

A CONSULTANT'S DREAM OR NIGHTMARE?

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Overview

Lee McBride was not your usual student. He had run his own company successfully, retired early and was now ready for an encore career. He had a strong interest in devoting some of his knowledge back into the not-for-profit community. To fulfill this aspiration, he was headed toward becoming a CPA. Dr. Horton, one of his faculty members, saw a perfect opportunity for Lee to begin developing his consulting skills in this arena as part of Lee's final senior honors project. So under her supervision, and with the approval of the Whispering Pines board chair, Lee was well positioned to begin his first "consulting assignment." Dr. Horton and Lee met in her office to go over some general guidelines for facilitating a successful consulting engagement. The primary focus of their conversation was on gathering information about the organization to use as a starting point. Lee was confident but a touch apprehensive. Would he be able to bring something of value to the client? That afternoon, the project began. Lee recounted the experience.

The Engagement

The phone rang at exactly 3:30 in the afternoon. "This is Lee McBride. How may I help you?" Lee answered.

"Hello Mr. McBride. This is Tim Hayden from Hayden Architects."

"Hello, Mr. Hayden, the name's Lee. What can I do for you?"

"Well Lee, I need a little help and your name came up. I was wondering if we could meet for lunch sometime so I can explain things."

"It would be my pleasure!" responded Lee.

When Lee arrived at the lunch meeting, Hayden wasted no time: "Lee, I need some outside help. I recently accepted a position on the board of directors of Whispering Pines, a retirement home here in town, and I have quickly realized that I am in over my head." Hayden went on to explain that when he was recruited he was told that the position was "mainly honorary," and that there was not much to do as a director. Hayden confided in McBride that he accepted the position out of a feeling of obligation. The by-laws of Whispering Pines required all of the board of directors to be members of the Society of Friends, commonly referred to as Quakers. Whispering Pines

had a history of having trouble recruiting board members because of this and, after doing some soul searching, Hayden determined that he felt a sense of duty to “step up to the plate and accept the position.” “In retrospect,” he told McBride, “that may have been a mistake. I don’t have a background in business (and neither do any of the other board members), but even I can see that the place appears to be a total mess. I can’t seem to get a clear answer or reliable financial information from the board treasurer, Marge Upman, and I’m afraid that Whispering Pines may be in serious trouble. It appears that we are losing money with our business model and surviving on donations, but I can’t be sure. I don’t have the time or the expertise to dig into the operations and see what’s wrong. I’ve heard good things about you and want you to take a look at the situation and give the board some recommendations. Will you do it?”

“Mr. Hayden,” he still hadn’t told Lee to call him Tim, “I’d love to. I try to help out local non-profits when I get the chance. I realize that they sometimes just don’t have the management expertise to solve some of the problems they face and can’t afford to pay anyone to help. Tell me a little more about Whispering Pines.”

Hayden went on to share the following details: Whispering Pines was founded in 1927 as a retirement home for members of the Society of Friends. Over the years, this affiliation requirement had relaxed and now anyone could be admitted. While called a “retirement home,” Whispering Pines was technically just a boarding house that provided rooms and meals for seniors. It was not a licensed nursing home, but the staff dispensed medication that family members provided (without taking formal responsibility for doing so). Hayden stated that, as far as he could tell, this “work around” was based on the assumption that as long as Whispering Pines had less than nine residents the state would not consider a nursing home designation, although, Hayden stressed, “no one can really tell me where that number comes from.”

Whispering Pines was run by a manager who reported to the board treasurer. Hayden was not quite sure what the manager’s duties and responsibilities were, but he did know that she collected the rent, planned the meals, and purchased the groceries. “Exactly how she does those things and what type of controls the board has in place is unclear,” sighed Hayden. Very little financial information was available and the board made decisions based largely on opinions and perceptions. “I have a suspicion that we are losing money each month and that we’ve reached the point where we don’t have any reserves left to cover the monthly losses, but there are no financials available to confirm or disprove this. We have the capacity for nine residents but currently we only have seven, and it doesn’t look like we’re breaking even. That is an overview but you need to know I don’t feel confident about the validity of any of this information.”

