Teaching Note

Leonidas Mining on the Edge

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Critical Incident Overview

Production and profit objectives were not being met by the two-week old Leonidas Mining Philippines Joint Venture with Gab International, USA. CEO Lito made an iPhone call to Ron, Director of Operations (Lito's son) for a situationer. Ron reported that Peter, the Chief Operating Officer (COO), had angrily sent home the operations team (the locals) without pay. The plant didn't have enough raw materials for processing. Trucks were redeployed to a mine site covered with volcanic ash and breccia where a truck broke down, aggravating the situation. Lito asked Ron to join his meeting with the locals. Ron pondered what he could say or do before the meeting. He knew COO Peter's strict command-and-control style of management signaled there was no time for kindness as Leonidas Mining teetered on the edge. The locals need to find the positives and not lose morale.

Case Usage

This critical incident is a decision case suitable for both graduate and undergraduate courses in Strategic Management and Organizational Behavior.

Research Methods

Research methods used for the case and teaching note were primary and secondary sources. The "A" answers from students were from transcriptions of test case discussions. For details, please see the References section at the end of this Teaching Note.

To preserve anonymity, the names of individuals, firms and locations were disguised in the case and the teaching note.

Learning Outcomes

In completing the assignment for a Strategic Management class, students should be able to:

1. analyze explicit and tacit strategies at play when a business is in trouble
2. critique alignment of strategies of key decision-makers in a business
3. generate ways of communicating strategies to achieve multiple strategic objectives

In completing the assignment for an Organizational Behavior class, students should be able to:

1. analyze how affective commitment to a supervisor can bring about a positive organizational climate
2. create ways for a business in trouble to foster organizational behavior that benefits the organization rather than harms it

Discussion Questions

For a Strategic Management class case discussion of 80 minutes:

1. What was the critical incident or turning point for the DOO that Monday morning? (LO1-SM)
2. What was the strategy of Leonidas Mining Philippines Joint Venture to meet its business targets? Was this strategy explicit or tacit? Was there buy-in or resistance to this strategy? (LO1-SM)
3. What were the implementation strategies of the CEO, the COO and the DOO to meet business targets? (LO1-SM)
4. If you were the DOO, how would you align the explicit and tacit strategies with business targets after the critical incident? (LO2-SM)
5. What would you recommend for the DOO to do before the CEO arrives at the plant to meet the team? (LO1-SM)

For an Organizational Behavior class case discussion of 80 minutes:

1. What was the critical incident in this case? (LO1-OB)
2. Was the COO's behavior and decision to stop operations that Monday morning justified, especially after he found out about the CEO's intervention during the weekend crisis? (LO1-OB)
3. What would you recommend for the DOO to do, when the CEO arrives at the plant? (LO2-OB)

Answers to Discussion Questions

For a Strategic Management class (80 minutes, graduate-level)

1. **What was the critical incident or turning point for the DOO that Monday morning? (LO1-SM)**

   Suggested reading assignment: Robinson, Alan and Schroeder, Dean (2006) Ideas Are Free: How the Idea Revolution Is Liberating People and Transforming Organization, Berrett-Koehler Publishers, San Francisco, USA. Chapter 1.
   Relevant insight from the book : Employees are allies in generating and making ideas work for success and sustainable competitive advantage of a company, if management is alert and able to set up an effective process for hearing out and handling their ideas.

   Points to ponder: Rather than get angry for missing targets, the CEO, the COO and/or DOO could ask for ideas from the operations team (the locals) on what to do now: (1) to prevent or minimize truck breakdowns in mine sites; (2) to decide on trade-offs when trucks in the plant need to be redeployed to mine sites ; (3) to find ways to meet targets even under inclement weather and poor conditions of most vehicles. Both CEO and COO need a shared and synchronized strategy to revive and revitalize in the joint venture the innovative, entrepreneurial, profitable practices of the locals working in the processing plant and the mine sites. Is that the turning point for the DOO?

"A" answers from students

Student Answer #1. That Monday morning, the DOO realized for the first time that he was not doing enough to help the locals meet the targets set by the joint venture partners. The locals were sent home by the COO without pay because of that. That was, in the DOO's mind, I think, not the fault of the locals. But the locals in the plant were going to suffer for that by being sent home indefinitely without pay. Wow. There is something wrong there. That is the DOO's turning point. In "Ideas Are Free", engaging employees in strategy-making and strategy-doing is the executive's first task. Note I am not using the traditional terms of strategy-formulation and strategy-implementation. I am using strategy-making and strategy-doing. I coined those words. They are not mentioned in the reading or the case, but I think those were what the DOO's Breakfast Meetings were able to do for Leonidas Mining before the Joint Venture. They were like the Japanese quality circles in the sense that they provided a platform for listening to problems and difficulties in the plant and the sites, and encouraging "implant-able" ideas from operations to grow: initiatives, innovations, inventions. Why can't the DOO re-start now? He is still answerable for them and to them. Now, I think that is his turnaround strategy.

