

Oral History Interview

with

RICHARD M. KUNNATH

Part 1

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Pasadena, Cal.

By Michael R. Adamson

Adamson: You began your career as a construction engineer on petrochemical facilities at Mobil Oil?

Kunnath: Yes.

Adamson: How did you end up in this area of the business?

Kunnath: Well, I had done my co-ops with Mobil and working in Detroit and liked the company, and I think when I got out of school in '71, things weren't great, so I went with that same company rather than kind of looking around. I did pretty well there and advanced, certainly satisfactorily for me. But for various reasons, things were slowing down and I was in a part of the business that really wasn't going to allow me to have a lot of career latitude. So I thought, well, I could use this experience and get into a construction position that's maybe a little richer in opportunity.

So I went to BASF. BASF's a German chemical company. I was working in New Jersey for most of that time, had a great career, moved up. But, again, working for Mobil, working for BASF, essentially you are a service provider doing major capital

construction projects, some of them quite exciting, but you're not the business. The business is not what you do. So, consequently, you're fairly adjunct to what it's really about, selling Styrofoam or selling gasoline or whatever they do. It's not what you do, and so your career path is really quite limited. I mean, you can make some money, you can have some fun, but you're not going to be president.

So I realized that I needed to make a change, and if I wanted to have that kind of leadership role, I needed to really be with a contractor, with a major construction organization. I knew some people at Pankow, and I got interviewed when I was still living in New Jersey and ended up taking the job and going back a few steps, both financially and otherwise, in order to do that. Found out not all the skills are transferable, by any means, but at least it gave me kind of an opportunity in the path to, again, get to a leadership role. So that was a big decision at the time, but it worked.

Adamson: The Pankow people you met in New Jersey, did you seek them out or that was serendipitous or how did that come about?

Kunnath: I knew them from conferences. I was a member of the Construction Industry Roundtable in Austin, Texas, and there were some Pankow people that had been involved in that. They weren't friends, but they were people I knew and had some respect for. The person that actually hired me was one of those people, Bill Heine. I knew of him, and he was just a terrific guy, retired captain of the navy, went on to become the only reserve admiral in the navy and started his own construction company back in Austin, as it turns out. But he's very impressive, very solid, smart guy, and I think he really

influenced me quite a bit as to Pankow being the right kind of opportunity that I was seeking, right kind of company, and he was right.

Adamson: That's interesting. So then when did you first meet Charlie?

Kunnath: Well, first of all, I was in Hawaii, and in a fairly lowly position, so you're not going to meet Charlie right away. On the other hand, he made himself pretty available. He toured the sites, and he would get to Hawaii maybe as much as quarterly back then. When he was in Hawaii, he would always, again, go to the offices, say hi to everyone, or go out to the field and make his presence known. I'm sure that sometime along that period I met him. That would have been sometime in 1979.

Adamson: Can you recall your first impressions?

Kunnath: Yeah. He was very friendly. I wouldn't say warm in the sense that—I mean, the words were all correct, but there was certainly a—I want to say a barrier. But he wasn't going to let you in early. He needed to know you first, and there's a certain reserve there that you certainly felt. I'd say the characteristic of him that I remember the most is he asked really almost impossible-to-answer questions, and no matter how well you thought you knew your project and no matter how on top of the facts you were, he had a way of asking you a question that it's just like, "What? I would have never thought of that." [laughs] So you're always kind of a little bit thrown off, and I never really did figure out whether or not he asked those questions, because "In order to kind of keep you

on your toes and almost as a way of reinforcing this issue that you can never know too much about these projects, because I'll find a question you can't answer," or whether he was legitimately interested in the topic of about which he was asking. I don't know which it was, but I know it had the same effect, and the effect was that you just really came out to the job or he saw you in the office, you really wanted to know everything there was to know about the assignment you were connected with, because you could absolutely be sure that there would be tough questions to have to answer. That was his style of engaging, question-asking. Not just, "Hey, how's the family," or whatever, but pretty specific and pretty pointed.

Adamson: Given your position today, when you got out of college and you went from Mobil and BASF and joining Pankow, was being part of top management always your goal?

Kunnath: The need to be president was the goal.

Adamson: President was the goal.

Kunnath: Yes. In fact, it's the only reason I think—as I mentioned in the previous question, it's the only reason for leaving an otherwise great career.

Adamson: So then your time at Mobil and BASF, as far as transferable technical skills to the construction industry, what did you learn?

Kunnath: Probably 60 percent transferable, 40 percent not transferable. There's a whole political bureaucracy that you learn in companies that have hundreds of thousands of employees that don't apply here. On the other hand, I think that there was some systems sophistication and ways of conducting yourself professionally that were certainly very much a part of a major German company and a New York-based major oil company that I think have served me very well. There's some incredible executives at those firms, and there's some really, really topflight operations, methodologies, and management training and a lot of other things that you are never going to see at a small company or even a medium-sized company.

So some of that, at the time, I thought would not have any value, but I think as we've grown and gotten more sophisticated and need to get more structured in things like human resources or management training or scheduling or a lot of things that just came with Pankow's growth, I had an opportunity to really see really good versions of all those things earlier. Again, so there's a big gap. I thought it was all kind of wasted at the time, and it turned out not to be wasted at all, although memories get short after a certain number of years. So I think that was a big plus. But relative to day-one transferable skills, there's a lot that I didn't know and there's a lot that I knew that I couldn't use.

Adamson: So did you make your career goals known to the Pankow people?

Kunnath: No. No. No, I don't think so, and it wasn't that kind of company, and it would have seemed odd to them. You've got to remember, it was basically a single

entrepreneur, Mr. Pankow, still relatively young and vibrant. He was going to be around for a long time, and it probably seemed pretty presumptuous to even be talking about that kind of stuff at the time. So, no.

Adamson: Yes, we historians prefer to look forward [from a point in time] rather than knowing the end result and try to work back.

Kunnath: Sure.

Adamson: But, just in general before we get into a little more specifics of some of the projects you worked on, how did that sort out then? I don't want to call it the weeding process, or how did it sort out that you rose to the level that you rose to today?

Kunnath: Do I have to, with all due humility? [laughs]

Adamson: Yes, with all due humility. How much was pulled up and how much was your push or how did that work?

Kunnath: Well, I think that like not only myself, but everybody around here, you get to a certain point for lots of reasons. Sometimes you're lucky, you have to have some talent, and I think the better the quality of the people with whom you're competing, the more talent you have to have. If you're in a weak organization, it can be pretty easy. But we had a good organization with a lot of really capable people.

I would say that there were very few people that had any business skill in the company. The people at the very top did: Dean Stephan, George Hutton, certainly Russ Osterman, John Eicholtz. They tended to be more on kind of the development side. They weren't really in the construction area.

I had started my MBA, I didn't finish, but I had a minor in economics, and I liked that stuff. I liked the business of running or how you strategize to make money in this industry more than the bricks and sticks, and I liked the building a lot, but I liked the business part more. And most people do not. Most people around here really are engaged in the industry and are drawn to the industry because of the teamwork, the daily ability to see tangible results to your efforts. There's a tremendous amount of satisfaction from starting with a bare piece of dirt and constructing a major thirty- or forty-story building and knowing that you are commanding the men, materials, and means in order to achieve that, and you understand the complexity and how to get that team working together. It's a tremendous industry. But I think it's what draws most people to it, not the business part.

The business part, I think is what some otherwise extraordinarily capable people really kind of stop their careers, not able to make that next step to worry about the banking and bonding relationships, the cash flow, accounting, and especially sales, and the need to have the kinds of strategies in order to sustain the business in good times and in bad times. It's just not that interesting, or maybe that's not the skill set that got people into the industry in the first place. It was mine. That helped a lot. So I think that's part of it.

Adamson: One of the reasons I ask that is—and I want to come back to this question later, but Dean Stephan had mentioned how unstructured Pankow was. The question I want to ask later is that he said that you brought some structure to the company. But before you got in the position to bring this structure, you were working in a very sort of unstructured environment. I was just wondering how if there's no structured path to the top, how you chart your way?

Kunnath: I would say that there was no structured path. It used to drive me crazy that we didn't even have an expense account. I used to fill out it on the back of a yellow pad of paper, and it was amazing there was nothing, after leaving an organization where everything was so highly structured. Then I think by personality, too. I had done so many psychological profiles on myself. I've got reams of them, you know. One of the things that I'm almost driven to do, and that's not a good thing or a bad thing, but it's to get things structured, it's to organize activities in a way that are repeatable and dependable. That's just like a need, and so that's not surprising.

But I would say if you want—I don't want to get off into a thirty-minute story here, but really what ended up happening, I think, is that Hawaii began to slow down. When I first came to Pankow, I did not have the skills or the technical skills, or certainly the company didn't view me as somebody having all the detailed construction knowledge that would be necessary for me to kind of move up. But for various reasons, we were very busy. I got kind of put in a position that was probably beyond my skills, but the job was very successful. It was one of the very profitable, had very good relationships with the client, ended up just having what I would call an overall successful project, way

beyond and much more profitable than I think people were kind of expecting from me at the time. That was a good start. It was a little bit lucky, it was a nice opportunity, and probably things kind of fell in line. But that was a good start.

So, consequently, when there was an opportunity on the mainland and things were slowing down in Hawaii, I was the person kind of first picked to, “We want to promote you to be what we call a project sponsor and come over to San Francisco and do that.” That kind of puts you in a much more visible role. Being in Hawaii is great, but when you’re three thousand miles away, and especially at the level I was at, your visibility is not very good.

So that was probably the first strategic decision that really upset my wife at the time. She loved being in Hawaii. She was so very happy there. We had a lot of friends. I was doing well. It’s just like, “Wait a second. We just moved from New Jersey. Now we’re going back to San Francisco. Why are we having to do this to the family again?” Yet, for me, it was, “I need some visibility, I need this promotion, I need to get myself in a position where I’ve got a better platform for further growth.” So we did. We moved back. Some stress involved in that, to say the least.

But once we were in San Francisco, I was working for a guy by the name of Brad Inman. You may have seen his name. Brad is an incredible gentleman. He looks like Charlton Heston and acts about the same and very knowledgeable, solid guy, very loyal. Long story there that’s, unfortunately, not entirely pleasant, I’m sure, from Brad’s perspective, but it’s another question perhaps.

But in any case, Brad was a great operations guy, but that office, that San Francisco office, had really never done very well. All of the work that the company had

historically done in San Francisco was all a result of other people's kind of involvement or assistance. Russ Osterman had some contacts there. Charlie had some contacts there. So despite the fact it was in Oakland, California, where the company did its very first job, we'd do one or two jobs a year. They were big enough jobs that we kind of paid the rent, but we weren't generating any real profit. When you kind of looked at why was that true, it's that Brad Inman, for all of his operation strengths, was not a salesman at all. Number two—I don't know any other way to say this, but he really followed directions, a former military guy, and Charlie basically had no problem coming to San Francisco and basically saying, "Do this. Don't that," or, "Do this this way," and basically when you were done with a meeting with him, you'd be in a straightjacket. There would be no way you could simultaneously meet all of his preferences for the way you would go about getting work or doing this or doing that.

Then I think Brad, rather than viewing those instructions as general guidelines that could be followed or not followed depending on the circumstances, followed them explicitly. Consequently, if there's a million opportunities there, by the time you filtered for Charlie's requirement, maybe there [were] three left. So your odds of being successful, being that regimented about taking orders, he was never going to be successful. And so consequently he wasn't. Things were very dicey with him, and Charlie and Dean Stephan would periodically hire, without even Brad's knowledge, a new business development person, have him imposed on kind of the San Francisco office. So here's a person that's hired without Brad's knowledge, but he's got to report to Brad, and blah, blah, blah. But it was everybody's kind of attempt to say, "You're not getting the job done, you're not getting enough work here, so we're going to help you do

it.” Of course, it wasn’t at all the way to go about it or very strategic. It almost at the time, I remember, felt punitive and really insulting to say, “I’m going to hire the person that’s going to get this done, because obviously you can’t,” and yet that happened a lot. I was just kind of a bystander and watcher of all that stuff.

Well, that went on for years, never got very much better. I was involved with several projects over that period of time. Again, they were all successful. We made money. I don’t think I had a bad project. Again, for a lot of reasons, and none of these things happened because of one person, teams of people, and I was lucky to be on some good ones. So ultimately I think the string just ran out, Charlie’s patience with Brad, and Dean’s patience with Brad as well, and there was a need to send somebody to Hawaii to kind of help out.

So Brad got—oh, I’m sorry. While all this is kind of happening, somebody said, “Rik, you’re able to make new contacts and you’re bringing in opportunities, at least opportunities to look at. Brad’s never done that. We’re going to make you a vice president. We’re going to make you Vice President of Sales,” or I guess it was [VP of] Business Development in the San Francisco office. That was my first promotion to officer, and while I didn’t end up shedding any of my project responsibilities, I became kind of head of marketing and sales, which, again, in the same organization, with the same restrictions, you can change people’s titles, but basically there’s nothing fundamental that was any different. It was, again, almost, it seemed to me, as much to punish Brad as it was to reward me. But be that as it may.

It didn’t end up—we got some work and some things improved a little bit, but not much. Anyway, problems in Hawaii, Charlie and Dean decided that the way to solve

those problems was to send Brad to Hawaii. Very, very difficult thing for him to do personally. Ended up, in many ways, as I said, arguably, that that's Brad—it probably cost him his marriage. His health deteriorated. It was really, really unpleasant. They didn't want to leave the company, had a lot invested, some golden handcuffs involved that made it economically difficult for him not to say yes, and so he did. And as he left, I was then promoted to be the head of the San Francisco office.

