

# Case Study



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How should a business owner handle a conflict between two senior managers?  
by *H. Irving Grousbeck*

## When Key Employees Clash



The Experts



**Jim Southern**, managing director at Pacific Lake Partners



**Peter Kelly**, former chairman and CEO of Pacific Pulmonary Services

The caller ID on Matthew Spark's phone read "Kid Spectrum, Inc." It was someone from the Orlando office, probably administrative director Ellen Larson. She had been in daily contact with Matthew since he purchased the company, a provider of in-home services for autistic children, eight months ago. He appreciated Ellen's eagerness to help him build the business, even if she was sometimes high-maintenance. Kid Spectrum's previous owner, Arthur Hamel, had told Matthew that Ellen, with nearly two decades of experience in health services, would be one of his biggest assets.

"Matthew, it's Ellen. I don't want to bother you again, but we have a situation down here."

Matthew sat back in his chair and readied himself. The "situation" could be anything from the copier running out of ink to the building catching on fire.

"I'm calling about Ronnie," she said.

Ronnie Emerson was director of clinical operations in Orlando, a position Matthew had created soon after taking the reins at Kid Spectrum. Ronnie, whose son

had Asperger's, had been working with special needs children his entire career and had been with the company for a decade. The other 40 clinicians on staff regularly turned to him for advice. So it had seemed like a no-brainer to promote him to a formal management role.

"He's not up to the job," Ellen said now.

"That's a strong statement, Ellen," Matthew said.

"I know, but it's true. He's still resisting the new protocols for time sheets. It's been eight months, and he has yet to complete them on time. You know the impact that has on insurer reimbursement. And he's hardly ever here in the office."

"He's supposed to be in the field 50% of the time. He still has clients."

"It's more like 95%. I haven't seen him since Thursday, and you know I'm always around."

Matthew sensed that Ellen was exaggerating, but he couldn't be sure. Managing the Florida-based business from Chicago was proving to be difficult. He had bought Kid Spectrum through a search fund; a small group of Illinois-

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based investors had given him money to find an undervalued company and make it more profitable. Their only hesitation about this first venture was Matthew's plan to run it from a distance. In fact, one investor had suggested he move to Florida for a while. But Matthew was still meeting regularly with the investor group about other potential opportunities. And his wife had no interest in relocating; with two kids under five, she wanted to be near her family.

"He doesn't get that he's a manager now," Ellen said. "Not only does he fail to comply with your new systems, but he doesn't seem to care if his clinicians do. I mean, he barely blinks when they call in sick. Right after Memorial Day we had 14 people out, and he didn't do a thing. We spent the entire day scrambling to find subs."

"Well, that's certainly not optimal," Matthew said, worried his inexperience was showing. Before forming the search fund, he'd spent four years at a venture capital firm and then three years as president of one of its portfolio companies—a medical device maker. Until Kid Spectrum, that had been his only operational role.

"Ellen, I really need to find out more before passing judgment on Ronnie. I know he's more laid-back than you, but..."

Matthew regretted his words immediately. Ellen was sensitive about the fact that people thought she was uptight.

"Have you talked to him about any of this?" he asked quickly.

"I mention the time sheets every time he calls in, and he promises to get to them. But then nothing."

"I'll be down next week for the clinical team meeting. I'll check in with Ronnie then. Like I said, I really need more information."

"Well, you're not going to get it in a day trip," she said. "Besides, he'll tell you everything is all right, that the clinical team needs more time to get used to all the new systems. But from my perspective it's not time that's needed. It's effort. Ronnie makes things really difficult for the office staff."

"I'll see if I can come down for longer, maybe a week or two." He wasn't sure how his wife would react, but he knew that this was important. He tried to say good-bye, but Ellen kept talking.

"When you took over Kid Spectrum, you said you wanted to run it more efficiently, more profitably. I remember your saying that in the main conference room when we first met you and again in your welcome e-mail." She sure had a keen memory. "So," she said, "I'm just trying to help you make good on your promise."

### Another Perspective

The team meeting had run long, so most people rushed off to their next appointments. Matthew, who used the conference room as his office when he was visiting, opened his laptop to check e-mail but then noticed that a senior clinician, Maxine, was lingering in the doorway.