Student Answer #2. The COO's angry remarks at everyone, especially his remark about everyone losing their jobs; and his order to stop operations and to send workers home without pay, all added up to the critical incident or turning point for the DOO. He *is* the DOO. He is not just an understudy. He is the bridge between the COO and the operations team. How can he allow this "scene" to happen in the mine he virtually grew up in? What could he do to be a bridge over troubled waters that morning? He must keep the morale up of the locals *and the*

COO. He must show the locals and the COO that he understands where they were both coming from by engaging them in constructive action together. But what is that action? I like what Ray Winter, president of BIC Corporation, said in Ideas Are Free: “This system has taught my managers *real* respect for their employees. My managers have learned that their employees can make them look awfully good, if they only let them.” So, I would suggest for the DOO, for Ron, to prepare for that meeting with CEO by meeting with Fabian, William and Chris first. He can say to them: “Based on your experience, guys, what is the effect on the daily target if one truck is stalled in a mine site and another truck is redeployed from production to that site? What could *we* do to recover as soon as possible that 40 per cent reduction of our daily target?” If they say only if we have one new truck because all our trucks are four years old now and we can expect more breakdowns, then he must tell them: “Good idea! Let’s propose that immediately to the COO and the CEO when the meeting starts later. Can you share with them what you just told me about our four-year old trucks and about the value-added from just one new truck in this critical month?

Student Answer #3. Leonidas Mining as a joint venture is proving to be more difficult than when it was a family-owned corporation. The DOO assumed that having an experienced COO would improve mining operations and increase the *esprit d’corps* of the operations team and the workers. The COO’s behavior and decisions that Monday morning took the DOO by surprise: too much of command-and-control. That incident made the DOO realize how strategic his role is as DOO in the JV. He must capitalize on his good relations with the locals developed during the years Leonidas was owned solely by their family. The DOO’s role in the JV is to bring them all up to speed with and through their good ideas to achieve targets and to sustain good feelings in going about their work with the JV-installed COO.

2. **What was the strategy of Leonidas Mining Philippines Joint Venture to meet its business targets? Was this strategy explicit or tacit? Was there buy-in or resistance to this strategy? (LO1-SM)**

Suggested Reading Assignments:
Christensen, Clayton (1997, Nov-Dec) “Making Strategy: Learning By Doing” Harvard Business Review, Reprint 97602, 1-12.

Relevant insight from the article: How to recognize and map a driving force and use that to build a strategy matrix.

Value to the case discussion: Strategizing how to deal with driving forces

Noked, Noam (2012, Feb 7) “Recent Trends in Joint Venture Governance”, Harvard Law School Forum on Corporate Governance and Financial Regulation. Retrieved from http://corpgov.law.harvard.edu/tag/joint-ventures/

Relevant insight from the article: A publicly-listed company’s board of directors acts on behalf of a disaggregated body of stockholders, with the principal responsibility for overseeing the development and implementation of the business strategy by management. In a joint venture, partners generally have representatives on the board. The board develops and implements the venture's business strategy based on owners' direct inputs.

Value to the case discussion: The principal governance problem most JVs face is the need to mediate disputes among the owners, especially if there are active board committees. The governing board typically resolves these, but at the cost of much tension at operations.

"A" answers from students

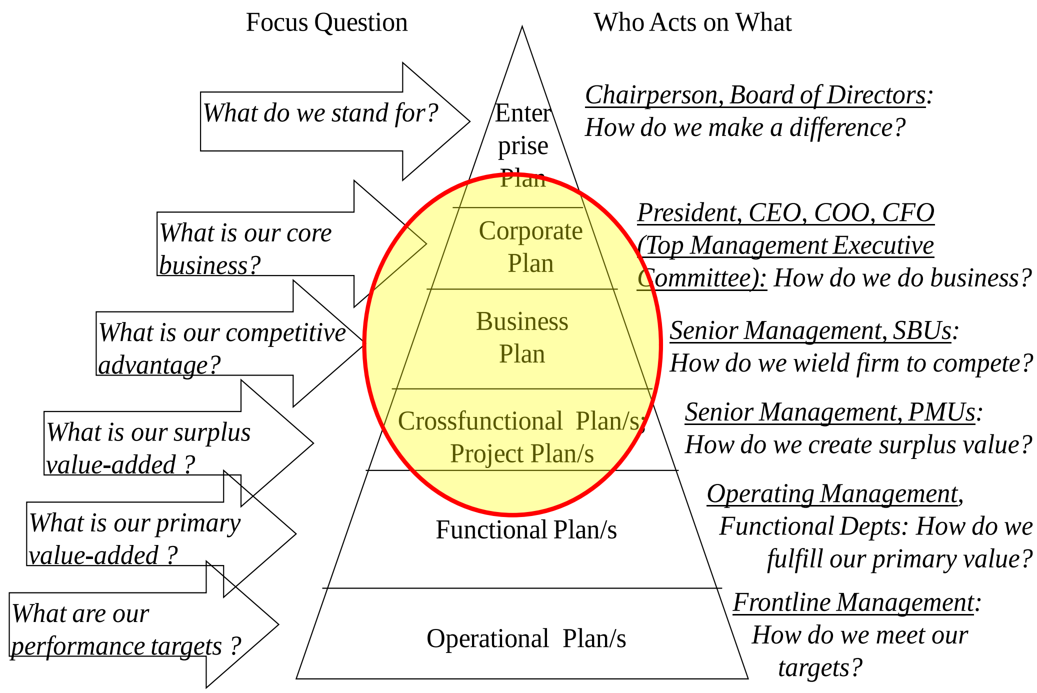
Student Answer #1. The Joint Venture Strategy's objective was to raise the performance targets of the plant so as to increase sales to Chinese buyers and achieve its business targets of profit and return on investments. Was this strategy explicit or tacit? This strategy was explicit at the Joint Venture Board level. Thus, the clear buy-in was at that level. In a JV, however, I think the driving force is really cost containment, because everyone in the venture had put their money in the pot already, so to speak. Thus, I think that high performing plant and frequent Chinese buyers strategy was tacit – not fully expressed and understood - at the Board committee level, specifically the Investment committee level and at the senior management level of operations. I mean, if I were a joint venture partner in the Investment Committee, I would say what is our return on invested capital (ROIC) target here? The burgeoning Chinese market was sending different signals to the boys at the trenches - the operations team - at the plant.