At that point, things changed a lot. Charlie loved being in San Francisco. Oh, I remember one thing that happened, though. I got the promotion, and the very next week I got a phone call from Russ Osterman and from Dean, but it was really Russ. He said, “Can you come to Altadena just for the day? We want to talk to you.”

Came in, sat down in Russ's office, shook hands, “Congratulations. This is really great.” He said, “You know, Charlie says a lot of stuff, and if you listen, you're going to fail. You're not going to make it. And the more you listen, the less, frankly, respect you'll have from him. He says a lot of stuff, but he also expects you to get to the goal.” And if you can get to that goal adhering to some of it, most of the important stuff, that's great, but if you don't show some initiative in a respectful and hopefully tactful way and disregard what's keeping you from being successful, you will be like Brad. You will fail. So just because it's said, doesn't mean it's meant.

I thought, wow. I'd kind of always sensed that, but I'd never had anybody actually say that before. Somebody should have told Brad that. He might have been a little better off, although I don't know it would have done any good. But in any case, so it wasn't as blunt as I'm describing it to you, but the message was: “You can't listen to everything and expect to achieve goals. It's just too restrictive.”

So, okay. So I started along my way, and we got some work, and I had some early success with some opportunities. The market was pretty good. But what really changed and what I'd say was really the fundamental issue that ended up really changing my career was you can have all that success, but other people were successful, too. There's other people having good projects, at least a half a dozen of them. But Charlie liked being in San Francisco during the week. What he was doing there didn't have much to do with the company, frankly, but that's okay, he was there. But I worked for Dean Stephan. Dean Stephan was the president. But because Charlie was in San Francisco and he was at the house and he was alone most of the time, so he would call up and say, "Come on over for lunch. I want to just talk to you about what's going on in San Francisco."

So that started what was probably twelve, fourteen years of having lunch with him once, sometimes twice a week, every week for probably at least twelve years. It was a lousy way to manage in that he cut Dean out. Charlie cut Dean out. Here he is, president, responsible for Hawaii, Altadena, and San Francisco, but Charlie basically said to Dean, "Oh, you don't need to talk to him about that. I'm meeting with him anyway."

So Dean's kind of left with, "Well, if I'm running things, how come I don't have direct contact?" And even when he did call me about things directly, he knew that I'd be meeting with Charlie at Charlie's request, so whatever he said could be more or less undone by—it wasn't fair to Dean at all, and it was, again, an odd way to manage, but it was Charlie's way of kind of keeping things stirred up, so to speak.

And, oh, by the way, at the same time, in Hawaii he had George Hutton, who was really senior to Dean and really the guy making tons of money on the development work

and very influential in the company. So Dean's the president of one, essentially, the Altadena office, with a nice title, but not really in control of either of two offices, on purpose, from Charlie's perspective.

But that was excellent for me because what ended up happening then is that I ended up with a very close relationship with Charlie that developed pretty intensely over that period of time, and that ultimately led to, I think, my getting picked to be CEO and all the other things that kind of happened in my career, that together with the fact that I found that regardless of what Charlie said, that if you explained it the right way and you showed some success, we could do new and different things that were just plain not what Pankow believed it was. Right?

So the new initiatives, all the new initiatives in the company, whatever they might be, were really starting in San Francisco. They were starting in San Francisco because they had the opportunity to kind of sell some new points of view, but they were also starting in San Francisco because we were not very successful there. In other words, I mean, whether it's General Motors or K-Mart, right, if you're successful but the landscape is changing and you know it's changing but you've been so darn successful at doing something, you just can't get yourself out of it, you can't get there, and you can't believe that what you've been so successful doing isn't going to continue to work.

Well, we were never successful in San Francisco. We never had anything. It was always lousy, comparative to southern California. So we were working for a new strategy, new clients, new way of doing things, so it was much better context in which to initiate change than would have been the case in either of the two offices. So it was a combination of access, opportunity for persuasion, and need. Luckily, we were

successful in some new initiatives that then the problem became—not the problem, but still today, this afternoon, the task is trying to drive that new business model, which has a much more diverse product and method of procurement into the other regions where it's just still so steeped in the way they were. We've made a lot of progress, but we're not nearly done yet. San Francisco is historically, and continues to be, way ahead in that regard, but, you know, like any other business issue, right? Where is change adopted first? Where it's most needed, you know, and that was certainly the case there.

Adamson: That's a great overview, touches on a lot of the questions I'm going to ask you. Just one point at the moment. Is there a distinction between San Francisco and Oakland offices? When you say San Francisco, does that mean both offices, or how does that work?

Kunnath: Yeah, it does. I mean, at some point I'll need to be more specific about that, but historically there was only one company, Charles Pankow Builders. It was in San Francisco. At one point, we owned the building in Oakland. However, rents were going up like crazy. We also split the company into Pankow Special Projects [PSPL] and Charles Pankow Builders, and because we had an awful lot of small tenant work clients in San Francisco, they wanted us to stay there. We just logistically needed to stay in San Francisco. So we left the PSPL office in San Francisco, but the Pankow Builders and even another office of Pankow Special Projects ended up moving into a building that we owned at 2101 Webster in Oakland. That was a good economic move for us.

So even today what we have is two companies mostly headquartered in Oakland, with a PSPL satellite office remaining in San Francisco. I had an office in the San Francisco office, not in Oakland, so when I'm in the Bay Area, I mean, I almost always go to San Francisco only because still for me, for my contacts and what I do, it's just more convenient to be there.

Adamson: Okay. Let's back up in the timeline here. Hawaii's sort of the hole that needs filling, so anyone who worked there, I ask them a lot of questions about Hawaii. Couple things: So the list I have is the project you worked on in Hawaii was Windward Mall.

Kunnath: Correct.

Adamson: And that you were the project superintendent.

Kunnath: Yes.

Adamson: That was your project. That was the one project you worked on?

Kunnath: Yes. Well, I worked on a lot of other projects in the office. That's the only one that I worked on from the conception to final completion.

Adamson: So if you come in as project superintendent with the skill set you had or the experiences you had, how was that working on your first project with the field people for you?

Kunnath: Right. Right. Yeah. Well, I didn't come in as project superintendent; I came in as project engineer. I was hired into the company as project engineer, and as project engineer I was working on a lot of estimates on a lot of projects, probably a dozen, and so I was getting to know those other teams. I would visit jobsites for the day, but I was not assigned to them. I was assigned to a couple other projects, but then they stalled, didn't happen.

Anyway, this project came along, and I was doing the estimate. I was doing the scheduling on that project. I got to know the owner very well. We didn't have a superintendent who was available, but things were going great. So at some point, probably George Hutton basically said, "Why don't you be superintendent of this project." I think from the company's perspective, it was not that risky. Turned out that was really not true, but they saw it not as risky. Why would that be? Because it was basically a big regional shopping center. There's the culture at Pankow is: If it's not a high-rise building and it's not pouring 200,000 yards of concrete with a crane and a lot of other things, then, aw, it's not a real project, despite the fact that this was, you know, dollar-wise, the equivalent or larger, very complicated, lots of different parts and pieces, but it didn't quite have the same, let's just say, respect in a certain way and, legitimately, did not have quite the same demands for understanding trades and crafts as would a more labor-intense project. So whereas the projects that were going on in Waikiki at the time

may have had, you know, 250 carpenters at the peak, my project probably had 25. So it was easier, at least in that regard.

But in answer to your question, it was an incredible struggle, a very, very tough thing. I mean, I did not have union relationships. I did not understand how to put together crews for productivity. I didn't understand—it was certainly the first job in Hawaii, so it was a lot of local practices that were unfamiliar to start with. Yes, that was really a challenge, a real challenge, to start from scratch without all the skills. But, you know, got through it and it was successful and we made money.

The parts that were very helpful, though, were that the mall was owned by the Bishop Estate, which is a major—you know, the big foundation in Hawaii, and a partner, Norris, Beggs & Simpson in San Francisco, and another partner, Winmar, a division of Safeco Insurance in Seattle. There was a lot of executive-level kind of contact, and that part, that was easy.

Then ended up being a Sears store there. I flew to Chicago, met the head of construction for Sears. We got along really well, so I ended up getting to do that project along with—so the sales part and the keeping the client happy part, which is not expected of a superintendent, I was doing well at. The superintendent part, that's probably, I'd have to say, I was a very mediocre superintendent to say the least. But now that I look back on it, it was almost funny, right? But, again, it still got done, and had some very good people in on the project. The other engineers and some other people working for me at the time were great.

Adamson: So in the interview process, was going to Hawaii something on the radar screen, or how did you end up in Hawaii as opposed to California?

Kunnath: The opportunity was in Hawaii, and Bill Heine at the time was a Vice President of Operations in Hawaii, and so he flew to New Jersey and interviewed me there for that opportunity. At the time, I was working in Bayonne on the river in a reactor project that was nasty, dirty. I don't know if you've ever been in that area along the Hudson. It's a rugged place to work. And long days. I thought, "Oh, jeez, you know, Hawaii, that's just like I've never been to Hawaii, never thought about Hawaii, but at least I'll go over for the interview. At the end of this project, I'm going to need something."

And I think very wisely he said, "Well, you know, you have a son. Why don't you bring your wife over, too. This is a big family decision." So when we got there, it was fabulous. I mean, we loved it, got treated wonderfully. My wife got treated very well, and really I think people really took the time to make sure that she would be comfortable there. It was, I think, mainly Bill. He used that kind of new person on base for an officer coming to a remote location and how all the kind of officer wives or other people on the base would really extend themselves in order to make you feel welcome. He was really good at that. If he could get you there, you were probably going to say yes at the end. I don't think we've ever, in our history, done as well in that regard trying to attract someone to a new location as we did when he was around. He really had a skill for it.

But I didn't actually go thinking that—it just seemed too remote and too big a move. After a week there, it didn't seem remote at all. Still, it was a really hard decision, but that's where the opportunity was at the time.

Adamson: Two-part question: What was George Hutton's management style, and what made him successful and that office successful?

Kunnath: George—well, if Brad listened too much, George didn't listen at all. George is an almost bigger-than-life kind of person. I don't know if you will or won't have a chance to meet him, but he's a big, tall, raw-boned Oklahoma construction guy who's smart as a whip. He didn't really, even when I was there, he didn't give you the impression that he was particularly interested in construction whatsoever. What he was interested in was doing development deals. So he would buy land, he would procure financing, and basically was a real estate development guy.

So, consequently, we started building, when I was there, high-rise condominiums, and a lot of them, and the market was booming as it does periodically in Hawaii, you know, just before the bust. But we were making a lot of money. These were really successful projects, and, really, George was the person doing it. He hired a couple of really good guys, a guy by the name of Dick Ackerson, was the head of estimating; and Bill Heine, was the head of operations, who really ran the construction crew, and he ran it more or less—not more or less. He ran it well.

He also had a very good cadre of superintendents, all former carpenters, many of whom came with Charlie from Peter Kiewit, so you had a really topnotch construction

organization. I think to George's credit, he was very well liked and a very good leader, but as remote and hands-off a leader from the perspective of construction as you could imagine. He involved himself to the absolute minimum necessary in order to keep things plumbed up and afloat.

But I never really had, nor did anybody else have, much interface with George from a construction perspective. From development, he seemed to spend all of his time in development. Even in 1979 when I got there, that was already the case. But he was a guy that when he came in the office, he was up, he was positive. If there was a problem, we'd fix it, and he had a style and a leadership style there that people responded to, plus just as a big imposing figure. I mean, you tended to have a lot of confidence in him, especially somebody in my position and new to the Islands. You believed "I don't know what this guy does, I don't see him that much," but, you know, somehow I got a feeling that things are going to be all right. He's just that kind of person.

Adamson: Dean Stephan stated that Pankow in Hawaii did not take a design/build approach to projects. Can you compare and contrast the actual approach to construction and design between George and—

Kunnath: Yeah. Basically, George, like I said, there was—it's so interesting, actually, that, in the mainland, Pankow was an extraordinarily well-understood, highly disciplined—took a highly disciplined approach to the work that it did. It was all design/build. It was virtually all concrete. It was all done under lump-sum forms of

agreement, and we had a small but very loyal cadre of clients, and we did some excellent, excellent work, and it was so amazingly consistent in approach.

Then you went to Hawaii and basically my sense of it was George, he didn't disagree or agree with any of that, he just didn't really care, and he bought into none of it and didn't see any of it as particularly relevant to how you made money or didn't make money. But, of course, I mean, you would never say that out loud, but when you looked at the actions, not the words, there was no design/build, there was nothing organized that way. We didn't even call our people the same positions. It was just whatever kind of what George wanted to do, and I think it drove Dean crazy. It must have drove Brad crazy, because here Brad's on a leash that's about an inch and a half long, and George is basically not paying attention to anything, and Charlie's letting him get away with this, is the way I think it was perceived on the mainland.

Why Charlie was so laissez faire, the only thing—I don't know. I honestly don't know, other than George was a hell of a salesman. But maybe more importantly, George was making everybody rich, and some of those projects were really, really successful, I mean, in ways it's hard to overstate. When you have that kind of success and you're a long way away and people don't know the details really what you're doing, eventually the two operations would have separated such that you would hardly know they were both the same company.

Again, Dean at some point then becomes president, but really without the ability to kind of correct that, but to the extent that he felt it was necessary to correct it. The only time that that was really different was like on the Windward Mall project that I was involved in. That's a good point. I forgot about this. This was a mainland client.