“Okay,” Lee said “get me a copy of the by-laws, all the financial information you have, and anything else you feel may be valuable to me. Then tell the other board members what I will be doing and have Marge Upman tell the manager that I will be stopping by for a tour of the facility and to interview her about the operation. Please make sure that the manager knows she can be open and forthcoming with me. I’ll also want to talk to the other board members. Can I come to the next Board Meeting and meet everyone?”

“Sure, do you think you’ll have anything for us at that Board Meeting?” Hayden asked.

“Perhaps, but I am sure that I will also have a lot of questions. My thoughts are to look into the operations of the facility and then, at the next board meeting, look into the operations of the board. After I do that I can give you my recommendations.” With that, the business part of the luncheon was over and the two men sat back to enjoy their food over some inconsequential talk.

Information Gathering

McBride decided to devote the next day to research. First, he went on the Internet and did a search for “Whispering Pines.” It turned out the facility did have a website, although there was not much on it aside from some pictures of the facility and a history of the building. Next, he researched the state requirements for a boarding house versus a nursing home and found that a boarding house claims no responsibility to care for its residents, whereas a nursing home does. He made a note to discuss this with the manager, particularly in light of the fact that Whispering Pines employees appeared to be dispensing medication to residents. In order to get to the bottom of the issue of the number of residents influencing the type of business (nursing home or boarding house), he called the State Fire Marshal since boarding houses fell under his jurisdiction. The Fire Marshal told him that there was no arbitrary limit on the number of residents of a boarding house and that the determination of maximum occupancy would be done during an inspection of the property. In no case would a boarding house become a nursing home just because of the number of residents. The Fire Marshal further stated that the maximum occupancy had probably been determined in the past during a fire inspection and that perhaps had been misinterpreted by the board over time to mean the distinction between a boarding house and a nursing home. Based on what he was learning about this board, the Fire Marshal’s response made sense to McBride.

Since it was a nice day, Lee decided to go and do a “walk-about” to get a first impression of the facility. Parking his car about a block away, he walked toward the building. It was set back from the street about 100 feet. Lee could tell that the house had once been the residence of prominent citizens but that it had fallen on hard times. The trees and bushes were overgrown, the flower gardens had turned to patches of weeds, and the lawn was in desperate need of mowing. The only driveway terminated at the back of the house next to some trash containers. There was no identification sign at the entrance to the driveway off the side street although there was a sign at the front of the property facing the main street. A hand lettered sign reading “Storage Space for Rent” marked the entrance to the driveway. Frankly, thought Lee, the facility did not look appealing.

Two days later, Lee called the facility to see if the manager had been told about him and to hopefully schedule an appointment. The manager herself, Gail Goodbroom, answered the phone and told Lee that he would be welcome anytime. Apparently she had gotten the word. There being no time like the present, Lee jumped in his car and was on his way to meet Gail.

When Lee arrived he was a little confused. Parking was at the back of the facility next to what looked like the kitchen door. Not being sure of where to go in, he decided to use the walkway and go to the front of the house. Bad choice! No one answered the front door when Lee knocked. In fact, it looked like the front entrance wasn’t being used at all. The porch and

furniture on it were in need of a good cleaning. Lee gave up and returned to the back door, knocked, and was greeted by Gail. The discussion and tour that followed were eye-opening.

Lee was pleasantly surprised to find that, unlike the exterior, the interior of the building was in great shape. Things were neat and orderly with fresh flowers and a collection of well-tended antiques. Most of the common rooms had dark oak paneling and many of the bedrooms had colorful, floral wallpaper. During his conversation with Gail, McBride learned that she was responsible for all facets of running Whispering Pines. She collected the rent from the boarders and made the bank deposits. She planned all of the meals and purchased the groceries. Gail hired the part-time help and set the schedule. As someone must be on-duty at all times, the total number of part-time staff varied between four and six (although only one was usually present at any given time). Gail usually worked from 7:00am to 3:00pm Monday through Friday and prepared breakfast and lunch. The part-timers filled in the rest of the time. Gail managed the payroll and paid all the other bills as they came due. She made sure the residents' rooms were cleaned every other week and coordinated any necessary repairs to the building.