Student Answer #2. What was made explicit by the Investment Committee was the COO's objective: to meet the performance targets set by that Committee for the plant or the mine shuts down. Actually that sounds like an ultimatum already. In my experience, that is typical of JV Committees. Now, I think what happened in the case is the COO used this task objective as his operations group's "step it up" strategy. Please see p.3 of the case: "…*Our* targets were clear…If *we* do not step it up *we're all* gonna lose our jobs!" That has become the main driving force for their operations-level strategy: fear of losing their jobs. The COO said that only on his third week at work. He followed it up with sending the locals home. I do not think there was a clear buy-in to that strategy by the DOO and the locals. It's the DOO's turn to re-frame this task objective as a strategy *for* the locals, *with* the locals and *of* the locals.

Student Answer #3. If we use the Levels of Strategic Planning (See Exhibit 1) that came out from our case discussion, from our class board work, we can see clearly the driving forces through the arrows at every level. The strategy of the Joint Venture Board, would be an answer to the question, "How do we – Leonidas Mining Joint Venture – make a difference in the mining industry?" The answer - the strategy – would be explicit: to be a significant exporter to China of iron ore. However, the critical incident really arises from the base of this hierarchy – this pyramid - of strategies in Leonidas Mining. The strategy of the joint venture at the top of the pyramid is only as good as its strategy at the bottom of the pyramid: its operations strategy. That operations strategy must answer the question "How do we meet our targets?" In the critical incident, the locals were not clear at all about how they will meet their targets daily. The reason is there is no clearly communicated strategy at that level. There is a tacit strategy, which is usually a default strategy. That strategy is to simply follow direct orders of their superiors. None of those orders appeared to have been effective in meeting daily targets. The weakness is in synchronizing the implementation strategies. Let me encircle the crossfunctional and project plans, the business plan and the corporate plan (See Exhibit 1). Was there an operations strategy – a functional plan – put in place to assess the value-added of operations at plant and mine sites? For example, given the targets from the top, have they assessed if they had enough resources – people and vehicles - to meet the targets in normal conditions and in abnormal conditions (i.e. continuous rain)? Did the locals have a Standard Operating Procedure for truck redeployment (i.e. COO confirmation)?

Note: Exhibit 1, reproduced on the next page, was developed with the EMBA students during the test case discussion. The Student Answer #3 applied it to the case.

Exhibit 1. Levels of Strategy Planning



3. What were the implementation strategies of the CEO, the COO and the DOO to meet business targets? (LO1-SM)

Suggested Reading Assignments:
Hogan, A., Mullowney,S. and Pearlstein,M. (2014, Feb) 2014 Global Mining Deals Outlook and 2013 Review: Strategically Picking Up the Pace. Price Waterhouse Coopers LLP. Retrieved from http://www.pwc.com/ca/en/mining/publications/pwc-m-a-industry-briefing-2014-02-en.pdf

Relevant Insight from the Article: Analyzes strategies and strategy implementation moves underlying mining deals in 2013, considered the worst year for mining M&A. Highlights the preference for joint ventures, with a lot of activity by Chinese and Russian players, and a slowdown from Australian, American and Canadian players who tended to watch for stabilization of commodity prices and to focus on their cash costs.

Value to the case discussion: Raises the issue of whether some strategic moves of mining investors and decisions by their representatives to the boards of mining firms are merely financial engineering moves, independent from, and indifferent to, the growth strategies of their target mining company. Foreshadows options available to crisis-ridden Leonidas Mining Joint Venture, and its likely choice.

Reeves, M.C.L. and Tillmanns, P. (2012, Sept) “Your Strategy Needs A Strategy” Harvard Business Review Reprint R1209E, 1-9

Relevant insight from the article: The best way, if not the most common way, for metals and mining firms to achieve their competitive and corporate strategies is through a “shaping strategy”. This is supported by research of successful strategic styles of 120 companies the world over in 10 major industry sectors industries plotted in the 2 x 2 matrix/map of predictability and malleability in the industry The shaping strategy arises from an unpredictable environment of driving forces that are malleable enough for the industry players to change. Other industries that use shaping strategies with success are: professional services, wireless telecommunications services, airlines, hotels and health care technology. In contrast, industries caught in predictable environments that they cannot change are best advised to stick to classical strategies: industrial conglomerates; independent power producers and energy traders; air freight and logistics; and pharmaceuticals.

Value to the case discussion: Recognizing that different business strategies need different strategy implementation plans is critical, because a strategy’s most appropriate implementation does not automatically follow from its formulation. Strategy implementation by a mining firm like Leonidas in an industry needs to assess the relative predictability and malleability of both the macto and micro business environment of the industries. Doing so makes it possible for a firm to develop its own strategic styles, knowing when to use which style in which environment. This is in contrast to strategy formulation that looks at driving forces for the business.