"Maxine, can I help you with something?" he asked.

"You're getting an earful from Ellen about Ronnie, aren't you?" Maxine closed the door behind her.

Matthew was alarmed by her candor. The few times he had met with Maxine, she had seemed quiet. Was Ellen bad-mouthing Ronnie around the office?

"Well, I can guarantee he's not as bad as she says," Maxine said. "He's a really good guy. Y'all did the right thing by promoting him."

"I'm glad to hear that."

"You know, he's told us about the new systems, like the one for turning in our hours, and we understand why they're important. But Ronnie doesn't drill down on us like Ellen does. She's way too intense for how we do things here. She always has been. She's supposed to be supporting us clinicians in our jobs, but she acts like we're here to serve her. In my opinion, Ronnie focuses on what matters: the patients."

"The patients are important," Matthew said, trying for diplomacy.

"He understands what they need more than any of us, really—with his son and all."

"OK, Maxine. Thanks for that input."

She turned to open the door, then paused. "If you ask me," she said, "Ellen's the one who's trouble."

### Two Sides to Every Story

Later that day Matthew was in his makeshift office waiting for Ronnie, who was nearly 20 minutes late for their 3:00 appointment.

Clearly, Ellen and Ronnie had completely different work styles. But Matthew's plan for Kid Spectrum's reorganization and growth hinged on collaboration between the administrative director and the director of clinical operations. No one else had the right skills and experience for those roles.

Ellen and Ronnie didn't have to be best friends, but he couldn't let the tension between them turn into an "us versus them" battle between the clinicians and the back office. That could completely derail his expansion strategy.

"I'm so sorry I'm late." Ronnie walked in and shut the door behind him. "I was with a client, Harry. Eight years old, such a good kid, but he's struggling with school, and his aide seems like she wants to give up. But we were making such strides today."

Matthew appreciated how dedicated Ronnie was.

"How are you doing?" Ronnie said. He always asked as if he really wanted to know.

"I'm good, I'm good," Matthew said.

"But I wanted to see how things are going with you and your team, particularly with the new systems, the time sheets."

"Well, we're easing into them, you know. These clinicians aren't worker bees. They're used to being with kids, helping kids, so they need time."

"We could do another training session if you thought it made sense."

"No, no, I don't think that's necessary," Ronnie said. "We just need more time. All this emphasis on efficiency is new for us. We're dealing with some rough cases, families under a lot of stress. You can't just zip in and zip out because that's what a time sheet calls for."



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Matthew nodded. "Of course, the client comes first."

"Right. That's what's kept us in business for so long."

"But we won't *stay* in business without becoming more profitable. When Arthur owned the company, he struggled with cash flow because reimbursement was so slow. No insurer will pay us without the proper paperwork. If we want to grow the business—and help more kids—we need to follow these new protocols. And we can't have a quarter of our staff out every holiday."

"I know who's complaining about that. Ellen. She acts like we're in the military. Time sheets on time. No one gets sick. It's just not realistic. She was obsessive before, but now it's getting ridiculous." Ronnie paused and swallowed. "It's like you've given her a license to be more uptight."

"As the administrative director, she needs accountability from you and your team, Ronnie."

"And she has it. But I need a certain amount of flexibility so that I can meet the needs of the kids. And, frankly, she needs to back off." Ronnie's face had turned red. This was the most worked up Matthew had ever seen him.

### Nip This in the Bud

As he walked through the entrance of Austin's Coffee, Matthew saw Arthur Hamel already standing in line. Arthur's tan was a shade deeper since their last encounter.

"Retirement treating you well?" Matthew asked him.

"Very well," Arthur said. "But I miss the office, the people. The golf course is far less exciting."

"Thanks for meeting me," Matthew said as they sat down.

"My pleasure. I told you I'd always be available. You spending more time here? Have you convinced that wife of yours to get more sun in her life?"

"No, not yet. But I've been down for the past few weeks, trying to sort out some issues in the office."

Arthur raised an eyebrow.

"It's Ellen and Ronnie." Matthew explained the growing animosity.