Nobody in Hawaii knew who Winmar was. All the work we did for Winmar on the mainland was the Pankow approach, design/build. So because the mainland more or less had control of the client, and because this was my first project, we were going to do it the mainland way. We weren't going to do it the Hawaii way. So I had really the privilege and the opportunity to understand the way the mainland did its work by virtue of the fact that I was reporting directly to Dean Stephan on that project, not through kind of the Hawaii operation. So we did that project design/build in a very classical way. There's no other projects being done in Hawaii that way, but we did that one that way. It's funny because it was kind of maybe Dean's opportunity to put the camel's nose under the tent.

And I think because it was successful, you know, people kind of took some notice of that. But, again, from George's perspective, that's very nice we made some money, but whatever. I mean, it's funny, when I look—I don't know the numbers, but I would just say this. If there's a \$100 million project and the contractor makes three or four million dollars, then that three or four million dollars pays for overhead, you pay some taxes, and whatever's left is the residual. If I'm George and I have some stock in the company and I have, let's say, a substantial amount, let's say 10, 20 percent. I don't know what he had, but let's say it was that much. When you do the math, it's a lot of money, but it's not really a lot of money. If, on the other hand, I'm the developer of the project and I'm making 20 or 30 percent on that project and it's 30 or 40 mine or 50 percent mine, where is my emphasis? It's on the development deals where I'm a substantial partner, where I can really make some money and maybe there's even more fun doing that versus, you know, what ends up trickling through all the filters left in the

construction organization. I mean, that's our life. I mean, that's how we make our living, right?

You can see in the development world when things are good—and they're not always good—where you would be putting your emphasis. So it was just—George was so distracted with that, I just don't think he cared. Dean was not involved in those development deals in the same way, nor did he have that kind of—he's not that kind of guy. He's not a wheeler-dealer. He's an engineer, and so I think that was probably frustrating to him as well, just to watch all of that kind of developing, and Charlie's willingness to accept it in Hawaii but being so rigid with what he wouldn't accept and with rules that were applied here on the mainland. If I was Dean, that would drive me nuts. Probably did.

Adamson: So in the capacity that George acted as developer, can I infer that George was also adept or skillful in negotiating land use, environment restrictions, and the context in which you had to do these deals?

Kunnath: Yes, he was very good at that. There's a guy by the name of Al Fink, who's still with the company, and he used to help out quite a bit, at least on the periphery. But, yeah, George was very good at that. George was very politically connected. He knew the right people in Hawaii in order to get those kinds of things done, and not in an inappropriate way in any means, no issues of impropriety, but he knew the right people. He hung around in the right social circle and he cultivated the kinds of relationships that

you need to cultivate in a small town where that's necessary to do controversial, sometimes entitlement, difficult kind of projects.

Adamson: While on the subject of remote offices, and this didn't show up on the CV, so I'm going on what Dean Stephan said, he suggested that at some point, I'm not sure when, you were going to be sent to Atlanta to develop a piece of property and perhaps open an office there.

Kunnath: Yes.

Adamson: But nothing came of it?

Kunnath: Yes.

Adamson: Do you want to elaborate on that?

Kunnath: Yeah. Unbelievable, but we bought a piece of property in Atlanta in Gwinnett County on the I-85, about 35 acres. Basically, I think we got sold a piece of the Brooklyn Bridge, and a local developer convinced us that there was this great office market in Gwinnett County and that we're going to take this piece of property and develop multiple office buildings in joint venture with him, and that those projects, because of the new construction techniques that legitimately we were going to bring the market, some pretty interesting stuff—we've done from a construction perspective just things that nobody

even today really has equaled, that people would be so kind of crazy about this approach and plus we'd meet the subs and we'd get ourselves established, that we would use that as the launching pad for an Atlanta office and further diversification of the company, and that I would do that.

What ended up happening is, we were probably at least 15 years ahead of the market in Gwinnett County, and when we started to look at the ability to get money and attract tenants and really make economic sense out of an office development application at that time, none of it made sense. And we never got a loan. It never went anywhere. So now we kind of owned this very large parcel in Atlanta. And, by the way, without that project being the launching pad for the office, there was really no interest left on the part of the company in order to just kind of go there, take me as an asset, move to Atlanta, and just kind of start calling up people with no organization, no work, no real contacts there. That would have been, let's just say, not a good idea, nor was anybody supporting that idea. So, project went away, idea went away.

Probably at least ten years later, we ended up staying connected with the property, we ended up selling the property. I don't remember whether it was at a loss, but if it was, it wouldn't surprise me, and if it was a gain, it wasn't much of one, to a used-car dealer who ended up just paving it and putting a used car lot on the property because even then, even that—it's not quite as bad as it sounds, because I think it was Carmax or one of the big successful publicly traded used-car dealers. But the point is that the land was still not valuable enough to do a more intense development and, in fact, was paved over and probably 2,000 used cars sat on it. I don't know what the situation is today.

But we were just naïve about that market and really got into a—it was an example, frankly, of just because we wanted to build concrete buildings and use some mechanized systems that were really pretty great—talk about the cart before the horse. This, first of all, had to be a viable business opportunity, and we had to understand the market and the marketing in Atlanta and a lot of other things and, oh, by the way, if all that made sense, then we can employ these construction techniques. Instead, we led with the construction, soon found out that there was no market, and collapse.

Adamson: According to the company newsletter, there actually was an office set up in San Diego, and that didn't last too long either.

Kunnath: Did not. We had a project in San Diego, Aviara Four Seasons in Aviara [north San Diego], and that was going to be the launching pad for San Diego office. Tom Verti will give you a better review of that particular topic because he was the regional manager who was sent there to open that. Halfway through the Aviara project, we had this—I think it was the oil crisis or something. I think it was the oil crisis. Credit locked up. They canceled. Fifty percent through the project, they canceled the contract, and basically the building sat there, you know, with pigeons for quite a while.

We had not enough—I think we had some other work, but not enough. The economy was very bad. We had a lot more difficulty penetrating the San Diego market than I think we probably assumed we would, and because of a lack of work, and work here, really valuable assets that were otherwise trying to make a success of that were brought back—It's funny. I would say that looking at things now, we had an office in

Seattle, we had the Atlanta idea, never really came to be an office, San Diego, which in fact was an office, and there was also at one point going to do something in Illinois in Chicago, which never even got as far as Atlanta.

We've never during that whole era—you know, I hate to say it, but there was never a concept of doing a market analysis or a business plan. It was all, "I met this guy and he says there's work there," or, you know, "We've got a project there. Let's see if we can open an office."

Oh, New York, that was the other one where we really wanted to be in New York. We were there for eight years building for a client, and couldn't launch an office there because we got this work? But it was not—you know, knowing what I know now about the kind of what it takes to do real in-depth market knowledge, having the right boots on the ground, the right person, people with the right contacts, the right kind of opportunities in order to really make sure this is viable, he did none of that. These were so casual and so unbusiness-like in the decision-making and so unstructured in the thought process that it's—look back, just a complete head-shaker. You think, what the hell were we thinking about?

Again, here's another example. We were really, really good builders, we knew nothing really about business, and we certainly, outside of Hawaii and George [and Russ] Osterman, we knew nothing about real estate development, regardless of what we thought. The Atlanta, to me, opportunity was a prime example of that. But those comments, by the way, don't apply to Russ Osterman and George Hutton. Those guys singularly did know what they were doing and did some really, really successful stuff.

Adamson: Russ operating in northern California mostly?

Kunnath: Well, he's based here in Pasadena, but he certainly helped and really was the driver behind successful development projects, mostly office buildings, by the way, where George was virtually 100 percent high-rise condos and some timeshare and hotel, Russ Osterman was virtually 100 percent office in Spokane, Portland, San Francisco, here in southern California, some really good stuff, very, very creative.

Adamson: So during your time in top management, have you given thought to opening other offices, or is this pretty much the structure geographically?

Kunnath: No, I've given a lot of thought to it, and we've got a—well, let's put it this way. We could do a lot better, but we are, you know, far, far more advanced today in our business planning, and we have vision goals out through 2018, very aggressive. Really, the question is how are we going to achieve those goals. There's a very specific strategy for getting there. That strategy does not require opening any new offices.

I mean, I think what's really what I believe to be true, and other people here as well, is that we are collectively—if you add up PSPL, Mid-State [Precast], CPBL [Charles Pankow Builders Ltd.], add up the, I guess, four or seven offices total, we're a pretty good medium-sized company. We'll be over half a billion dollars this year. But if you look at any of those entities individually in their locations, they're nowhere near in the top five in any of the markets. They're relatively small players.

Adamson: Geographic markets or sector?

Kunnath: Geographic. So, you know, the thinking is that before you would expand, why would you not better capitalize on the really vibrant opportunities that are in the markets that we are already in. There's competitors of ours here that, frankly, don't have the quality of organization that we do, that are \$2–5 billion in Los Angeles. We're doing 300 million in Los Angeles. So I guess we could go to Seattle where we haven't already begun to maximize what we've already got.

So I think that that idea of expansion will follow the point at which we feel like we've gone as far as we can in our existing markets, and we have the opportunity for more growth, we'll think about growth then. Right now we just need to do a better job where we're already at.

Adamson: Renate [Kofahl] has listed your project sponsorship on the Oxmoor Mall project [Louisville, Kentucky], and other people have talked about Winmar. I just want to get your take on your relationship and working with Winmar people and, just more broadly, Pankow's relationship with Winmar and its importance to the success of the firm.

Kunnath: Yes. It would be almost hard to overstate its importance to the success of the firm. Besides the real estate development work we were doing, Winmar represented that single client who just did classic design/build, lump-sum, quality work for over many years. I was lucky enough to do Windward Mall, Oxmoor, Valley Fair Mall in Salt Lake

City, Utah, a project in Portland, Oregon, whose name I have forgotten, and probably some others.

Frank Orrico, who was the president of Winmar, close friend of Charlie and Russ Osterman, and then their kind of first-in-command, George Kohl, who I knew very well—I didn't know Frank as well—really were the two people there that we had primary relationships with and simply it was almost a—they were a big company and did a lot of work. But outside of a couple of regions, I would say the vast majority of work for maybe a twenty-year period, we simply did everything. It wasn't easy. The contract negotiations were certainly arm's-length, but they let us basically kind of run with a design/build approach on their projects, and projects for them and for us were really successful. There's no relationship that I've seen since at Pankow or I observe in other companies that was really any stronger than the relationship we had with Winmar.

Adamson: Do you know offhand then the number of projects that you worked with them?

Kunnath: Me personally?

Adamson: The company.

Kunnath: The company. No, not offhand, but I would have to say more than a dozen, probably less than twenty.

Adamson: You said there were no other developers that had that quality of a relationship, but there have been other developers that have been recurring project partners?

Kunnath: Many. And many very fine relationships, just none rising to the level of the Winmar relationship.

The next client that came close, although probably the length of the relationship didn't last quite as long, was CPI, Corporate Property Investors, in New York. We had a wonderful relationship with them and did a number of projects, very similar to Winmar. They weren't quite as enamored in the beginning with design/build, so I think we actually used some different approaches with them. But they ended up becoming a REIT [real estate investment trust], a public REIT, and that's what ultimately ended that relationship. It certainly did not end for a lack of a quality relationship between us and them. It stayed really, really solid till the end.

Adamson: The broader business question is general contractor like Pankow, to what extent is the success of a general contractor dependent on these long-term relationships with developers?

Kunnath: It's the point that everyone strives for and hopes to get to. I think as you start out with a general contractor, you have no relationship, there's a lot of competition in the market, and the only way you procure work is getting typically on a public bid list, and they can't keep you off a public project. I mean, if you're otherwise qualified, you get to participate. And then simply having the cheapest price, and you kind of get abused by

the system and hope by the time you're done, you end up with a little bit more money so you can go do it all over again. I mean, that's one end of the business.

The top end of the business, of course, is where you have very high-quality clients, well financed, reasonably prolific, good business practices, and that you have secured through your performance a relationship with those people where you are one of their preferred vendors, if not their only preferred vendor, and where you negotiate new opportunities on a sole-source basis. That's the ultimate for everybody.

So you would say that your kind of bona fide as a general contractor is how many of those kinds of relationships do I have with how many people versus other kinds of methodologies that I need in order to fill my book of business. And I would say Pankow, for virtually my whole career, has been very much at the right hand of the scale where almost of our work is negotiated and it's negotiated with really good people and the work is repeat. I mean, even today, even though I don't put them in the same category, we've been at California Pacific Hospital in San Francisco, Sutter Hospital there, probably for 13 or 14 years without any interruption in our work. We've never not been working there. Same thing with John Muir Hospital in Walnut Creek [California]. There's not been a period where I haven't worked there at least ten years. And these are not easy clients, but we are standing on our head to be just the best service provider we can for them and get rewarded by that kind of work. Not everybody has continuous work like a hospital, but it certainly works there.

Adamson: Very good. Speaking just for a moment longer on some of the projects, or actually one more project you worked on, this Hotel Sofitel. You wrote a pretty

extensive article on it, so I won't rehash the details, but a couple points I wanted to raise.¹

The company newsletter article stated that the site lied [*sic*] within the master planned development of Redwood Shores and that the company was Mobil Land.²

Kunnath: Yes.

Adamson: I was just wondering if there was any connection between the fact you had worked for Mobil Oil and your relationship with the real estate arm of that company.

Kunnath: I knew Mobil Land. I knew some of the people there when I was at Mobil. I was doing some very, very different things. There's really no connection at all. When I saw how Mobil Land operated, that kind of reminded me of other Mobil kind of things, but that was just kind of accidental.