“A” answers from students

Student Answer #1. For the CEO’s Implementation Strategy – to intervene when problems arise, especially among investors and buyers, and in the mine sites, relevant to meeting expectations of investors and buyers. This is a tacit crisis mitigation strategy. Among entrepreneurs or his Chinese buyers, without a crisis, their strategy is opportunity-seeking or opportunistic. For the

COO's Implementation Strategy – to meet targets set by the joint venture by setting and achieving daily production and profit targets at all costs. This is an explicit results-based strategy. This might be a financial engineering strategy on the part of the joint venture partners since they have investments in other industries. For the DOO's Implementation Strategy – at the start, to learn from the COO as understudy (tacit strategy); but by Monday of the third week, the DOO saw the need to play an active role in creating a balance between meeting the business targets and keeping up the morale of locals, especially the team, while simultaneously planning what to say and do when the CEO convenes the operations team meeting that Monday morning in the plant (explicit strategy). My reflection is: do they have a strategy to align their strategies? If they do not realize they need one, then Leonidas cannot play the industry using a shaping strategy. Then I think about our own business. Let me share this: I ask myself do we have a strategy to align strategies? Reflecting on Leonidas, I think an implementation strategy – a strategy for aligning multiple strategies – is tougher to put together than a competitive strategy. It's the people factor. Do not we all have our own Lito, Peter and Ron at the office?

Student Answer #2. The CEO's strategy that morning to meet the locals is still stop-gap. The DOO's strategy is unfolding as a more focused implementation strategy. He is becoming more aware of his own role and responsibility in plant operations and the survival of Leonidas Mining. He is the one most familiar with the impact of truck breakdowns and redeployment on meeting the targets – whether under the old or new management. He also knows how the operations team addressed these challenges in the past. The DOO needs to help the COO articulate an operations strategy to show how he and the locals – the operations team, the workers, the drivers, the gatherers at the mine sites - should work together to implement the joint venture targets seamlessly. As the case unfolded, the DOO had just relayed the COO's orders and instructions – which are not implementation strategies. I appreciated the PwC industry report because I saw that Leonidas Mining's operations problem at the time of the case, 2013, is a function of the slowdown of M&As and the increase in JVs in mining at that time. The PwC outlook for 2014 was optimistic: increase in M&As of small and medium sized mines. Having said that, all the more the DOO and the COO must work together beyond the JV toward an M&A.

Student Answer #3. Building on the Harvard article, the CEO's shaping strategy seems to be focused on how Leonidas Mining's performance and performance reports can be communicated to meet Chinese buyers' requirements. Taken in the backdrop of the PwC report, Chinese buyers are here to stay and the CEO has an excellent way of using his time building relationships with them. Are they – the Chinese - open to being JV partners, and not just buyers of black sand? Shaping and implementing strategies toward that objective is really a job for the CEO.

On the other hand, the COO's shaping strategy is to meet the targets set by the Investment Committee of the American Joint Venture using all means possible, including having 'workday holidays' like that Monday. The COO can call off work if there are not enough raw materials gathered for the processing plant. That way he keeps within his cost targets. This sounds more like a financial management strategy, not operations management strategy. The COO has a CFO background. For me though, this is dangerous. That PwC report suggests that JVs are temporary.

The DOO's current shaping strategy is to observe and relay instructions to the operations team as understudy for the near-future when he will be the COO. That seems to be the weakest strategy.

This is also dangerous for the survival of Leonidas. The DOO must reassess his shaping strategy so that it is value-creating for him, the team and management. His earlier practice of breakfast meetings suggested that he had something similar to quality circles when he was on top of operations and still a family business. He should reintroduce that practice to draw out the positives from the locals, and on occasion, with top management. He should be conscious that he can and should shape strategy "from above" and "from below". This is what we call (in the Philippines) a *bibingka* strategy. The ricecake – the *bibingka* – is baked by having charcoal-based fire from below and from above. The DOO should know how the joint venture set those targets: did they get it from performance data of other small mines in the Philippines and the Asian region? Assuming a yes, this is like the fire from above in the *bibingka*. He should study how those mines are performing . He should make Leonidas at least be at par with their performance. Then, he should fuel the fire from below by sharing what he learned about the other mines with the locals. He should inspire them to at least be up to speed with other small and medium mines in portfolios of JVs, rather than encourage them to negotiate for lower targets.

4. If you were the DOO, how would you align the explicit and tacit strategies with the business targets after the critical incident? (LO2-SM)

Suggested Reading Assignments:
Van Den Steen, Eric (2014, March 21) "Sustainability of Competitive Advantage" Industry and Background Note. Harvard Business School Press, Boston, Massachusetts, USA

> Relevant insight from the article: Sustainability of performance comes from explicit and tacit strategies generically at play in two forms: imitation from other firms and dissipation of performance by changes in at least one of the performance drivers.
>
> Value to the case discussion: Does it make sense for Leonidas Mining as a joint venture to stop imitating its past strategy? If yes, which mining firm's strategy can be its model for imitation?

Harvard Business Essentials. (2006) Strategy to Implementation: Seeking Alignment (excerpt from Strategy: Create and Implement the Best Strategy for Your Business), Harvard Business School Press, Boston,Massachusetts, USA

> Relevant insight from the article: Practical alignment checklist integrating 7S McKinsey Framework and other strategy implementation practices provides a good starting point for strategy alignment.
>
> Value to the case discussion: The checklist can be used by Leonidas Mining at the time of the case to identify what strategy implementation practice/s must be introduced to improve alignment

"A" answers from students

Student Answer #1. If I were DOO, my first point of alignment would be to support the COO. McKinsey 7S comes in handy. I have to sort out the Hard “S” –strategy, structure and systems – from the Soft “S” – shared values, style, skills, staff. I can be staff to the COO and maybe I can teach him my style with the locals. He can teach me his style with our joint venture bosses. I can follow through the implementation of his orders with the operations team by making them explicit in terms of “to do” lists for the team: that is structure. But I can make it more human, too, if I do it during breakfast or lunch or in a friendly atmosphere. That is style. If they knew the impact of one redeployed truck on the production targets, they could have said “no” or “not now” in a nice way to the locals, or even to the CEO. I think what is missing in both Ron and Peter is a tacit relationship-building strategy to go with their explicit results-focused strategy. It is Lito that has that tacit relationship-building strategy which he practices with his Chinese clients and with the locals and old-timers.