"Those two were always a bit like oil and water. Ellen wanted more protocols, more stuff she could control. It sounds like it's gotten worse. Maybe the new power has gone to her head."

"But we need those things if we're going to grow the business—"

"Yes, that's what was limiting us before. But Ronnie is the heart of that office. He always has been. I hope you're not thinking of demoting him, are you?" Arthur asked.

"I've considered it, but there's really no one else who could fill the role. And my investors have no interest in expensive outside hires. Besides, I think that would only solve half the problem."

"That's right. Ellen isn't going to go easy on anyone in that position."

Matthew thought about all the nagging e-mails to Ronnie that Ellen had bcc'ed him on during the past week. She sent them even when Ronnie was in the office, sitting five feet away.

"What do your investors say?"

"I haven't brought it to their attention yet. It's not hurting the bottom line, but it could, especially if reimbursements continue to come in so slowly, and if all this tension hurts morale."

"Exactly. You need to nip this in the bud."

Matthew cringed. "I know, I know. That's why I've been down here. I was hoping a solution would come to me if I could see what was actually happening."

"And?"

"They're at each other's throats, and I'm honestly not sure I can have them in the same office anymore. But I do think they're both just trying to do their jobs. Ronnie needs to get with the systems, and he promises he will. I know all the clinicians like him, which is most important, right? And Ellen is looking out for the business—following my protocols for the staff—even if she may be going about it in the wrong way."

"Have you sat down with them?"

"Individually. Not together."

"It sounds like you're stuck between a rock and a hard place," Arthur said.

Yes, Matthew thought, between Ellen and Ronnie.

How should Matthew manage the hostility between his employees?

See commentaries on the next page.



## The Experts Respond



**Jim Southern** is the managing director of Pacific Lake Partners, a private equity fund, and was the CEO of a large national printing company for 10 years.

**NO MATTER** how engaged Matthew is, being a four-hour plane ride away is bound to lead to suboptimal management, which is likely to depress returns for investors in the company. It would be better for him to be in Orlando on a day-to-day basis. That said, he can materially improve the situation by taking some simple steps.

Ellen is not the issue. Yes, she is overstepping her duties and rattling the cages of people who do not report to her, but she is conscientious, cares about the business, and is attentive to detail. We need more Ellens.

Ronnie is clearly an excellent clinician who believes in the company's mission and is well respected by his peers. So we also need more Ronnies. But when we promote someone like Ronnie out of his comfort zone to take on a management role, we must provide guidance and oversight to help the new manager make the transition effectively.

Matthew doesn't need to sit Ronnie and Ellen down and ask them to "play nice." Instead he should seek to preserve Ronnie's reputation and set him up for success. Matthew can start by meeting privately with Ronnie to quantify the value of adherence to the new time sheet

protocol. The annual payroll for 40 field clinicians is about \$1.2 million; the annual billable revenue is perhaps \$2.8 million, if the staff is efficiently deployed. It's likely that the late time sheets cost the company several hundred thousand dollars a year in accounts receivable and payroll expenses.

### Matthew doesn't need to sit Ronnie and Ellen down and ask them to "play nice."

Matthew should explain to Ronnie the economic value of the new protocol so that Ronnie will recognize his own role in providing needed cash to support and extend the company's mission, which he cares about deeply. Matthew and Ronnie should establish a daily cutoff, say 9:00 AM, by which clinicians must submit the previous day's time sheets. Ronnie should be tasked with consolidating them into a simple spreadsheet that he and Matthew review each day at 10:00 AM sharp. Time sheets received after 9:00 should

be ignored and flagged as late in the next day's spreadsheet.

Matthew and Ronnie will quickly begin to identify which clinicians tend to be late with their time sheets. Ronnie can then coach the slackers about how to change their behavior. Adherence will improve dramatically once Ronnie makes clear to his team that he considers timeliness to be vital to the company's mission. After a few weeks, preparation of the daily spreadsheet can be transferred to Ellen, who will undoubtedly relish the task.

If Ronnie is unable to execute this plan, Matthew must consider other options, such as trying a different clinician in Ronnie's role or hiring an outsider who has both clinical and managerial skills. Whatever the fix, Matthew should keep Ronnie. He is a valuable team member, if not an adequate manager.