Adamson: The other point of that project I wanted to touch on, the article, same company newsletter article, not yours, said that the project was being developed by a Chicago-based firm that specialized in hotel development for ACCOR. So then in this case, it seemed that there was an organization in between the operator or the interested party and you as general contractor. So you as the project sponsor, did you work just with the Chicago MTA Associates, or did you have the relationship with the ACCOR people as well?

¹ Richard M. Kunnath, "Hotel Sofitel," *Concrete International* 11 (January 1989).

² "New Projects," *CP News* 4 (Summer 1986).

Kunnath: There's lots of different ways that these kind of hotel deals work, but I would say that, in my experience, Pankow's typical hotel opportunities had this characteristic. It's basically a real estate development opportunity. There's a developer who controls the property—MTA Associates in this case in Chicago—and once they kind of got the land entitled for a hotel and they controlled the property, etc., etc., they basically shopped that opportunity to operators. Somebody has to operate it. They are not going to operate it. Somebody's going to operate it. I don't remember who all they were talking to at the time. It may have only been ACCOR, it may have been Hilton and Sheraton as well. But basically those operating companies, despite the fact that they don't have any equity stake, they're not owners, they're not the developers, but they have a very strict formula for how the hotel's going to operate if they're going to be the operator.

So you end up as a contractor, especially a design/builder, where you have to now design this hotel, you end interfacing with ACCOR, because their kitchen layouts, all their backup house, where's the laundry, what is the minimum size of the rooms, how do the rooms lay out, what's their casework specifications, down to the point where is there light in the closet and, if so, how do you turn it on, all of that is in their book. And Hilton's got their own book, Marriott's got their book, ACCOR's got their book. We're a design/builder. We have to take that book of instructions and more or less translate it into a design that matches it. So our interface with ACCOR, or any hotel operator, frankly, is in that regard.

From real estate deal contract perspective, no, we're not really working with them at that level. In this particular project, we were actually the partial developer on that project. I don't know if anybody mentioned that.

Adamson: No.

Kunnath: We had put up a letter of credit that helped MTA to secure the loan, and so to that extent, we had dollars at risk, and those dollars were, again, there in order to help them secure the loan. We ended up with a certain percentage of the opportunity as a result of that investment, which did not turn out successfully, but the hotel was otherwise—I mean, it was a good construction project, from the perspective it was a fine-looking building with high quality that got built on time. I don't remember it as a particularly good opportunity from a profitability standpoint, but not horrible, either. But as a real estate development, it turned out not to be a good investment.

Adamson: Now we sort of move into your time as a manager and a top manager in Pankow. I think this is restating a question I asked earlier. But in what ways did Charlie and/or others, how shall we say, encourage or guide your way up to the top of the firm once you became Vice President of Business Development? Once you had reached that first level, how did Charlie and Dean see to it—maybe not “see to it” is the right word—but nurtured your rise or—

Kunnath: I think in Dean's case, again, it was hard for him because Charlie was kind of inserting himself between us. On the other hand, I would say that Dean provided me with some broadening opportunities that I would not otherwise have been aware of. For instance, every once in a while there would be an opportunity to take a construction

licensing exam, whether it was in Nevada or Florida. These are kind of tough exams, take a lot of preparation. I actually looked at that as an opportunity, and I think that probably came from Dean, “Why don’t you be the company’s representative, go take whatever tests you need to, preparation classes you need to, and see if you pass those exams.” So I actually appreciate that. That was helpful for me.

But I think even more so, Dean was the one who—there was a group called the Design/Build Institute of America, DBIA, was basically just a half a dozen people got together in Washington and said, “You’re recognized nationally as a design/builder,” and this guy, Preston Haskell [chairman of The Haskell Company, which he founded in 1965] from Jacksonville, Florida, who’s really kind of brought the group together, “and would you want to be one of the founding members of this organization? Can you help me do that?”

Dean went to the very first meeting and said, “You know, Rik, this is really something that would be good for you. It would put you in touch with all the other national design/builders who have been doing this, and there’s really nobody else on the West Coast. I’ve got other things I’m working on. Would you like to be kind of the company’s representative and do that?”

That turned out to be an incredibly rich opportunity for me, and I really credit Dean for—he could have picked somebody else, but I’m sure glad that I was the guy that got to do that. For me, it—I could talk two hours about this, but I was the second national president of that organization in 1995, I believe, and that’s an organization that now is a big deal. They have over a thousand members. They’ve got a four-to-five-

million-dollar annual budget. They've probably got 25 employees, and they have a worldwide influence on the best practices for design/build methods.

I was highly identified with starting that organization, so it's given me a lot of personal credibility, a lot of speaking opportunities, really almost all over the world. But beyond that, it really turned out to be a great learning opportunity. So I think Dean seeing that potential and giving me an opportunity and the time to be able to do those kinds of things was very, very, very helpful.

From a mentoring perspective otherwise, other than certainly helping me understand the Pankow approach, we did not have otherwise what you would call a kind of traditional manager-subordinate relationship in that Charlie's method of management probably didn't allow for that as fully as one might otherwise assume.

Adamson: Now, if I get the timing right, your first step on the ladder of management is soon after the reorganization, so that while the reorganization was happening, you were still at the project sponsor level.

Kunnath: True. Correct. Yes, that's right.

Adamson: So while that was going on at the level that you were at, what was your view of the reorganization process and how you were going to benefit from it?

Kunnath: That's interesting. I certainly didn't understand what was propelling the change. Turns out that it was a big, complicated, emotionally charged issue. I don't

know if you've heard any of that, but it was really rugged. I mean, let's just say there was a couple cocktail parties where wives and employees, people were screaming at each other over what had happened.

Adamson: No, I didn't hear that part.

Kunnath: No doubt. But essentially what you had is you had a company that had gotten very big and successful and it was owned by a small number of people at the top, and those people had all made a lot of money. Charlie, in his wisdom, was thinking, "Jeez, if this company's going to continue to survive, these people at the top who are all getting older and who've all made a lot of money, we've got to give their ownership back. We've got to give their ownership back because there's not enough—or stock has become so expensive that realistically nobody can afford to become an owner."

I had some stock, a lot of people did, but nobody had very much. So basically, a combination of, I think, what I would say Charlie's motivators were both a continuation of the company in a way that allowed for ownership to be much more dispersed at a very different level, together with some tax law changes that were major drivers and very, very intelligent forward-thinking on his part, we changed. Essentially what changed was, we had this company, and one day had all this money in the bank, had a great reputation, it simply stopped getting the work. It didn't go out of business. It was still there. We just stopped.

We signed no new contracts, and everybody that used to own it still owned it, but wouldn't do anything anymore. And then we started a new company. The new company

had \$185,000 in assets, virtually nothing, but it had an ownership structure that completely changed. It was all of a sudden 35 people, or 32 people, the people that used to own a lot, now didn't. People that owned very little now owned a lot, and so basically the deck got reshuffled. Why was that controversial? Because some of the people at the top, who were making an awful lot of money on Tuesday, were no longer in a position to make very much money on Thursday. Charlie simply made the decision as to who was going to get what, to the angst and consternation of many people.

Now, me, I had very little. I got a lot, comparatively speaking. It turns out, you know, I mean, for me it was a lot at the time. So I became a much more significant owner in the company, which, of course, was the plan. So did a lot of other people, by the way, and I was probably in the top half, but I wasn't in the top 10 percent by any means. But it was certainly a signal to me that things were getting better in my career.

But it was another what I would call unilateral, unpopular, but smart—but poorly sold—move on Charlie's part to help assure a couple of things, a continuation of the company, but also his personal view of kind of an egalitarian employee-owned organization. I mean, really, when you kind of look at what happened, all the people at the top of the old company that owned stock was very appropriate. This company was new, it didn't have any assets. It was very small. There weren't that many people to give it to. They were the only people that should have had it at that time.

But, you know, from 1963 to 1984, 21 years later, the company had gotten much bigger, and now all these other people were helping to make the company successful, but very few people were really benefiting. It was not the employee-owned model that Charlie envisioned. It was almost necessary to do what he did. But if I was one of the

people that lost significant percentage increase, I can't imagine—I mean, how would you ever feel otherwise? I mean, you would have required them to feel—when your name's on the door and it's your philosophy to be employee-owned and to be a continuation, it's one decision. If you're otherwise looking out for your own personal best interest, it's certainly not in your best interest to do what happened. So I don't view it as anything other than that, and over time people got over it and kind of moved on. But there were those issues at the time, as you might expect.

Adamson: Was this something that, if you can put yourself in Charlie's place, something that he was thinking about for a long time, and then all of a sudden decided that this was the moment it had to be done, or was this something that he was looking for the opportunity to do it?

Kunnath: I would say that, like, you know, heating water, the temperature probably got to the point where the amount of money being made by a relatively small handful of people, probably Charlie was aware of for quite some time, but it happened gradually over that twenty-one-year period. I think the trigger point, what was the catalyst for immediate move, was probably the tax law changes.

Adamson: Okay. I reread Dean's transcript, and I don't know if this was a formal bet, but the way Dean [Stephan] put it, there was some sort of bet that Dean had said that he thought it would take a decade for the company, the new company, to double its business, relative to where the old company had stopped, and Charlie had thought it would take

twenty years, and that in actual fact it was about within a few months of ten years, the time it took Pankow to double its size. So my question is, to what extent was the reorganization a key to allowing Pankow to double in size in the next decade, and then what other factors were involved in growing the business in the decade after the reorganization?

Kunnath: We were very successful after the reorganization. The only thing—I don't know. I mean, that would be, unfortunately, because for all these things you've got multiple variables moving simultaneously, right? But you certainly had now incentivized a whole new broader group of people as owners, who could see the very immediate tangible benefit of our success in a much more dramatic way, and to the extent you believed people were motivated by additional compensation in the company's success, you'd say that it was a great strategy.

In fact, you'd almost say that if you believed that the pie is fixed and that if I give you something I take something less, you can see why people were upset to have lost something in the beginning. If, on the other hand, I could convince you that while your percentage piece of pie is smaller, the pie itself is going to get three times bigger, so it won't matter, and, oh, by the way, simultaneously you've got this whole cadre of people out there that are going to be very much more motivated to make that pie bigger, so don't worry about it, just bet on the fact that we're going to get there. And I think that's really what happened, and I think it's true. That is what happened. It's kind of like—what's the tax equivalent, right? If we cut taxes for the rich people, they'll work even harder and

the company will grow, right? A lot of people discredit that, but I'll tell you in our case, that *is* what happened.

Adamson: I'm going to ask you a bit more specifically about the special projects and tenant improvement initiatives. But in general, then, getting back to the question I alluded to before, what have you done to create more structure within the Pankow organization in your time as top manager?

Kunnath: Oh, gosh, there's so much. I mean, that's my thing. I almost need to think about what the most important were. But for some examples, first of all, you take all the basic project management tools and duties, and you would have to say that we more or less left the approach to project management up to each individual. There were some general rules. There was some ways we did things, especially in contracts. We were already fairly organized in that regard. But really only there.

But with the way we did our financial reporting, the way we would do some estimating, the way we would schedule, for sure, and the way we would communicate, send memos, you name it, there's really no structure to any of it. So we started to recognize that it was very popular to do employee training. But very quickly after saying, "Yeah, we have to do this. All our competitors are doing this. We're conspicuous by not doing it," what we realized is, train what? You can't train unless you have some system. When we started looking around, what we realized was we had six systems or seven systems or more. We didn't have *a* system, so which one are you going to pick to train on?

So I think what that started was a recognition that—the other thing is, I mean, this whole concept of TQM [total quality management] and best practices, you can't improve until you've agreed what the current state of the art is. So to the extent that we could begin to define for better or worse what is the best way of doing this particular task, but standardize it and teach it, but rather that stifle it, the immediately reaction was we're an innovative company, you're taking our flexibility away. The response basically is: No, we're coming together collectively to decide what is the best system, the best way to schedule projects, the best computer tools, the best philosophy, the best way to distribute that information, to update that information, and to communicate it in other ways. What's the best approach? And it now becomes the standard, the standard we train about, that we train on, and the standard that we use universally.

Just like Wikipedia, we will very much congratulate and encourage the first person who comes up with better practice. We'll give it a little vetting, and you know what? Your idea is going to improve that standard, and that's what we should all be doing, but right now we've got no baseline anywhere. So I would have to say that there's practically no kind of area of the company that isn't more standardized than it used to be, and also it goes to things like positions. We didn't have a salary structure system, didn't have pay classification grades, we didn't have banded widths. In accounting, we didn't have standard reporting for accounts receivable.

It's not that we didn't do these things, and for a small company, we did them more than adequately, but we didn't have a platform to grow. We didn't have the uniformity of platform to grow. When I was talking about Mobil earlier, and I remember being frustrated by systems, the rigidity of systems, and then I came to Pankow and I was

shocked by the lack of structure. But then you would say bad, good; black hat, white hat; or whatever, however you come to respond emotionally to that. But what I think I realized later is that I've only got 25 people and I know them all and I could talk to them all regularly, I don't need a lot of structure. But if I'm Mobil and I've got 180,000 people all over the world, you need a hell of a lot of structure. There's not something intrinsically good about structure, it's just that I can't control that many people. There's too much opportunity for something to go wrong. There's too much opportunity to—how do managers manage when they've got to learn 15 different systems, if I've got 15 different reports? It breaks down.