McBride also discovered that Gail completed these tasks with very few checks and balances in place. She did not prepare a detailed list each month showing the date and amounts of rent payments from each resident. In fact, in general she provided only the account totals to Marge, the board treasurer. She purchased all the groceries at a local market with a debit card so the funds were automatically deducted from the Whispering Pines account. Gail reconciled the checkbook on her own at the end of each month. If she had any specific questions or problems she called Marge, but since Marge spent the winters in a warmer climate, Gail was left to decide things for herself much of the time.

During the tour of the building McBride made note of several potentially serious facility issues that would need to be addressed with the board. He also noticed pillboxes on the dining room table, which made him feel uneasy. After the tour, Lee said goodbye and was about to leave when he looked back and said, "Gail, I've got one more question. Tell me about the residents' medications." Gail looked a little embarrassed as she answered, "Marge tells me not to get involved in handling the medications, but that's just not possible. The families of the residents are supposed to put the pills that the resident takes each day in a container and then we hand them out. However, most of the time the family either gives the whole bottle of pills to me or the pills are delivered here directly from the pharmacy. I put the pills in the individual containers and we keep them here in the kitchen, passing them out at each meal as appropriate. Marge just doesn't seem to understand that if I do not get involved in the residents' medications, they just wouldn't get them." "Okay, thanks." Lee said, and with that he was gone.

The next day McBride received the packet from Hayden containing a copy of the by-laws, some financial information from the past few years, and the application that each resident is required to fill out. McBride noted with dismay that the financial information was limited to a simple operating statement with virtually no supporting data. There were no balance sheets or cash flow statements and it was clear that even the most basic accounting concepts, such as depreciation, were foreign to the Whispering Pines board. McBride reviewed all of the documents provided by Hayden and, together with the information that he had collected, prepared his thoughts for the board meeting.

The Board Feedback Meeting

Marge called and told Lee that the Board meeting would take place the following Saturday at 10:00 a.m. She indicated that the meeting would be held at Whispering Pines instead of at the usual place, which was a local restaurant, as one of the board members had some architectural drawings of the building and the subject of getting the building recognized by the state as a historic landmark would be on the agenda.

Saturday came and Lee was at Whispering Pines at 9:45 a.m. He didn't want to be late but need not have worried. Mr. Hayden arrived right before 10:00, but none of the other board members showed up until around 10:30. The meeting finally got underway at 10:45. After being introduced to everyone McBride was asked to speak, but requested to be last on the agenda so he could get a sense of how the board operated and include that in his comments. The board agreed and for the next three hours Lee sat back and took it all in. The majority of the meeting concerned the possibility of getting the State to recognize the building as a historic landmark. There were four Board members at the meeting, two of whom were architects. When all other business was finished Lee was called on to speak. He began, "I am a little confused. The by-laws call for a 12-member board. There are only four here, which isn't even a quorum. Where are the other board members?"

"That's been an ongoing problem," responded Marge. "The by-laws call for all board members to be members of the Society of Friends. That limits our potential board members and we have a hard time getting anyone to serve. At the present time we only have four board members. We do have an unofficial policy that you cannot leave the board until you find a replacement for yourself, but that doesn't work very well." There were nods of agreement from the other board members. "Interesting," McBride said, "your board members must be Friends, but your residents don't have to be. Is that correct? And, why must the board members be Friends?" "Yes, that's right," Marge responded. "Board members must be Friends because that's what the by-laws state," she said with a look that conveyed that she thought McBride was a little slow on the uptake.

Lee pressed on: "My next question revolves around your desire to have this building designated as a historic landmark. You've spent most of the board meeting discussing this and it begs the question as to how this fits in with your statement in the by-laws that you exist to provide a retirement home. I need to ask, are you a retirement home operating in a historic building or are you a historic preservation group operating a retirement home?" McBride's questions prompted several minutes of discussion with no clear answer on the part of the board.

