness to emergency requests

In an inspection of the operations Liam found seven new tires and rims stashed behind a building. When he checked purchasing invoices, he learned that nine had been bought the week before. On further investigation, he was told that no new tires had been counted on any equipment. Liam could not locate the missing two tires and rims, worth more than \$2,000 each. It was a low point for Liam as he concluded that employees might be stealing from Cote Construction.

However, Liam thought that many members of the firm wanted to do a good job. That was the sense that he got as he visited departments, talked with individuals one-on-one, and heard about their frustrations. Still, he did have a few concerns. Some employees resented that others seemed to come and go as they wished. He had listened to one customer complaint about late delivery of equipment and learned that the person delivering the machinery had stopped for three hours on route. The driver's excuse was lunch and engine problems that had miraculously resolved themselves. Employees' morale was in the toilet, but turnover had yet to become a problem.

HOW TO BEGIN THE TURNAROUND

As Liam sat in his office, he stared at the flip-chart sheets on his walls. During his first week, he had put up the sheets and began listing every issue or problem that he or others identified. After three weeks, there were now more than

two dozen items. With this substantial list, Liam thought that he had a handle on the magnitude of the problems at Cote Construction. What he needed to do now was come up with a plan to address them. To begin, he had a number of decisions to make:

- What problems should he tackle first? Which were operational and which were organizational? What timeline should he establish?
- How should he consider the people in the company? What should he ask them? How should he approach them to solicit their ideas for the turnaround?
- How should he deal with Felix? Should he allow him to continue as head of Equipment and Operations? Should he sideline Felix and formally reduce his authority at Cote Construction? Would it, in fact, be a relief to employees to know that Felix no longer played a role in the company?