So I think the key is not to export Mobil to Pankow, but to realize that there's kind of a linear progression where one gradually increases the amount of sophistication, hopefully matching the needs of the organization at that point in its evolution. You're never ahead of nor behind what's needed in order to properly manage the company. So I would think even in my own case, I mean, we had some pretty basic structure five years ago, very recently we hired a new woman head of H.R. who comes from the industry, but of a 30,000-person employer, and is bringing with her far more quality systems of employee retention, recruiting, benefits, organizational development, and all the other parts and pieces have now become who we are.

She and I talk a lot about—she says, “Well, we used to do this and it works great.” Well, again, we're not at 30,000 people. We're at 300 people. Well, we'll be lucky to get to 3,000 in the next ten years. So what parts of that work for us? What parts don't? And so that's a constant and interesting kind of analysis is to try and get that right. But I know for me always, it's always going to be more oriented towards an

understandable and dependable and repeatable structure rather than wherever we kind of came from.

Adamson: So special projects and tenant improvements: I've talked to several people who have cited your pivotal role in getting it started, and I think generally you talked a little bit about what you did in San Francisco, generally. But as you were saying, you were looking around for business development. Was this something you hit upon as an initiative, or how did this come about?

Kunnath: Well, in a very wonderful way, but also like all wonderful things, you take them too far. Just like people who have a particular gift, if you take it too far, unfortunately, it becomes a little bit of a negative at the same time. We were, and are still, an extraordinarily capable contractor, especially when it comes to concrete and a major building construction. But we so self-identified with that kind of work that I think it kept us pretty blind to other kinds of very, very lucrative opportunities in the market. I think because I didn't start with that, I had an advantage of not having been so steeped in pride, ego, or whatever you want to say is related to that.

We simply were running out of work. I finished a project in San Francisco called Marathon Plaza. It's a big, big job, like 800,000 square feet, very successful, great relationship with Marathon U.S. Realty out of Vancouver, and at the end of the project, there's 800,000 feet of empty space, and they weren't going to build anything new for a while. We were running out of work, and you realized that they were starting to talk to some other contractors about doing the tenant build-out. I said to Charlie, "You know, if

we let another contractor in there to do this work, what's going to end up happening is it's going to be years before we get another opportunity, and by the time that occurs, the relationships won't be. I can't maintain that relationship as intensely as anybody working with these guys directly day after day. Not only that, but do you realize that the tenant work in the building is going to probably double in value at the cost of our construction over the term?"

That, believe it or not, to me, it seemed like—so I sold it from a client maintenance perspective. No, I'm not necessarily interested in this work. It's beneath our capabilities. We don't do this kind of stuff. It's drywall and wallpaper. That's not Pankow, you know. And yet from the perspective of client maintenance and from the perspective of good relationship maintenance, revenue generation, training for young engineers who aren't quite ready to be superintendents on major projects, fairly low-risk opportunity to perhaps provide them with some management skill, so we ended up having to sell it for all of its other benefits rather than as a kind of an end to itself.

It turned out that we didn't have anybody that kind of knew anything about that work, and so I found a guy at Swinerton Walberg, one of the really good tenant improvement contract people, Wally Naylor, who's still with us and runs the San Francisco office, and he came aboard as the single employee, and we were very successful, and we did a lot of that work. As a matter of fact, from Dean's perspective—but it was very unpopular. It was very unpopular, and it had some incredible—looking back, I've got to tell you, it's so incredible as to be what ends up happening that you never would have predicted. Of course, you get credit for it when it happens, right, if it

turns out well. But the money, the dollars we were generating in the down market were very good.

There's something about it that I didn't realize at the time but turned out to be true and I depend on it now, and that is that it's very countercyclic to do big building work. In other words, when there's not much work in the market, landlords get really aggressive about pursuing tenants. They offer them elaborate interior packages and they absorb the cost of all of that, and they do all kinds of things because they're competing in a scarce market for those few tenants that are out there expanding and moving.

So what we found is that we had more work and more lucrative work in a down market than when things were good. When things are good, landlords are saying, "Hey, you're on your own. You get the space. You want to do something, do it." Tenants tend not to have that kind of money. They don't do quite as much. So we realized that we're increasing volume at the time the general economy was going down. Oh, jeez, I'd like to get some of those markets. So there was that unintended benefit. Now we get it completely, and we look at all markets that way, what's countercyclic to the main trend lines.

So that was great, and the fees and the amount of money we were making surprised everybody. But Charlie never, never paid any attention to it. He never paid any attention to it. He almost let it be and ignored it as long as it was making money, but got no personal satisfaction from it at all, got no ego, pride, or satisfaction from the work, really didn't even want to know what we were doing. That turned out to be—but because we were making—you know, the corporation went from 5 million to about 130 million dollars two years ago, and it was generated several million dollars worth of net profit at

really, really good margins. The risk was virtually nonexistent compared to what we were doing, safety issues nonexistent. There were so many pluses, didn't matter. Didn't really like it. When I say, "like it," it wasn't complicated, it wasn't technically complex, it wasn't concrete, it wasn't how we self-identified. So the value, though, was that because nobody paid attention, we got to do all kinds of stuff, and for the very first time on the mainland, it's a real advantage. It wasn't about money. It wasn't about volume. It wasn't about business strategy. It was that it allowed us to go into the market, do a little bit of bidding, do virtually all non-design/build, to accept commercial terms of contract. They were quite different than anything that would have ever been allowed in the base building side, and do it in a way that people, "Ah, that's just a few hundred thousand bucks or a couple million bucks. It's just not even worth worrying about."

So we developed a whole new understanding of how those markets worked, how those customers worked. It was like going to school in a fairly low-risk way about the rest of the world worked that we never were really exposed to. And I think it prepared us very well for the fact a lot of that now has transitioned, and the main company has really been benefiting us.

So you had a company within a company that was almost stealth, but again allowed to exist because it was a significant profit contributor. The only thing that ended up happening is Dean and I got in, let's just say, a vigorous disagreement over the concept that he really did not want to do this.

Adamson: Down south?

Kunnath: Special Projects.

Adamson: No. I mean, was this a matter of expanding it to all the offices?

Kunnath: No.

Adamson: Or whether you were doing it at all?

Kunnath: No, whether we were doing it all. I think from his perspective it was that if I was to distract myself with work of that ilk, where, again, he's looking at some pretty low numbers, 10, 15 million, average project size is not even at that time, and, by the way, we're having to do 40 projects to generate that, with a lot of churning and a lot of work, hey, our average-sized project was probably 25 million at the time, and it's just like you could do all of that work you're doing for that fee. You just go spend your time getting one other project.

My perspective was we've been trying that for 25 years, we never got there. We just don't have the reputation in the market. It's just not that easy to do. The market's deteriorating. I can get this. And it took a long time to set it up. I mean, I've got to say you don't start a new business like that and really rethink all the parts and pieces that end up having to be very different, and it did, had to be very different. Ultimately, it was all new hiring. Nobody ended up transferring and sticking, for the most part. So it was a lot to do.

Dean's, I think, concern was that, "You're distracted. That's not where you should be spending your time." And he was probably right. In a way, he was right, if you looked at it from the perspective as if I can only have one and both can't be successful at the same time, then I want you over here. I don't want you over there. My perspective was, listen, I know I can at least cover my costs and make some money over here, and I can't do it over there right now for various reasons. So I think there was a lot of this for a long time.

So what ended up happening was we were making money, and he could see that we were making money, and it was being successful. So the compromise was, "Okay, it can continue, but you have to hire a person for that group. You can't do it. I don't want you splitting your time anymore." It was actually probably pretty smart on his part. So we ended up finding Dick Waltherhouse, who was already in the office and saying, "Okay, Dick, you need to go over there and run PSPL."

It drove me nuts, too, because you talk about unstructured. You think we're unstructured here, that nature of that work in the marketplace, it's just like "back up the pickup truck" kind of people do that work. It's so unstructured. It used to really drive me crazy that there's no structure at all. Dick—there's nobody more structured than Dick. His reputation in the organization is high adherence to process and procedure, contract, and whatever. I thought, "We don't need marketing. We don't need anybody to expand the business. We need somebody to basically put a circle around our operation methodologies and help these guys with some risk management and some other things." So Dick was like the perfect person to go do that, and he was there for about ten years, up until this year.

Then that person ended up kind of reporting in to Charlie, right, Dick, or at least in theory, and but there was only one office. It was just San Francisco at the time. Then obviously it expanded after that. But that was good, because what that did is that preserved that opportunity. It put it under a new manager. It provided the kind of everyday full-time additional effort that was needed in order to finish out its structuring and to let me only pay kind of incidental attention to it and go back and kind of refocus on larger market opportunities, which was my primary job. So I'd say, looking back, I mean, you never get there in a straight line, but the way it worked out was pretty good.

Adamson: From what I read, at the time you set up, or at the time Special Projects got going, it was also a solution for downturn in Hawaii. But at that time, as Dean tells it, the Altadena office was pretty busy, and so part of the resistance was, "Well, we're busy down here. Maybe you can do it up there, but we don't want to do it down here."

Kunnath: Right. Right. So, basically, again, what is that emblematic of? That's emblematic of: "If I've got nothing else to do, I guess I'd do it." There was never any recognition that it's a strategy in itself, that it's a countercyclic strategy that adds volume, maintains client relationships, provides training up for new people, is an incredible opportunity to introduce yourself to a more diverse work type without—in other words, and nobody got it. I mean, I hate to say it, but nobody got it. Nobody saw it for anything other than, "Oh, God, if I'm running out of work, maybe I'll be able to do some of this piddley stuff, but I don't want to." Frankly, up until not all that long ago, I mean, that's about how long it took in order for it to finally say, "No, this is an end in itself, and here's

all the reasons we need to do that.” There’s no question about it now. It’s fully integrated, but it took a long time. That’s a great comment. I mean, that is it, right? That’s it, like, “I’m too busy for that kind of stuff.”

Adamson: Well, one more question for—we’ll call it Part One. So you mentioned that you were meeting Charlie weekly for lunch and you also said that Charlie didn’t want to talk about this. That brings to mind just a question off the top of my head is, at this time while this is getting going then, what were you talking about? If Charlie didn’t want to talk about this, then—

Kunnath: Well, we talked about it in the beginning. I couldn’t have done it without that. I couldn’t have gone out and hired a pretty expensive guy from a competitor without convincing him that—when I say he didn’t want to talk about it. You know, I want to go back and just make a further comment about the last question as well. We talked about it a lot when it got started. But I had to talk about it not from the perspective that, “Jeez, I really love this work. Isn’t this terrific? We’re going to become a tenant contractor.” We had to talk about it from the perspective of what were the strategic reasons why we should do this either temporarily or at least for now or what were the other benefits, and “Since I have nothing else and since I have got people available, why not give it a try?” And Charlie at that point just kind of said, “Ah, sure, fine. Whatever.”

But what he wouldn’t care about is, you would say, “Jeez, we just got a \$6 million tenant finish contract with a new tenant downtown at 303. We haven’t been in that building before. It’s great.” He’d go, “Congratulations. Good fee? Yes. Okay, great.

Now, here's what I want to talk about." That was it. There was no more conversation. He didn't want to know any of the details. Whereas otherwise, if it's another project, "Well, let's go out and see it, and I'm going to like to take a tour," whatever.

I don't know that Charlie ever toured the tenant finish contract in—he probably did, but I can't remember when, even though there was hundreds and hundreds of projects. He would go downtown and he'd say, "I saw a truck and I saw a sign in like fifteen buildings that we're working in." And he liked that. He liked the name recognition that it provided.

This was the other thing that was an advantage. We had trucks everywhere. We were all over downtown, and people don't know whether you're on a \$30,000 lobby remodel or whether you're building the building. So it was a really good way to kind of promote. We seemed to be everywhere as a result of that, which really ended up helping our business. But what he didn't want to talk about was he didn't bother to go in, he didn't care to see the work, he didn't want to meet the people. In that regard, it simply was not what he was about as an engineer or a builder, that kind of work.

But to Dean's point earlier about we were busy, I think the assumption was either/or. "In order to do that, I can't do this." Well, that wouldn't have been very smart, because the "this," we were busy, we had big work, they were making a lot of money. So if you assume that the only way you could do that was to take someone out of the organization and do that, then it's true. We didn't do that, though. I mean, what we did is we basically said, "The people we have in the organization don't want to do that, they don't know how to do that, they don't have the relationships or contacts to do that," and for other reasons I've talked about, they're not emotionally suited to working in an

occupied space. They're blow and go, get out of my way, noisemaking, production-oriented people.

Here you are very considerate, bring the secretary a cappuccino before you start the day because you're going to make some noise in her space, make sure that everything is protected, work-very-carefully kind of people. Very different crew. So you want to go do that stuff? Go hire the right people. Don't bleed your other troops. They're wrong anyway. So until that kind of understanding was that it's additive, you have to add the organization, you have to build it from scratch, and go do it, but that took energy and commitment and a champion. There was also no champion here.

Adamson: But Pankow had worked on these mall renovations that they kept open while they did the—

Kunnath: They did. That's a very good point. But still, a lot of that work was night work, a lot of it was—it's not quite the same, although there are aspects of it that are very similar, but not quite the same.

Adamson: Fair enough.

Kunnath: I'd have to take a long time to explain why not, but, yes, we did do that.

Adamson: I think we can end today and pick up Part Two another time. So I thank you for your time, and we'll stop there.

Kunnath: Excellent.

[End of interview]

Oral History Interview

with

RICHARD M. KUNNATH

Part 2

October 21, 2008

Pasadena, Cal.

By Michael R. Adamson

Adamson: Okay. Let's start with Part Two. It's October 21. We're back here in Pasadena.