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Student Answer #2. My take on this is: strategy alignment is a give-and-take management challenge. It is not about the implementability of content or design of strategies that will bring profitability. Two weeks is really the normal “adjustment–alignment” period of strategists and strategy, respectively. The key to unlock this strategy stalemate is identifying what competitive strategy can be imitated from competitors and encouraging the imitation. That is my take-away from that Van den Steen reading.

Student Answer #3. The Leonidas Mining strategies were not aligned, and that is why they cannot deliver results. The locals need a strategic planning session with their DOO – not with the COO or CEO – so the locals know the new JV strategy. I arrived at that conclusion because I put myself in their shoes and answered the strategy alignment checklist of 7 questions. All my answers are ‘NO’.

1. Do our people have the skills now to make this new strategy work? NO. So, what skills training or coaching are needed in a JV?
2. Do our people appreciate and support this new strategy? NO. So, what will make them appreciate it? More stability in their jobs? How?
3. Do our people have the resources they need to be successful at implementing this new strategy and meeting its targets? NO. Is there need to purchase at least one more truck? In other words, is this new JV strategy backed-up by resources?
4. Do we have recognition and rewards system aligned with this new strategy? NO. Recognition is a good start.
5. Are our units organized to support this new strategy? NO. Vehicle maintenance is a blindspot.
6. Are our activities like cost management and processing supportive of this new strategy? NO. There seems to be no awareness about comparative cost implications of trucks redeployment vs. trucks filled with raw materials stalling for more than one day in a mine site.
7. Is there a good match between our culture and this new strategy? NO. However, the culture of being a hardy people can be a good starting point. Stories be told about how small mines imitated strategies of other mines and ended up with better results.

5. **What would you recommend for the DOO to do before the CEO arrives at the plant to meet with the team? (LO3-SM)**

"A" answers from students

Student Answer #1. The DOO should give a pep talk to the operations team before the CEO meets with them. The first thing he should tell them is his dad the CEO learned about what happened that Monday morning with the COO and so, he is on his way to meet them. This is important to keep their morale up. To break the ice and open the discussion about solutions, he can start by saying let's pretend this is one of our breakfast meetings: What is one big problem at the plant today that we all want to solve? They will most probably say keeping their job. Others will say meeting daily targets. If I were Ron, I will show that industry-strategy map quadrant in Your Strategy Needs A Strategy. I will show them that mining and metals are clustered with industries you least expect to be in the same quadrant like hotels. What are hotels doing that we can "copy"? Having a motto like "Mining with a smile", taken from "service with a smile" might be a good start.

Student Answer #2. He should meet with Fabian, the plant manager; Jake and Roger the operations supervisors; Chris, the warehouse manager and William the field accountant. Together they must quickly prepare calculations for how daily targets can be met 100 percent, focusing on a "dedicated trucks" and "no desert mine" twin strategy during the six months of the rainy season. Absolutely no redeployment. Absolutely no gatherers in mine sites surrounding the volcano. Only smaller vehicles can be reassigned to a mine site in case of vehicular emergencies. He should also have a projection of how this "Absolutely" strategy will not only meet targets but will exceed them after three months. Should this happen, he should then propose the purchase of another truck for the plant while raising their targets by 10%.

Student Answer #3. This is a challenge of communicating strategy for the purpose of getting a buy-in rather than formulating strategy. If I were Ron, I will tell them stories about iron ore mines and their miners in Australia like Rio Tinto and Citic Pacific Mining. They are both big now and recipient of awards for environmental management. But they both started small and had their hard times but remained steady for many years because they worked with one purpose: to bring iron ore to the world so that it can be a better place to live in. I will tell them we are a young mine compared to them. We cannot give up now when other countries are now aware of Filipino miners. Let us show them we are the best miners in Southeast Asia to partner with. Leonidas, the leader-soldier the mine is named after, never ran away from any battle. The Spartans and the Greeks trusted his leadership and strategy and fought behind him. We are already partners of choice for our American joint venture partners and our Chinese regular buyers. We cannot compromise our best now.

For an Organizational Behavior class (80 minutes, undergraduate level):

1. **What was the critical incident in this case? (LO1-OB)**

Suggested Reading Assignments:
Moore, Ali (2015, Aug 31) "When a Slump Hits a Vast Iron Ore Mine in Australia." BBC News Report with videoclips. Retrieved from http://www.bbc.com/news/business-34082850.

> Relevant insight from news article and embedded videoclips: For those who are studying mines for the first time in the case, this news essay has embedded pictures of the iron ore mine and short videoclips of interviews with Cloudbreak Mine miners in Western Australia during the slump. This is also an excellent visual introduction to the logic of the business.
>
> Value to Case Discussion: Better appreciation of what "critical" incident/s are to miners and mining companies; challenges the student to think of what criteria to use to select critical incidents in mining for study, e.g. from perspective of management and team development *or* technology innovations that allow machines to "talk to each other", reducing risks for people in high-risk industries and eventually redesigning their jobs.

Watkins, Michael. (2001, Sept 19) "Assessing Your Organization's Crisis Response Plans" Industry and Background Note. Harvard Business School Press, Boston, Massachusetts, USA

> Relevant insight from article: Provides ten principles to guide crisis response planning, organization, and learning. Includes a table to use as a tool for evaluating the adequacy of an organization's plans.
>
> Value to the case discussion: Includes a 10-question assessment tool for crisis recognition and response plans.

