

Leonidas Mining on the Edge

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Introduction

“Chewed out?! Sent home without pay?!” exclaimed Lito de Guzman, President and Chief Executive Officer (CEO) of Leonidas Mining Philippines Joint Venture. Using his iPhone, he called his son, Ron de Guzman, the Director of Operations (DOO) at the mines in northern Philippines for a situationer. That Monday, Ron reported to him trucks were redeployed from the plant to mine sites in the Lahar Desert, a large area that contained breccia and boulders mixed with rain water and lava flow from the volcano. A payload truck filled with raw materials stalled there since Saturday. By Ron’s calculation, with only the other trucks left, there would be a 40 percent reduction of the daily targets. Peter Sanders, the new Chief Operating Officer (COO), had angrily sent home without pay the operations team, who were all locals. Lito told Ron, “Stay put. I want to talk to the team with you. I’m just 15 minutes away.”

Ron had been impressed by Peter’s strict command-and-control style of management to meet production and profit targets. Meeting these goals was necessary for Leonidas Mining to survive. He was becoming more cautious though about how Peter related with the locals. The locals were a hardy people: polite, friendly, with an aversion to confrontation. They were with the operations team from the start. He recalled how his father treated them with respect and kindness. They reciprocated by going the extra mile, working voluntarily on weekends, even if they sensed that the corporation was teetering on financial distress. Ron pondered: “These past two weeks working with Peter signaled there is no time for kindness. Daily targets must be met at all costs. The locals need to find the positives and not lose morale. What should I do now?”

Leonidas Mining Philippines Joint Venture

Leonidas Mining Philippines was an all-Filipino family corporation founded by Lito, who was its Board Chairman, President and CEO from 2011-2013. It reorganized into Leonidas Mining Philippines Joint Venture in early 2014 with its partner, Gab International, headquartered in the United States of America, with its newly opened Asian office in Hong Kong. Gab International was diversified into industrial real estate, alternative energy, and mining. Leonidas Mining Philippines Joint Venture kept Lito as Board Chairman, President and CEO, along with two other

board directors and the Independent Board Director. Gab International brought in three board directors who also constituted the Investment Committee.

Leonidas Mining's main business was the production of iron ore, a mineral used in steel production, exported mainly to China. It had a total of 107 employees, and 95 of them were in the operations unit. The plant was set up in the Zambales region in northern Philippines, geologically tested and found to be rich in metallic minerals such as iron ore and titanium. The production process would start with the gathering of raw materials from the mine sites surrounding the plant site. This was followed by the extraction of iron ore from raw materials using magnetic separation in the processing plant. To meet its daily targets for raw materials gathered and finished goods produced, Leonidas Mining had to fully utilize all of its heavy equipment: seven dump trucks, four payloaders, three backhoes, and two bulldozers.

The COO, the CEO, and the DOO

A month after the joint venture agreement, Leonidas Mining started to perform poorly because of production setbacks: heavy rains that slowed down the gathering of raw materials, trucks breaking down, and inadequate monitoring of operations. A new COO was quickly recruited: Peter had experience as COO and CFO of manufacturing companies in the United States and Australia. His mission was to increase production using all means possible.

The CEO agreed to Peter's appointment as COO, believing his experience would speed up the corporation's turnaround. Lito wanted the DOO - his son, Ron, an MBA graduate - to take over Leonidas Mining someday so he constantly reminded Ron to learn as much as he could from Peter. Lito spent most of his time building relationships with Chinese firms but he didn't miss reviewing daily performance reports. He would give direct orders to operations to avert crises.

Ron had been with Leonidas Mining since it started. He began his working day having breakfast meetings with Fabian, the plant manager; Jake and Roger, both operations supervisors; Chris, the warehouse manager; and William, the field accountant. These meetings focused on the action plan for the day and issues related to people and production. His daily routine was to walk around the 10-hectare processing plant interacting with workers. He joined truck drivers as they made their way through the mine sites. These person-to-person interactions made the locals open to communicate with him. In turn, he learned about their concerns.

Peter and the Operations Team

Peter's first link to the plant was Ron. On his first week, he asked Ron to deliver his instructions to the locals: heavy equipment deployment, adequacy of manpower, and release of funds to purchase supplies. On his second week, he began exerting his influence, speaking directly to Fabian, giving direct orders, with Ron present and ready to follow-up implementation. That Monday morning of his third week, Peter was optimistic as he greeted Ron while he made his coffee at the staff house, located only 500 meters from the plant. "It's going to be a great day today," Peter said. "I see good sunny weather outside. All trucks should be available. All workers should be present." He was expecting good news from the plant and mine sites. The past two weeks had unfolded with daily disappointments: trucks breaking down, unfavorable weather conditions, shortage of supplies, and inadequate manpower. These problems prevented Peter from reaching his daily targets for production and cost control. Disappointed but

undaunted, he told Ron: “This could be a start of great things to happen.” He was entrusted with a bold mission: he was determined to succeed. “I can’t wait to see Fabian and the rest of the gang! Ron, you better get the cold drinks ready for tonight’s celebration,” Peter said. He smiled as he imagined himself delivering the good news to the joint venture investors later that day.

“Good morning boys! How are you doing today?” Peter greeted Fabian, William, and Chris as he approached the field office. “We’re doing great, sir. How about you?” replied Fabian, with a hint of nervousness in his voice.

“I’m good, thanks. So, how did we do with last night’s delivery?” Peter asked. The delivery he referred to was the raw materials the gatherers picked from mine sites in the morning, placed them in the afternoon in trucks that drove back to the plant at night. The amount of tonnage collected determined processing levels. “I’m afraid we are short on our deliveries again, sir,” Fabian answered anxiously.

“Haha! You’re kidding me, right? I could still remember your exact words last Friday, Fabian!” Peter exclaimed as his jovial mood started to shift slowly into agitation. “Yes sir, I know. But one of our trucks broke down in the middle of the Lahar Desert. It had to be pushed by one of our bulldozers back here. Lito gave an order Saturday night to have two of the trucks and two payloaders sent there,” Fabian answered. Ron calculated in his mind that with only five trucks and two payloaders, there would easily be a 40 percent reduction of daily production targets.

“Aarrgh! Fabian, our targets were clear last Friday! If we don’t step it up we’re all gonna lose our jobs! Don’t you understand that?! I thought I told you to inform me if *anything* happens!” Peter barked angrily. “Peter, Ron, this is not our fault. We did not want the truck to break down and who are we to say ‘no’ to the CEO’s orders?,” William responded calmly.

“I don’t care. I’ll talk to Lito to bring those trucks back here. I’m stopping operations until we get enough raw materials. Fabian, send the workers home. It’s no use paying them if we’re not operating!,” Peter exclaimed, fuming as he walked away. Ron saw that Peter was under stress.

Ron’s Dilemma

Ron understood that missing daily targets repeatedly could mean closing down Leonidas Mining, but he was alarmed at how Peter reacted. He sent operations staff and workers home without pay, and indefinitely. If this kind of treatment of the locals continued, they might lose their morale and become unproductive. Ron’s experience of working with these men taught him they were sensitive and not used to this kind of aggressive approach. The last thing he wanted was for the plant to close down and for the workers, whom he saw as his friends, to lose their jobs. He pondered: “What should I do to avoid this kind of situation from happening again? Should I talk to Peter, the team, or should I wait for my dad first?”