We last left off talking about Special Projects. I think we ended with that, and so what I'm sorting out here is the nineties and more recent times. Starting with coming out of the reorganization, what have been the greatest strategic challenges Pankow has faced?

Kunnath: Following the reorganization?

Adamson: From 1986 on, let's say.

Kunnath: 1986 on, yes, which is essentially the reorganization. A few strategic challenges, those would essentially be, I would say, if I had to rank them, the first would be the first true generational ownership transfer that Mr. Pankow, Dean Stephan, George Hutton, Russ Osterman, and those kind of legacy people who really were the company since its founding in '63, now for various reasons, either their own choice, which I would more or less attribute to Dean's case; he was still young when he left. I'm not even sure if he was sixty, but real close to that, not any older. But in the other cases, I think, other

issues: advancing age, or issues relative to between them and Charlie or whatever the case may be, they were all leaving. So there were the financial implications to that. They had significant ownership stakes in the company, and if they were to leave, those stakes needed to be liquidated and paid for, and also their talent and skill and the loss of that talent and skill needed to be replaced by new people moving up in the organization. So I'd really say from the founding in '63 up until here we are mid-eighties, starting to get into the latter half of the eighties, we're really starting to face that for the first time.

It really took some number of years, probably five to eight or so, for it to fully be realized, but those are some interesting times. I mean, George is leaving as president, Dean leaving as president, Russ leaving the organization, those are major events, and at every one of those junctures somebody had to step into the gap and take over. So that would be number one.

I think the second would be that Charlie, himself, showed no signs of not wanting to be in control, but he had some very significant health issues starting not long after that, as you're probably aware. I don't know if that came up or not in any previous discussions.

Adamson: I talked to Dr. Josselson.

Kunnath: Yeah. So those issues really incapacitated him or certainly limited his energy and opportunity to participate directly, and he was still the founder and ultimately the general partner and made all the final decisions, and so I think there was some uncertainty during those times as to how all that might evolve. That was a strategic

challenge. I think in many ways it's also a good test case for how things might be someday if Mr. Pankow wasn't there and the company needed to continue to function, people needed to make decisions, and when he wasn't around to actively participate, then the world didn't end. I mean, things needed to keep happening. So I hadn't thought about it quite in those terms before, but maybe it was almost like a dress rehearsal for some future point in time.

But then he did recover. He became vigorous again, and yet he was well into his seventies and getting older, and all those kind of issues began to be relevant as to how does that transition happen, when does that happen; is it a decision that he would make at some point, or will it be catalyzed by deteriorating health? Those were the kinds of things that were, I guess you'd say, unknowns and not untypical, you know, but things that the company dealt with.

Adamson: That segues into the question I had I was going to save towards the end, but I think the quote is from Dean, and I think he actually asked me to ask you about it, too. But I think the way he put it was Charlie "pulling the strings behind the scenes to a certain extent until the very end." Is there anything you can elaborate on that?

Kunnath: Yeah. He had more or less unilateral control of the company, and yet for whatever reasons, I mean, normal age and health issues wasn't able to keep up with the details to be involved, hadn't probably had office hours since the eighties, you know, and yet was just, I think, struggling to kind of keep up, but never lost the belief in his own judgment or relinquished the ultimate control. Day to day, yes, that changed a lot. But

the major strategic initiatives, I think he still wanted to not only have a hand in it—at a minimum, have a hand in, but all the way up to really unilaterally making those decisions.

Near the end of his life that became really problematic where some of his thinking—and, again, you don't want to be too critical. I mean, I think that he was really struggling just trying to stay alive, but mostly trying to do what was right for the company and came to some conclusions and made some moves relative to who should be in charge and who shouldn't, how the company might work and whatever, that ultimately probably weren't helpful to the company and were pretty disruptive and scary at the time. None of that ended up becoming permanent or resulted in any permanent damage, but it did result in probably half a dozen very quality people who should have otherwise had a future here leaving, in one case starting their own company, in the other case leaving for other reasons, and that was unfortunate.

I think it was more or less the result of someone who probably should have relinquished control, at least a couple years, if not more than that, earlier, and not having done so, just had a tough time giving up that control. I don't think it's untypical for people of his ilk and ability and entrepreneurs. That was his life. He was personally completely identified, personally identified, with the company, and to lose the company to some extent, I'm no psychologist, but it's like losing yourself. And so I'm not sure I would have done a better job, but let's just say it was a tough time.

Adamson: As I understand it, there are or were half a dozen general partners who planned the succession. Was the succession seamless, or was that in place when he

actually passed to continue on in some form, or did you have to meet afterwards and plan what to do at that point?

Kunnath: Yes. I think a little bit of both. I think that he actually had some ideas that there may be a different succession plan. Maybe we would bring in an outsider to run the company. I don't think—he personally did not give any support for that idea, and as a result of not getting any support, you look for a different approach. That different approach was really to nominate half a dozen people who would be really almost an ownership board, if you will, and rather than vesting it in a single person. His relationship and mine got very strained at the time, never broken, but very nearly broken, and so whereas I think there had been not an expectation, a written agreement, you know, that I would assume his position in the company in time didn't turn out that way. At the very, very end, and for reasons, again, hard to go back and figure out exactly what he was thinking at the time or what led to that, but be that as it may, he ended up nominating these six people. He ended up selecting one of those six people to maybe take the lead, and the other six might be in a secondary position, that then after his passing, the six of us got together. We talked about that arrangement, how that might work, who would be in charge and who wouldn't, and there was a formal vote. And that formal vote, I would say, to some extent didn't change the six, but let's say that it changed the hierarchy of the six in the way that you see it today. So the six people agreed on the current arrangement. Current arrangement is no different than what we see. And that's as we continue.

We're about to have retirement next year, which will be the first time that one of those six people will be retired and the company will have to decide, you know, who

replaces him and all the rest. But between Charlie's passing and, again, mid '09, our decisions that were made within weeks really of Charlie's death have been held together and, I think, served us well.

Adamson: Thank you for that. In the mid-eighties, Dean Stephan had a column in the company newsletter that, basically to summarize, explained the success of the company from the ground up as innovation accumulated at the project level.¹ If we're talking about the time frame where you have been in the top management, if we look higher up the company ladder, what has top management done to ensure that this innovation at the project level is maintained across the enterprise?

Kunnath: Maintained relative to a philosophy or disseminated and absorbed in our operating procedures?

Adamson: In all the geographic offices and, you know, if there's innovation at this project, how the rest of the company learns about it, how that sort of innovation is learned throughout the company.

Kunnath: A couple of thoughts. That is, I think, what Dean was describing is probably the historical and the best way that innovation arises, is really from the ground up.

People who are usually doing the work usually see what can be improved faster than the people who are casual observers of it. The way that it was done historically was through annual meetings or annual kind of gatherings of the company where those inventors, if

¹ Dean Stephan, "Working with 'The Best,'" *CPI News* 2 (Spring 1984).

you will, have a chance to stand up in front of their peers really in fair detail describe what was done, why it was better, sell their ideas. Really, dissemination happened that way.

There are also these what's called technical reports, where these innovations would be dissected and described. Those reports then would be available to any of the offices for their use in future project planning. All that happened.

But I think in addition to that, if you want to look at it from the other way around, what were we doing from the top, the company had a research director position that was filled by an individual. That research director really helped to manage other innovations that the company was involved in. The other innovations would be direct funding of university research in order to come up with better ideas. Those ideas then would get employed on Pankow projects and, again, get disseminated throughout industry.

We had a major initiative where we were a co-funder with the National Science Foundation for a new method of beam to column connection, called the hybrid moment frame. You probably heard a little bit about that. Well, that would be an example of almost the opposite; not ground up, but almost top down. So I think innovation really was promulgated both ways.

The other part of that, of course, and Dean may have talked about this, and in some ways I learned the concept from him, but it's through design/build where the contractor has the ability to direct the design solutions for a project, that those kinds of innovations get used. If you have a really great idea or you invented something, whether it's from the top or whether it's from the field up, doesn't do you any good unless there's a way to take the idea and get it incorporated in the project. If I'm just a regular garden

variety general contractor and the architect hands me some plans and asks me for my price, it doesn't help to have a better idea. It's too late. Plans are complete. It's only that design/build component where good ideas are incorporated into the design and materialize that way in which there's an economic incentive and a vehicle in order to make that happen.

I think the other thing that has happened is the Charles Pankow Foundation. Are we going to talk about that later?

Adamson: We'll come back to it.

Kunnath: Yeah, because the Charles Pankow Foundation is—I'll just very briefly then say that it is really the epitome, the penultimate way for the top-down innovation where we have a major perpetual foundation that funds. At this point, I think we've got sixteen active university research projects that we're funding around the United States to try to bring innovation and new ideas to the industry and, of course, capture them for ourselves as well. We really hope to make a real major impact on the industry in a way that we've really never previously had the financial ability to or was never organized, you know, in the method that it is currently, if you will, one of Charlie's great legacies, or we certainly see it that way.

Adamson: I'm looking at an article from the *San Francisco Business Times* from 2001, that raised a couple questions I have about relationships with developers, and in that

article you're quoted.² And also Gordon Hess of Ellis Partners, who explained that Pankow knew the Oakland market and the, quote/unquote, "ropes," because they had been there a long time. Plus he said the firm is honest and upfront. Does this in a nutshell sum up why Pankow has been successful, do you think, not only in Oakland but in San Francisco, southern California, Hawaii, and other places; why it has the relationships it has with developers?

Kunnath: I think that Pankow—and you always want to be known as being honest. But to some extent, I think most successful companies have to be. It certainly characterizes us, but I don't know that it's a sufficient distinction. I'd like to think that most of our quality competitors are also honest.

I think what differentiates Pankow is really—you can say design/build, but not design/build from the perspective of a delivery method. Too many people doing that. design/build from really a cultural perspective where the idea that the builder is also an engineer and also very technically capable in that the technical contractor really brings solutions, not just manpower and materials in an orderly sequence, but real solutions and technical solutions to solve problems. I mean, our new tagline, even though we came up with it not all that long ago, I think, is really at the heart of this and that is: "Thinking Beyond the Building." Thinking Beyond the Building. What that means is it ain't about the building; it's about some problem somebody's having and, oh, by the way, it involves the construction of the building. But sometimes, often, it's not about the building.

² Jessica Materna, "Pankow's Kunnath Helps Spin S.F. Straw into East Bay Gold," *San Francisco Business Times*, 9 February 2001.

If a hospital system needs to provide care to an area of the city where there are no quality medical services, then is it about the building or is it about the providing of the care? I think to the extent that you understand what's really needed, then you become a partner, albeit a partner constructing the sticks and bricks, a partner who understands your client in the way that you end up being helpful in a broader way, in a more comprehensive way than simply executing the building project. I think that's what characterizes Pankow. I think the other part of that is very connected is are you simply a service provider sitting in the back of the bus or are you in fact driving the bus towards the solution? We see ourselves as driving the bus, not a passenger.

Adamson: In this article, talking specifically about Oakland again, you suggested—not to quote you, just to paraphrase you—that Pankow's recent success in Oakland—this is again five, seven years ago—owed much to the relationships with clients who were participating in the revival of downtown Oakland. So my question is, if other developers that you hadn't had relationships with historically had been the ones active in the development, would Pankow still have been participating? Was there a way in through another method if you didn't have those developer relationships?

Kunnath: Would we have been—do I understand your question to say that had we not had prior relationships with those developers would we somehow still introduced ourselves and then select by a new group of people and been as successful?

Adamson: Yes.

Kunnath: Well, it would be hard for me to argue that relationships aren't a value. On the other hand, it's a tough business, and if you're not delivering the goods, I can tell you that the way you sustain a relationship is not by being fishing buddies or going out to dinner; I mean, it's by performance. You can be the best friends in the world, but if you're not performing, you not going to be a provider. It just doesn't work that way. Nobody can afford the luxury of less than top performance.

I'd say that in any market, the company strategy—and I think it wasn't any different in Oakland—is you tried to maintain and bring along and nurture all your existing relationships, but there's never a day, there's never a month or a week that goes by where you're not trying to add another client to that list of preferred vendors. The difference for us—and you'll hear other contractors say this but you'll almost never see it actually happen—is we're not interested in projects. What you usually see is someone announces there's a new project, and immediately the sales team goes and finds the person building that project, and they will introduce themselves and attempt to be at least considered. We don't do really that. We've never done that. Still don't do that. What we'll try to do first is find out who are the real players in the market; what do we think of them; what do we think about them for all the myriad criteria that we apply to those kinds of decisions; and then we will try to develop a relationship with those people *before* they have a project. Because the idea of chasing a project, you end up with a whole crazy cast of potential clients who maybe aren't really that desirable in the long run. But if you start with quality of the client, and one of your criteria is that they're reasonably prolific over some period of time, and you have enough of them, you don't kind of worry about

chasing jobs. I think that's been our strategy all through the company's history and probably even more so now.

Adamson: Finally, relating to this article, the article suggested in 2001 that you, Pankow, would work with Ellis Partners on Jack London Square. Did this occur?

Kunnath: Yes. We're building the project now as we speak.

Adamson: As we speak. I've got to research that one.

Switching to DBIA [Design Build Institute of America] and your contribution and participation in it. Bob Law indicated that you were one of the founding members. What spurred you to start the organization when you did?

Kunnath: Jeez, I'd love to take credit for that. I think there's probably a better person who, if you really wanted to say, was the founding inspiration for the group, would be Preston Haskell with Haskell Companies in Jacksonville, Florida. But he put together, in addition to himself, five other companies or five individuals, six total, who were kind of the group that got together in Washington, D.C., and talked about whether or not the industry was ready for another association that would promote the concept of design/build delivery.