Bambale, Abdu Ja'afaru (2014) "Relationship between Servant Leadership and Organizational Citizenship Behaviors: Review of Literature and Future Research Directions" Journal of Marketing and Management, 5 (1), 1-16

> Relevant insight from article: Literature review revealed that the effective functioning of organizations can be significantly increased by affective commitment to and by supervisors, organizational citizenship behaviors and servant leadership.
>
> Value to the case discussion: Provides frameworks to show how affective commitment to a supervisor and affective tone by a supervisor lead to organizational citizenship behavior. The framework also explains how their respect and affection for their CEO and DOO make them go the extra mile for them.

"A" answers from students

Student Answer #1. The critical incident was that display of anger by the COO in the presence of the operations team and the DOO. This looks like an "insulted ego" incident but it's really about the organizational structure. The outburst came after he learned about the redeployment of the trucks used in the plant by the CEO – bypassing him as COO - because a truck stalled in a mine site. He learned about this after he had just mentioned to the team about having a drinking party to celebrate reaching the production targets. This incident is critical because it raised issues about how operations is organized: (1) the clarity of the chain of command in crisis situations and the importance of recognizing a crisis before it spreads; (2) how the affective commitment of the operations team to the new COO are affected by the COO's visible swings of behavior from being jovial with them to being angry at them.

Student Answer #2. The critical incident is like a coin. Its head: The COO, Peter, sent workers home early without pay. He stopped operations indefinitely. Its tail: When the CEO found out about that work suspension, he immediately called for a face-to-face meeting with the locals, Ron, the DOO and Peter, the COO. The incident is critical because its 'bad story' – the head of the coin – has a flipside that appears to promise a 'good story'. The critical incident – the whole coin – is in the DOO's hand. It gives Ron the opportunity to engage the operations team in contingency planning. It also gives him reason to clarify with top management, especially with the COO, pre-set crisis management protocols.

Student Answer #3. Our Learning Team used the framework in the Bambale reading, simplifying it a little as you will see in our slide. (Their slide is reproduced below. It modifies Fig.2: Suggested Servant Leadership-Organizational Citizenship Behaviors Framework in Bambale, 2014).

Independent Variable	Mediating Variable	Moderating Variable	Dependent Variable
Leadership	• Trust • Commitment • Identity	• Task Interdependence • Affective tone – positive or negative affectivity	Organizational Citizenship Behavior

We liked the idea of organizational citizenship behavior as individual behavior that is discretionary. We also think that an incident of organizational citizenship is a critical incident. A critical incident need not be a crisis. It can be a new way of thinking about what it means to work together.

Our example: those plant operations supervisors of Leonidas Mining who worked on a weekend, presumably during bad weather, without guarantee of overtime pay. When their CEO called them to deploy trucks on a Saturday night to "help" a stalled truck, they knew there was more. Why would their CEO be the one to call them on his iPhone to help a stalled truck on a weekend? The context and the tone of the order – the personal iPhone call to the oldtimers of the mine in operations –is a request to go beyond the call of duty. This incident is not just a test of obedience or chain of command – organizational behaviors. This is a test of commitment and trust and a source of identity. We are all in this as one family. This incident cannot be dismissed as habits of the old dispensation and a breach of the chain of command.

Sure, the operations team truck driver would have additional raw materials to bring to the plant by helping the mine site's truck driver, truck helper and gatherers but that is not really helping them: that is recognizing task interdependence. Beyond that, the positive affectivity – from the word affection – that the plant team displayed to the driver, helper and gatherers on that weekend was the bigger incident. Were they able to bring enough water for them to drink?

COO Peter in fact raised the ante for that weekend team: he called off work, with no pay. I think that is to remind them he will not tolerate "citizenship" behaviors if it sacrifices meeting corporate targets. That makes sense too. However, following the Bambale diagram, the "Peter" leadership and organizational behavior earned negative affectivity. That means he can be sure that if he should ever be stuck in the mine sites or even on the road from the city to the mine site, his rescue will be slow. The negative affectivity of the locals toward him moderates or dampens any commitment to him beyond obedience to the authority he wields in the corporation.

Finally, our learning team also has this insight: if COO Peter will show later that he trusts the operations team, that he is committed to and identifies with Leonidas Mining, not just the Investment Committee or Gab International, then perhaps positive affectivity can develop between him and the operations team. They may also go the extra mile to meet the targets.

2. **Was the COO's behavior and decision to stop operations that Monday morning justified, especially after he found out about the CEO's intervention during the weekend crisis? (LO1-OB)**

Suggested Reading Assignment
Morgan Roberts, L., Spreitzer, G., Dutton, J., Quinn, R., Heaphy, E. and Barker, B. (2005 Jan) "How to Play to Your Strengths" Harvard Business Review Reprint R0105G, 1-6.

Relevant insight from article: Shows how applying the Reflected Best Self (RBS) exercise could help managers discover where they can be at their best. Also highlights that a company that is managed with a focus on positives – like trust – is most likely to increase its bottomline than those companies who aren't.

Value to the case discussion: Introduces a "reflection tool" for any CEO, COO and the DOO to use to know how they can be at their best to meet set targets, rather than how meeting targets can make them be at their best.