McBride then pointed out that Whispering Pines was incorporated as a non-profit religious group, yet the only discernable connection to religion was the requirement that board members must belong to the Society of Friends. And that, "With the tax authorities clamping down on non-profits who claim to be religious groups but do not demonstrate that fact through their operations, this issue should be of some concern to the board. You may lose your preferred tax status because your operations do not follow your Articles of Incorporation, which state that you are a religious group providing a retirement home to your members."

“Leaving this subject, let me tell you what I found while touring the facility. Residents’ medications were on the counter in the kitchen, available to anyone at any time. There did not seem to be a clear indication of which medication was for which patient. The fire extinguishers had not been serviced for three years. The State Fire Code requires them to be serviced annually. You have a chairlift on the back stairway to transport residents up and down. This chairlift requires an Elevator Operating Permit. You must know this since the operating permit is posted at the bottom of the stairs next to the chairlift. However, the permit expired two years ago and has not been renewed.”

“In my discussion with Gail,” Lee continued, “it became obvious that there are no checks and balances with the finances. Gail collects the rents, makes the deposits, uses the debit card, pays the bills and does the payroll all on her own. She even reconciles the bank statement. Marge, your financial reports are based solely on what Gail tells you with no possible way to verify the information since Gail doesn’t even have receipts for the expenditures. Finally, there don’t seem to be any formal minutes of board meetings or any formal financial reports. The financial report presented today is not dated and contains no backup detail justifying the expenditures.”

It was clear that Marge could stand it no longer. “Wait a minute,” she said. “Are you making an accusation that we are doing something inappropriate? If so, I take offense. I’ve been doing this job for almost 12 years and I have full faith in Gail. No one is doing anything wrong!”

“Let me ask you this,” McBride responded, trying to calm the situation down, “Have you ever had any money problems with an employee?”

“Well yes,” said Marge. “A past employee left with about \$400 of our money. We never did get it back.”

“Did you trust that past employee before they stole from you?”

“Yes.”

“That’s exactly my point. We always extend trust and then wonder why that trust is abused. I am not saying that Gail, and you, are not honest. All I’m saying is that when a business extends trust it needs to have systems in place to verify that trust.” McBride clarified.

At this point, Mr. Hayden jumped in. “Lee, now that you’ve educated yourself on Whispering Pines, why don’t you go back and prepare a report that we can use to improve ourselves. Please be honest and tell it like it is. We understand that you’re looking at this situation from the outside in. Tell us what we need to do.”

“My pleasure,” Lee replied (trying not to hide his doubts). “I’ll have something to you within the next week.” And with that the meeting was over.

The Next Steps

Lee McBride's head was spinning. "What have I gotten myself into?" he asked himself on the drive home. "These people can't make up their mind on why they exist. Some of them seem more interested in the building than the residents. Some of them are defensive. And only Tim Hayden realizes that they are not breaking even and will soon run out of funds. What should I do?"

Lee was trying to assess how the consulting engagement was going. He had to prepare for his meeting next week to go over his progress with Dr. Horton. He had just briefly reviewed the situation with her by phone and she had asked him to focus on the following two items:

1. Preparation of a 2-3 page draft summary report of important findings organized using McKinsey's 7S framework. Dr. Horton had explained to Lee that this framework had been a widely-used tool for organizational analysis since the early 1980s (Fleisher & Bensoussan, 2007). She had told him that it was included in many text books and that there were many excellent resources readily available on the Internet (www.mindtools.com).
2. An analysis of how the consulting relationship was going with an identification of the issues related to his own approach and relationship to the client. For this deliverable, Dr. Horton suggested that Lee use the frameworks and checklists included in Peter Block's consulting classic, *Flawless Consulting: A Guide to Getting Your Expertise Used* (2000).

Lee wasn't sure where to start. How was he going to take all of these issues and make coherent sense out of them? He wanted to be successful in his initial consulting endeavor. Could he have interacted differently with the client and achieved a better outcome and have a better feel for where to go next? He sat down, poured over his notes and began to prepare the two documents for his meeting with Dr. Horton.

References

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