I think Dean probably got—did get the first phone call from Preston. I don't think he would have known who I was at the time. Dean didn't have the time or—I'm not sure about the inclination. He just didn't have the time to participate, and he suggested I

would be the person for Pankow to do that. So I remember Dean and I went to the first meeting, and I think that was probably his last formal involvement with the group. We then met several times trying to decide whether or not this was a good idea, came to the conclusion that it would be, and off we went. I think I was—the first year, 1995, I believe, Design/Build Institute was begun, Preston Haskell was the first national executive director, president, whatever the term was at the time, and I was the second in 1996.

Adamson: In general, in the last ten years or so, how has the association gone about promoting design/build?

Kunnath: It's been remarkably successful in promulgating best practices, a manual of practice, and disseminating all that information to the industry, especially to owners. It has currently well over a thousand members, annual budget of several million dollars, conducts almost internationally, but certainly nationally, a very robust seminar and training program, has a new nationally recognized designation, DBIA certification. It has provided seminars in training that have influenced virtually, I would say, every federal agency that builds anything, and many state agencies, especially here in the State of California, and probably—I don't have numbers anymore, but I would guess that two-thirds of the states of the United States have design/build, either laws or procurement methodologies or systems that were heavily influenced by DBIA and continue to be.

So it's had an impact on the industry that is profound; in fact, so profound as to be almost—I mean, had we, when we got together for those first couple meetings, ever

realized the impact that we would have and the momentum that that movement would gain, nobody would have believed it. I think it exceeded even Preston's wildest expectations and quite something.

Adamson: This short bio I have on you says you speak on alternative project delivery and procurement, especially design/build. I've heard a lot about project delivery in the context of design/build, but I haven't heard about procurement. Can you talk a little bit about that?

Kunnath: Project delivery, if you said how are the participants going to be contractually organized and assembled in order to, kind of, deliver the building? Who does the architect work for? When are they hired? What is the owner's role? What is the contractor's role? What about preconstruction, and how do the teams of people contractually work together and how do they cooperate, etc.? That's a poor definition—I could do better with a little more time—of the delivery process.

Procurement, it's its cousin, but totally unrelated. Procurement is: How is it bought? So you can have the assembly of the parts and pieces, but that assembly can be bought on low bid, it can be bought on qualifications only, it can be bought on stated fees, it can be bought any number of different ways. For instance, in a design/build project, I can say to you, "I want a design/build library, and I have \$10 million." One procurement method would be to say, "I have \$10 million. Please come up with a design, and your competitors will do the same, and I will decide for my \$10 million who will get the project and whose design I like the best." That's essentially a design competition.

On the other hand, I could say, “Here’s kind of the library I would like, and I’ll give you some specifications and I’ll tell you how big it is and all those kinds of things. Tell me what it would cost.” That’s another kind of procurement, because now I’m not competing for design; I’m competing on a basis of the lowest possible price.

Other procurement options might be, “I will give you 25 points for low cost. I’ll give you 25 points for best design. I’ll give you 25 percent for the quality of the team and their experience that you assemble on my behalf, and I’ll give you 25 points for who has ever got the shortest schedule.” That’s another procurement option.

So what we’re really talking about it what are the evaluation criteria that I will use in order to decide between competing teams. That’s a procurement methodology. It has nothing to do with whether it’s design/build or whether it’s the construction manager at risk or at agency or the other options.

Adamson: Thanks for clarifying that. Here’s a historical question. As you understand it, what are the origins of design/build in America?

Kunnath: Well, I just gave this talk at UC Irvine two weeks ago, and I borrowed heavily from many talks I’ve seen before. The design/build from the concept of the master builder is really the concept that kind of predates, you could argue, sometime around the mid-1500s, in the time of the building of St. Peter’s Basilica. From that point back, you would say that the architect, the artist, the conceptualizer of the building, was also the person who would direct the stone masons and the crafts, later the guilds, and what really

would be responsible for the procurement of materials and all of the parts and pieces of the design.

So if I'm Brunelleschi and I'm building the Duomo in Florence, I drew it, I engineered it, I bought the stone, I hired the laborers, and I made sure the Pope was happy, or in this case, de Medicis were happy, and I did it all. So that is how buildings were done. But in the mid-1500s, through really the development of physics, frankly, and math theory, as mathematics became more sophisticated, loads and gravity and building components started to be better understood, and the concept of engineering and the ability to actually calculate loads as opposed to doing it empirically began to separate the professions. So it separated into architecture. It separated into engineering. The guilds, the predecessor of the unions, began to develop independently. So you had a separation which fragmented what otherwise was a methodology of building that was under a single individual.

I think that just as we got more and more specialization—you see it in a lot of other things, medicine—I mean, it's got a lot of parallels. We now have very few generalists and tons of specialists, but somebody still needs to be the master assembler. Somebody still needs to take all the specialties and bring them back together in some kind of a coherent whole. That would be modern-day design/build, I guess, the reassembler, the master integrator. Certainly at this point no one is capable of doing and performing all of the specialized functions themselves.

Adamson: In lists of *ENR*, its list of design/build companies, one of them that I've seen and subsequently read their company history was The Austin Companies, and even going

back to the early twentieth century, they had something they touted as the Austin Method.³ They were listed as a design/build company in the seventies and eighties, and I'm wondering if they would make the claim that you could go all the way back to the beginning of the twentieth century to this Austin Method, to the extent that you're familiar with it, and say that that was sort of design/build approach. I'm not familiar enough with it, other than reading what they had in their advertisements, but that seemed to be some sort of contract where they took some responsibility for the overall—

Kunnath: They were very early, and I think that it's probably accurate. I think that the term "design/build" is relatively more a contemporary term. We were practicing design/build in 1963, but I don't think Charlie would have recognized that term. I don't think that he would have—would not have used that term design/build.

The Austin—it's interesting, and now that you're reminding me that the Austin Method was the term that they used to describe their unique method of project delivery. In fact, it was design/build, and they were a very, very early practitioner. I'm not sure they were the only ones, but very often they're the company that seems to be associated with some of the early twentieth century use of the practice. There's probably others as well, but these are kind of commercial builders.

If you looked at industrial constructors, you might find some very early applications as well. It's relatively more common in industrial construction, you hear the word "turnkey." Turnkey, where you would have an EPC company, an EPC—engineering-procured-construct—like Brown & Root or C. F. Braun, firms like that, who

³ Martin Greif, *The New Industrial Landscape: The Story of the Austin Company* (Clinton, N. J.: Main Street Press, 1978). See, also, Nicholas S. Patti, "The Austin Company," 41–4, in *International Directory of Company Histories*, vol. 8, ed. Paula Kepos (Detroit: St. James Press, 1994).

because of their special expertise in, let's say, an industrial process in hydrous ammonia fertilizer or maybe even a petrochemical process would really be almost the patented inventor of the chemical process through an engineering division and would also then execute the design documents and then also construct under some kind of a single-part agreement. That is an old process as well, been around for a long time.

The building site equivalent didn't really exist, with the exception of people like Austin, Pankow in '63. There's a couple of other companies that have been around for a very long time, maybe not quite that long, but a group in St. Louis, HBE, Hospital Building Equipment, or something like that. I'm not sure what the acronym is for. But there are early adopters of what essentially was the reconnection of the builder and designer of following, separation.

The other thing that I said I attributed all this to separation, I think there's another thing that happened, and it was really—I'm not sure of the historic references. If I told you what I knew, I might get that wrong. But it's basically the need for—well, corruption and greed, I guess, is what caused it—but the idea of having an arm's-length procurement process where through the low bid method where multiple people were asked to bid on exactly the same thing and the contractor would be selected on the basis of a clearly identifiable low price was really a result of sweetheart deals and single-source procurement and some of the things you still hear about with military procurement today and probably never go away.

But the point was that there was enough scandal that the idea that we needed some way to know that the public in particular was getting the very best price for its buildings really exacerbated the situation. So now we have not only separation as a result

of technical requirements, but now we have separation as a result because we're afraid that if we bring you all together too early, we'll never know that we really got the very best price for the taxpayer. So you have that component getting added as well, and that was particularly relevant in the early 1900s. So you've really driven a wedge between, separated, the various practitioners.

So design/build in many ways, there was tremendous kind of barriers in the way of reassembling the teams, because we still have the issue of having to protect the public, making sure we get best value, and you also have all these disparate parties now who're used to kind of operating in our own silos. Those silos need to be broken down and then reassembled because none of that—by the way, none of the separation, none of the corruption controls had anything to do with the most efficient and best way to build a building. It really arose for completely independent reasons, and while they were valid reasons and while they're very understandable, it was not in the best interest of building efficiently, and that's what design/build has really attempted to do, is to say, okay, we've got to acknowledge all this, but we really need to get people back together and cooperating in a way that better melds their individual capabilities or we've got a mess, frankly.

Adamson: Now, as I understand it, one of the motivations for Charlie to start his own company was that Peter Kiewit was building dams and bridges and roads, and he wanted to build buildings. But when he started his company in 1963, did he bring with Kewitt a sort of sense of design/build, or was this something that he had developed on his own

while he worked for the company, or was design/build an approach, something he developed once he started building buildings as his own company?

Kunnath: You know, that's a good one. I would say that it would almost be better to talk to somebody who was with Charlie at the time. My sense was the very first project we did in Oakland at Broadway/MacArthur was a design/build project of sorts. Again, it wasn't called that. But, basically, the way we got that project, Charlie was an engineer first and a builder second, and he knew how to design buildings, and he used his construction expertise to the owner's advantage. So here's a building that's designed in steel and it's put out to bid, normal way, everything was done, project was too expensive, so what do you do? You go get four more bidders. Let's bid it to some more people and see if the price comes down. The price doesn't come down, or it comes down but not enough. It still isn't affordable.

Charlie comes in and looks at the plans and says, "No wonder it's so expensive. This building shouldn't be steel. It should be made out of concrete, and it should be assembled this way, and we could make the following changes. It will look identical, it will have no impact on the owner, but what's been done, what's been designed independently without input from anybody is so inefficient that, no wonder." So he approaches the owner and says, "Let me redesign the building, structurally, not aesthetically, not how it's going to look on the outside, not the size or the amenities, and let me give you a price. If I can meet your budget, can I have the project?" Well, after two rounds of bidding still not being close, the answer is yes.

Basically, what Charlie did was redesign the building, using knowledge about what would be the best way to design this building from a contractor's point of view, the cheapest, most effective, code-compliant method, and we came in at the time very significantly below the previous costs, well below the owner's budget, a very attractive project for us financially. It was the first, but it was really the prototypical example that using what you know about design rather than simply being the recipient of somebody else's bad ideas, and the only way that you got work was to work cheaper and cheaper for lower and lower fees, as opposed to just throwing out what you've got and really just fundamentally restructuring what you were given.

That's what Charlie brought. That was—if you want to call that design, it's the combination of innovation and design/build and using the builder and his expertise and knowledge about what works in what market, what's the most cost-competitive materials at that time in that location and bringing it to the owner's advantage in order to get his building done. You can take all these terms and all the technology and all the buzzwords that people use, but that's the concept that was the heart of what we did then and hasn't changed a bit today.

Adamson: In 1973, the administrator of GSA, the General Services Administration, Arthur Sampson, stated that construction was the worst managed industry in America.⁴ Last year, a lawyer, Barry LePatner, wrote a book called *Broken Buildings, Busted*

⁴ "Change: The Building Team Is Getting Together for a Change," *Building Design & Construction* 14 (December 1973): 34.

Budgets, which suggested that little has changed in the intervening years.⁵ Is this how you see it?

Kunnath: Barry LePatner must have lost a lot of lawsuits to write that book! He's pretty bitter. But he probably wasn't wrong. In fact, I think he did a very, very good job of analyzing problems and perhaps a slightly less good job of suggesting solutions. But that's okay. He sees it from his perspective. But I think that that's true. I think most knowledgeable people would more or less say that other than—jeez, I don't know, I can't think of another industry that probably has progressed less from a productivity perspective than construction, but it's got to be really near the bottom. It's a mess.

Adamson: Almost all of the Pankow projects I've read about have finished ahead of schedule. Is that because contingencies are built into the schedule or is it just the way it turns out? I ask the question because it would seem that over time you would estimate closer and closer to the actual finish, but maybe I'm missing something in that.

Kunnath: No, I don't think you are. I think if you were honest, you would say that your ability to make a schedule depends on a number of things. One of them, of course, is your certainty about productivity, and that would be certainly one. One of them would be—and I think that because we're design/builders, because we design a lot of buildings around systems we know very, very well, that we have a high degree of, let's say, repeatability, schedule repeatability, built into our projects. I think that's a help.

⁵ Barry B. LePatner, *Broken Buildings, Busted Budgets: How to Fix America's Trillion-Dollar Construction Industry* (Chicago: University of Chicago Press, 2007).

I'd say that as the penalties for being late have gotten bigger and bigger—the penalties today for being late can be horrific—you are more and more conservative about your schedules, if you can get away with it, and certainly from a risk management perspective, you want to give yourself some contingency, as you say.

Other than that, I would say that, and this sounds a little self-serving, but I think that there's such cultural importance placed on being on time and not having a project delivered late that I would say that, in my experience—and I'm sure there's other contractors that would do the same; I just don't happen to know who they are—there's just nothing we wouldn't do in order to finish on time. I mean, if it means taking a significant loss on the project, whatever it means, taking extreme measures to make sure that we finish on time, I think the company's prepared to say, "Well, we got a bad project here. We shouldn't have agreed to the schedule, but now that we have, we've got that obligation. We're going to get it done. We're not going to fail to meet our contractual obligations."