"A" answers from students

Student Answer #1. Calling off work was the right thing to do. Even if it were done for the first time in three weeks, the justification is clear: there were not enough raw materials for the operations team to process. There was nothing new about that reason. How the COO gave the order that Monday, expressing his displeasure with the CEO's weekend intervention and announcing that he will call him to send the trucks back, were all not justified. Calling off work could have come across as a punishment for the weekend team and an insult to the CEO for giving direct orders. Peter, the COO, didn't know how to play to his strengths. He is good at target-setting but he didn't seem up to speed in team-building. Here is how he could have approached the situation: "I appreciate your going out of your way to help the miners whose truck broke down last Saturday. A good thing done is its own reward. Now, I need your help, too. What do you think we should do now, because *we* are missing targets again? Can *we* just call off work temporarily?" I think with that approach, some of the oldtimers among the locals could have said, "Can some of us volunteer to work on certain days without pay until we have enough raw materials? This is for your father who helped us through many years."

Student Answer #2. The COO's actions were not justified, aware as he was that he was working with a people with a different cultural orientation from him. The behavior will most likely be forgiven in the Philippine/Asian setting where the local culture is polite, friendly, with an aversion to confrontation. It will not be easily forgotten though. Thus, it's the DOO's turn to take the initiative and use this opportunity to sit down with the management of operations and put together a clear plan.

Student Answer # 3. The COO, Peter, appeared to be under a lot of pressure to meet targets on this third week. He lost his cool and "barked at the wrong tree". That sudden change of behavior toward the team is not easy to justify. It might be wise for the CEO, Lito, to spend some time with Peter to give him constructive feedback, and reintroduce himself not just as CEO but also the "Chief Coach". I learned that from my father when we hired a non-family COO for our family corporation. My father was his Chief Coach. Lito must inform the joint venture partners that the behavior of the COO, Peter, is unacceptable and demotivating, but can be improved. He must inform the JV that he is coaching Peter. After the RBS exercise in an informal setting with him, he can then ask Peter to take a day off to just relax. After that day off, CEO Lito must ask if he is still up to the job. If the honest answer is no, the JV's recruitment for a new COO must begin immediately.

3. **What would you recommend for the DOO to do, when the CEO arrives at the plant? (LO2-OB)**

Suggested Reading Assignment
Anchor, Shawn (2014) The Happiness Advantage: The Seven Principles of Positive Psychology That Fuel Success and Performance at Work. Crown Business, New York, USA.

Relevant insight from article: Research-based case studies illustrate principles of positive psychology for "work-play" balance.

Value to the case discussion: Introduces memorable characters and situations in the case studies to better remember and apply the principles.

"A" answers from students

<u>Student Answer #1</u> A salient point in the Happiness Advantage is the Social Investment Principle. It reminds managers that it is important to provide a social support network. This is what I would recommend for the DOO. The DOO must try to build support networks among his operations managers, the workers, the truck drivers, the gatherers. He won't be able to do this before the CEO arrives but he can tell the CEO that he has revived his breakfast meetings in order to build social support networks. That way there is a mechanism to focus on the positives.

<u>Student Answer #2</u> When the CEO arrives, the DOO must have a small diagram to capture the Zorro Circle principle from the "Happiness Advantage". This principle is about turning efforts at work into small manageable goals. For example, meeting the production targets daily is a big goal with small goals. One small goal is to have X amount of raw materials gathered for each mine site. Another small goal is to have Y trips of the trucks to the mine sites to collect those raw materials needed for processing in the plant. Another small goal is having enough raw materials so the plant team can begin processing the raw materials gathered. Another small goal is packaging the iron ore. And so on. Following the Zorro Circle principle, the DOO can then report to the CEO and COO that he is organizing mentoring circles for each goal, from the gatherers all the way to the packers of the processed iron ore.

<u>Student Answer #3</u> The DOO must, in the presence of the team and the COO, approach the CEO, upon his arrival with an earnest expression and request for a one-on-one meeting. In his one-on-one meeting, he must make sure that his father listens and nods to everything he says even if it is not audible to the team and the COO. He must frame all his three important recommendations in a way they will each get a nod from his CEO-dad.

First, he says he has talked with the team and the COO separately, and he is convinced they can meet half way regarding the targets. This should bring the first nod. Second, in his talk with the COO, he had suggested that on the first year of the joint venture, targets would be quarterly average targets rather than monthly as the COO familiarizes himself with the Philippine weather. The COO said he will raise that option to the investors. This should get the second nod from his CEO-dad. Third, he should end by telling his dad that he would have the cold drinks ready for the team and the COO tonight and he is cordially invited. This should get the third nod and a smile from his CEO-dad. The important thing in this approach of visibly seeing the "nodding" is for the locals and for the COO to <u>see</u> how the DOO can make the CEO agree to anything he says about what he had discussed with them. He needs to deliver this message to all if he is to take on a more active role as a credible DOO.

Epilogue

Ron, the DOO, talked with the operations team and the COO briefly and separately before the CEO arrived about reviving his breakfast meetings. This was welcomed by the operations team and the COO. Ron then reported to the CEO that he revived these meetings as a steady and daily mechanism for sharing of ideas, working together to find solutions to problems, creating buy-in to innovative ideas. The CEO was happy to learn that the COO was invited to participate at any time in the breakfast meetings. The CEO promised to also participate at least once a month.

A week later, the DOO met with the COO and CEO to propose that they (the DOO and operations) be allowed do a “pilot” where: (a) they will group the mine sites into two: priority mine sites and lahar desert mine sites; and (b) they will adopt a no-redeployment policy for trucks, assuming daily maintenance checks. The DOO discussed the pilot with the COO who, at first, approved it for one month. This was the DOO’s way of introducing an operations strategy and establishing baseline data for target setting.