To manage his team effectively, Matthew must accept that not everything will go as planned. Ronnie, for his part, must set explicit expectations, follow up with employees who break the rules, and praise those who are the most caring, efficient, and compliant. Supporting Ronnie in this would be easier if Matthew were present, not a thousand miles away.



#### WHAT WOULD YOU DO?

SOME ADVICE FROM THE HBR.ORG COMMUNITY

**I WOULD** meet with Ellen and Ronnie separately, apologize for not creating an environment that allows them to be successful, and explain the other's side without judging the behavior. Then I'd bring them together, reiterate what I'd said in private, and let them talk.

**Karen Corliss**, owner and principal, Pack Systems Engineering

**MATTHEW LACKS** the experience and skills needed to lead a negotiation or to coach Ronnie and Ellen to resolve their conflict. He needs to bring in a professional mediator who can reach a resolution that benefits the combatants as well as the organization.

**Mel Blitzer**, senior partner, Partner2Win

**MATTHEW SHOULD** explain to Ronnie and Ellen that they are both right but then ask them to resolve the problem. He can lay the figures on the table and make clear that customer service and profitability each need to be part of the solution.

**Harjit Singh Takkar**, VP and regional head, branch banking Punjab, IndusInd Bank Limited



**Peter Kelly** lectures at Stanford Graduate School of Business and IESE Business School. He is a former chairman and CEO of Pacific Pulmonary Services, a home respiratory-services provider.

**TO REMEDY** this tenuous situation, Matthew must have two goals. One, keep the business running in the short term. Two, coach and evaluate Ronnie and Ellen to determine whether they can be part of a highly functioning management team.

In separate meetings with Ronnie and Ellen, Matthew should start by taking personal responsibility for having aligned their work goals poorly. Next he can explain how the business requires both good patient care and accurate, timely billing. Those two elements require a productive working relationship between the directors, even if they don't like each other. He should solicit Ronnie's and Ellen's input on how to achieve this aim and also tell them that they will be evaluated on three main parameters: how their own department performs, how the *other's* department performs, and how well they collaborate personally. He must emphasize that mutually achieving key results is critical to their leadership roles.

Then Matthew needs to sit down with Ronnie and Ellen together, briefly review what he said to each of them separately, and as a team develop specific metrics for the departments and a plan to achieve them. It would be wise to use objective, weekly measures that the three can review together, such as completed time sheets, claims paid, and patient-satisfaction

**ELLEN COULD** meet with some of the families that the company serves and solicit feedback from those clients. Ronnie needs to look at a balance sheet to see how his administrative shortfalls are endangering the business and the very families he wishes to help.

**Ariane Brandt**, owner,  
*Eutechnia Consulting*

**Matthew should make a concerted effort to coach these two employees before he replaces either of them.**

scores. If Ellen and Ronnie receive bonuses, they should be tied to the achievement of those targets.

Matthew can also require Ronnie and Ellen to spend time in each other's shoes. Ellen might regularly take one day a month to shadow a clinician and fill out time sheets. In the office, Ronnie could enter time sheet and other data, as well as collect from insurers. Until each has experienced the other's world firsthand, Matthew should pay little attention to further complaints from either of them.

Matthew would be well served to schedule weekly meetings, preferably in person but perhaps by Skype or phone, so that the three can review results, adjust plans, and address disagreements that will naturally arise between the departments. He should also continue to meet one-on-one with both managers to coach them and let them vent. This will allow him to quickly assess whether each is up to being a manager as the company grows. (Ideally, Matthew would move to Florida, spend most of his time there, or recruit a local president. It's extremely risky for an inexperienced CEO to run a new business from afar.)

All of this challenging, interpersonal work will give Ronnie, Ellen, and, by extension, the company the best chance to succeed. Granted, it's hard for people to significantly change or repair damaged relationships. Therefore, Matthew should have a plan for recruiting new managers if it comes to that. But a concerted effort to coach these two talented employees will help him meet his two original goals. ♥

**HBR Reprint** R1206L

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