This part about always finishing early, I don't know that that's true. I mean, there's a lot of projects where we're very close. I think project to project these days, you can make the date, I think you consider yourself successful. I'm not sure what you were reading, but if it was in the last few years, I would certainly say that we haven't delivered any projects late, but we certainly haven't delivered that many early either.

Adamson: Okay. A September 2003 article in the *Los Angeles Business Journal* stated that Pankow Builders, quote—I'm not sure if someone offered the quote or they're just

summarizing—“offers small company intimacy and large company capacity.”⁶ What does that mean to you as the CEO of the company?

Kunnath: Yeah, I think I understand that completely. I don't know who said that. It's a pretty good one. The company is still pretty small, I mean, less than 300 employees and still with revenues even this year not much above 500 million. So that's a medium-sized company, and yet I think that you'd see that we compete on projects in excess and have completed projects in excess of 250 million. So we have the ability to build projects. We have the technical expertise, financial resources, and the systems to build buildings, very, very large and sophisticated buildings, and to compete against national contractors who are ten times our size or more, yet from a size perspective, we're not them. So we do have a tremendous amount of capacity, big building capacity, for a relatively small, family-like company. I think part of that is just the expertise and the experience of the people here, quality of the people here, but I also think that we've been, again, a financially conservative company so we have the financial resources and the liquidity and the bonding capacity to do very large projects. That's uncommon.

Adamson: Now we've talked about the reorganization. What are the things that you, Charlie, other top managers have done to ensure that the company outlasted Charlie and not only Charlie, but all those who worked with him and knew him?

⁶ “Charles Pankow Builders Ltd.: Celebrating 40 Years of Building Excellence,” *Los Angeles Business Journal*, 29 September 2003, S7.

Kunnath: By “outlasting,” you mean that the company would continue to be a viable ongoing operation?

Adamson: Beyond not only Charlie but beyond you and Tom [Verti] and—.

Kunnath: Right. That’s a good question. I think the first-generational succession plan is a tough one, wasn’t easy for us, and Charlie was very smart about how he handled it financially. From a non-financial perspective, I think I’ve already answered the question. But from a financial perspective, he started liquidating down his interest in the company, really, in 1986, and continued to do that really up until his passing, so that the necessity or rather the requirement to liquidate his percentage interest in the company to his heirs was not—in his case, it was a significant issue, to say the least, but it was not undoable.

I think for a lot of owners who end up owning 70, 80, 99 percent or all of a company, and all of a sudden they pass away, and, you know, what do you do now? I mean, nobody can afford to buy it. Where does the money come from? How does that work? That was not our problem. And I think that’s definitely been continued. I mean, there’s currently 34 partners here, and the ownership of the company is very widely distributed. I can retire as the senior partner, and I would say the remaining group wouldn’t have any particular difficulty taking me out and not missing a beat relative to our continuing operation. In fact, I think I could retire simultaneously with the next three most senior people, and you could say the same thing. So I think that that diversity of ownership and a highly liquid cash position for the company answers the financial part of that question. I think that’s not the tricky part. I think the tricky part is the who and are

they ready, if you have the talent, if you've attracted the talent and retained the talent necessary to make the next turn.

In that regard, this year, I'm not sure we were doing that. I'm not sure that we were really particularly set up for all of that. Plus growth, by the way. So we, this year, hired for the first time an officer-level senior vice president, human resources manager, with very significant experience, and one of her charges is to really start a robust succession planning plan at the company and starting to get people ready for those next moves. We're going to, as I said earlier, have our first shareholder retirement in '09. That president has been picked, been working with an executive training program for the last couple of years getting them ready, also getting their backfills ready, in a kind of domino effect every time you move a senior person.

So I think we're certainly aware of it. I think we've made some moves to address it, and we're getting better, and over the next couple, three years, I think it will get even better yet. So it's not going to be easy, but there's certainly a recognition of what has to happen in order for it to continue, and we're taking those steps that we need to take.

Adamson: Well, let's turn a little bit to the Foundation. Was the Foundation something that Charlie thought about a long time starting, or was it rather late in the day, or how did the actual idea to start a foundation in the form it has taken start?

Kunnath: No, I don't think so. I mean, this is going to sound goofy, but I think that the idea really came from somebody you know, my wife, Linda. Charlie was, I think, for a long time really wondering what he would do with his legacy, I mean, having taken care

of his family and other immediate needs. He was very successful and, I think, realized that he had the opportunity to do something beyond that. He was certainly very inclined towards Purdue University. He was very inclined towards perhaps other charitable institutions, knew exactly what to do, I'm sure. So I believe it was Linda who said to me, "You know, you ought to really think about a foundation."

I said, "Well, I'm not sure if he'd be interested in that or not." But the idea started kind of germinating.

Then I remember coming home on the plane, I was reading *Harvard Business Review*, and there was an article in there about Sun Microsystems Strategic Foundation, Strategic Philanthropy, I think it was called.⁷ The concept of that article was that Sun knew that in Silicon Valley there's a lot of minority kids, especially Hispanics, that needed quality jobs, needed education, and they would like to help. Simultaneously, they sold very complicated servers that most people, even good-quality IT people at the time didn't understand, and certainly there weren't enough IT people who really understood how to integrate large-capacity servers into organizations.

Somebody at Sun came up with the idea—and I read this article a long time ago—with the idea that, "Jeez, what we ought to do is start a computer science program at the community college level to understand the operation and functioning of large-capacity servers. That would give community college kids that are only going to go to school for two years a new career opportunity and, oh, by the way, maybe we'll sell a whole bunch of servers. Is there anything wrong with helping the community in that way but also

⁷ Michael E. Porter and Mark R. Kramer, "The Competitive Advantage of Strategic Philanthropy," *Harvard Business Review* 80 (December 2002).

hopefully—we're not the only people who sell servers, but we'll get our share if this works.”

I thought, “Jeez,” so I gave the article to Charlie, and we started thinking about, wow, what if there was a foundation. What if the foundation in some ways was able to promulgate ideas, thoughts, investments that would come back in order to help the company? Then we started thinking about what a drain it was on the company to develop the hybrid moment frame and that a foundation, if it was properly organized, might have the opportunity to do things like that in a more effective way than they'd been able to do previously. From that, the idea just started to germinate.

But I think the actual forming the Foundation was only a couple of years, at the most, prior to Charlie's passing. I think we had \$300,000 in the Foundation. You know, you're required by IRS rules to spend 5 percent, that's 15,000 bucks, and we weren't going to do very much, and it kind of sat there and really did nothing. We did nothing with the idea. When Charlie passed away, I think—I know for myself, everybody was surprised, everybody, meaning all of us certainly at the company, were surprised to realize that he had left a very significant piece of his estate to funding the Foundation and that then gave us the resources to execute the ideas that I'm talking about in a way that I don't think would have, even when we were first talking about it, would have ever dreamed about.

Adamson: So the idea of funding research was something that he recognized that that would be the business of the foundation?

Kunnath: I wouldn't be quite that direct. I think that was a consideration, and it was on the table, but I think that there were other ideas at the same time as well, including assistance to various universities that Pankow relied on for recruiting and to make sure that engineering education was up to snuff and that future constructors coming out of those schools were properly trained. I think at the time there was a range of strategic ideas that, again, could be within the requirements and rules of charitable giving, but simultaneously could be beneficial and helpful to the prospects of the company, although it was understood then, as it is now, that it cannot be self-serving from the perspective of: those kinds of things need to be in the public domain. They cannot be solely for the exclusive use of Pankow.

On the other hand, I think our feeling was that if we do this the right way, like, for example, with Sun, we'll get our fair share and we'll compete and it will be fine.

Adamson: Does DBIA fund research or are they just promoting—

Kunnath: They had a separate research foundation, in fact, of which I was the president for several years, the founding president. It was called the Foundation for Integrated Services. They were only able to track something less than a million dollars' worth of an endowment after several years, and a million dollars, frankly, isn't enough to do anything with.

So we—we, the Charles Pankow Foundation—approached them in 2007 saying that in exchange for us agreeing to do some design/build research, which, frankly, we were doing anyway, why don't they just fold their foundation, give us their assets, we

would take those assets, fold them into the trust, Pankow Foundation. They would essentially go away, and we would have a five-year kind of operating agreement that would essentially take care of our remaining obligations in exchange for them having given us their resources. They went to the board. Their board approved it. We now have finished that and we're currently in the middle of our second major research project that, again, I don't—since it's now all blended, but would all fall under the auspices of what I'm describing.

Adamson: Shifting gears just a bit, Tim Murphy talked about Charlie as a developer. I think others have talked about those activities as well. But Tim also mentioned several other non-Pankow, non-construction business enterprises that Charlie got involved in. So my question to you is: What made Charlie a successful businessman regardless of seemingly what he got into?

Kunnath: Yeah, he had a wide range of interests. He was successful in a number of different areas. That's a good one. I would say, well, first of all, I mean, he's very, very curious. He understood how businesses worked, and I think he could look at a balance sheet and understand the business plan and make a pretty quick appraisal as to whether or not if there was really anything there.

He asked very hard questions, and that would really go beyond what I'm talking about, really makes you a quality executive, in my view, and he was the epitome of this, is that he just asked really, really insightful questions, and hard questions to answer, and questions that revealed whether or not you knew what you were talking about and

whether or not there was any flaws in your logic. I mean, he got to that point quicker than anybody I think I've ever met. That was a real talent of his.

I also think this curiosity thing, he was interested in other stuff. You've got a lot of people that are pretty good at what they do, but they're not that interested in businesses that are not their own. He was. He had great curiosity and a wide range of interests. He was also economically and financially very astute. I mean, he'd read, you know, all of the major business publications and understood them and so really kept himself really educated on money and the markets in a way that I think served him very well.

Adamson: Obviously, the eponymous company is a professional legacy, a lasting legacy of Charlie's. But beyond the company, how is Charlie perceived professionally within the industry? What is he known for? If the company went away, what would his legacy be?

Kunnath: Well, I would say that if the company went away, and it might, the Foundation's not going to go away. I think that what's he's known for was the almost relentless push in innovation and American Society of Civil Engineers, nationally, worldwide, recognized medal for innovation of the year is called the Charlie Pankow Award. He just would never accept that we couldn't do better the next time, that there wasn't a better idea. That's why the Foundation is really so perfect. I mean, the research that we're doing and the ability to fund it essentially into perpetuity if we're reasonably smart and to be associated with that and really move the industry forward with better ideas, more efficient buildings, better tools and technology, better education, I think

many people would say he's really highly associated with design/build. That's probably true. But if you don't say that 50 percent of it was innovation and better ideas, then you're really kind of missing the point.

So, again, whether or not, hopefully the company will be here a hundred years from now, but if it's not, the Foundation will, and in the meantime, the Foundation's going to make a big-time impact. There's almost no one—well, virtually no one other than some government agencies that are really altruistically doing research in the building industry and then basically making that information known without proprietary interest. You've got a lot of companies, of course, that are trying to invent a better widget with a patent, but who's trying to invent a better widget and basically getting it out there in the market so that the American economy can benefit? Nobody but us, as far as I'm concerned. I think he'd be extraordinarily proud of the success that we're having and the kinds of things that we're doing, and that really encapsulates his legacy and who he was.

Adamson: Do you have a final anecdote you haven't mentioned that sums up the kind of person Charlie was?

Kunnath: You're probably going to get this one from Tom [Verti]. Tom does a better job stating it than I would. But there's several things about him that I'll just try to list fairly quickly, but I think they were all wonderful and made him a really distinctive and terrific person.

One was, he was very shy but very social, and I don't know too many people who are that combination. If you're shy, you tend to be reticent about being in a social

situation. But Charlie, despite the fact that he was very quiet and humble and didn't talk a lot, loved parties, loved being around people. He'd be the last one to leave. He'd be very upset if anybody left early. He'd always invite you back, and he was very warm and gracious, and yet typically you associate that trait or tendency with some people who are more gregarious. He was that unusual combination, and he was not that way. So that would be one.

I think the second one would be that he was, in a positive way, if you can phrase it that way, never satisfied. If we made X percent on a project and it was double what we planned, his response would be, "Jeez, that's great, but, you know, if these other things would have happened, we would have done a little better. Let's see if we can do a little better the next time." No matter what our success was, no matter we beat a schedule, then, "That was good, but look at all the opportunities we missed here." So he was not one to be overly complimentary. So what you realized was—in some ways that could be frustrating, because you think, jeez, I just hit a homerun here, but you realize you might have hit a homerun, but it was only in the third row and you could have hit in the eighth. So you always kind of left those conversations or left whatever we achieved feeling that you could still do better. I think that, for the right people, really pushed you to continue to try to achieve things even beyond what you might have imagined. That was really a characteristic of who he was and what the company, I think, became or what the company still is, I'd like to think. So those two things, I think, in particular.

Then last, but not least, despite being very technical and well educated himself, he had a very warm and genuine appreciation for the crafts, and I would say a real affection for the crafts, where he would really respected and honored the carpenters and laborers

and the cement masons who actually did the work. I think that was really a hallmark of who he was. He had respect for everybody in the industry, and I would say that what you could do and what you could produce and your character and dedication were really all he based his assessment on, and not how many degrees you had or what kind of suit you wore or other things. I think he was very accurate and real and genuine about what he valued and honored. People can get pretty successful and kind of lose that, but he never did, to his credit.

Adamson: Great. I thank you for your time. It's been interesting, and we'll go from here. Thank you.

Kunnath: You're welcome.

[End of interview]