The results of the pilot showed that the targets given by the Joint Venture Investment Committee were set too high, and not realistic given the extreme weather conditions and the condition of the trucks. The team proposed different performance targets for rainy months and sunny months which, if averaged, can meet the original performance targets set, on a yearly basis. The COO did not agree.

Targets were not met for the next 12 months even if there was an additional truck servicing the plant. The Joint Venture Investment Committee had issued three ultimatums to the CEO and COO, each one lasting for three months.

Optional: The Penultimate Board Meeting

“The Penultimate Board Meeting” is a short case about what happened after the ultimatums were issued, It can be given as an handout, or flashed and read from powerpoint slides in class. Before the students begin reading the case, the professor could then ask them to think of themselves as the CEO of Leonidas Mining and to raise their hands as the option they would choose are called out by the professor.

The Penultimate Board Meeting

Ron arrived early at the Board Room. He looked around the photographs of Leonidas Mining in the boardroom walls and pressed the button that played the video describing the business, shown during his very first meeting with the new board of the joint venture just a little over a year ago:

“The processing of iron ore fines begins with the gathering of raw materials or raw sand from the nearby mining sites. Heavy equipment such as dump trucks, backhoes, and bulldozers are deployed in certain areas in the desert for the loading and transportation of raw materials, as well as road pavement by the use of a bulldozer for the trucks to pass through. After gathering raw materials, the trucks would then transfer these into the conveyor of the machine wherein the raw materials would then go through a magnetic separation process. After the black sand or the iron particle has been separated from the white sand, the black sand would then be sucked into a spiral concentrator for refinery. After the black sand goes through the spiral concentrator, it is then emitted via tubes to the finished goods area.

“The main challenge that the company faces is sustainability. It was never able to produce enough finished goods to even reach the break-even point. This was mainly because of the problems that the company encounters every day. Whether it may be equipment breakdown, shortage of raw materials, extreme weather conditions, communication problems between the

mine sites and the plant, and even problems with local government officials, there would always be something that would hinder the company from reaching its daily target output."

Ron's recollection was interrupted when his CEO-father and the board members began to arrive. He pressed the stop button for the video, and took the seat beside his CEO-father.

The meeting began with the reading of the Opening Statement of the Joint Venture Partners by the Corporate Secretary, as soon as all the Board members received their copies:

"We had gone through three ultimatums (from the joint venture investors). Each ultimatum ran for three months. We voted for an extension of another three months. This company, Leonidas, was never able to self-sustain its operations. It depended on the investors for its operating expenses. Hence, the investors were always in a position to stop operations. They were the only source of funding. In this meeting, the joint venture investors would like to present three options to the company CEO, if he still wanted to keep the company from shutting down:

Option 1. The company, Leonidas Mining, will be operated solely by the American Investors' own management team. The CEO will still be paid his monthly salary but he will no longer have any participation in any decision making within the company.

Option 2. All of the company's urgent payables and operating expenses will still be shouldered by the Investors but any additional advances coming from them will be deducted from the shares of the company CEO.

Option 3. Winding down of operations. In the event that the company CEO refuses to accept either option A or B, the Investors will cease infusing capital and will resign as board members and as company officers."

If you were the CEO of Leonidas Mining Philippines Joint Venture, what option will you choose?

After students have read *The Penultimate Board Meeting*, and had a show of hands for options they chose, with the professor counting and writing on the chalkboard how many students chose which option, the professor can then flash the following in a powerpoint slide or a transparency (not distributed) for the class to read silently:

"Leonidas Mining Philippines Joint Venture winded down its operations after the Joint Venture Investors resigned. The CEO had earlier embarked on new negotiations with other possible joint venture partners. A year and a half later, Leonidas Mining resumed operations with a Chinese joint venture partner."

Note on the Method of Selecting the "A" Student Responses to Questions in this Teaching Note

1. The September 2014 original version of the case, which was submitted to and presented in the Society for Case Research conference in March 2015, was the version that was taught in two classes:

    a. Strategic Management course of an Executive Master in Business Administration class composed of senior managers, representing Filipino, American, Indian, Turkish, Singaporean nationalities, with an average age of 43 years old; and
    b. Organizational Behavior course of a Business Management class composed of college seniors, representing Filipino, American and Chinese nationalities, with an average age of 21 years old

2. The September 2014 original version of the study questions and the readings for the case were included in the casepack of the students.

3. The best three student responses to each question in this Teaching Note were selected from the transcripts of the case discussions in the two courses. The process of selection was as follows:

    a. Two readers - one of the case authors and one professional case researcher – read and graded the raw transcripts of the two videotaped class case discussions. The raw transcripts did not identify the names of the students. The readers did the reading and grading in separate locations. During the grading period the readers did not communicate with each other in any way.

    b. The two readers separately rated each response to each question using the following rating guide:
    A – excellent, analyzes and evaluates case in the light of the readings, personal observations and experience, creates fresh insights and new scenarios for application
    B - very good, builds on case facts, readings, personal observations and experience, applies to similar situations
    C - good, describes the case and relates it to the readings
    D – pass, able to understand the case

    c. The process for selecting the student answers for the questions in the teaching note followed three steps:
        i. responses which were rated "A" by both readers were used in the teaching note
        ii. responses which were rated "A" by one reader and "B" by another were re-read and re-graded by the two readers. If the re-grading of a response does not result in "A" ratings by both readers, that response is discarded
        iii. responses which were rated "A" by one reader and "C" by another were re-read and re-graded by the two readers. If the re-grading of a response does not result in "A" ratings by both readers, that response is discarded

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