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Bringing a Company Back to Life-The Role of a CEO

Dar Gillett

When a company is losing money, customers, and employees--when it is sinking fast--what does it take to make it not only viable, but successful? In such times the CEO's decisions about strategy and finance are critical, but as the story below illustrates, they aren't everything. Just as important are the values, beliefs, and spirit the CEO brings to the job of breathing life back into the organization.

WHAT DO YOU DO WITH A COMPANY that is losing $1 million a day? A company in an intensely competitive industry whose

- products and services are clearly inferior to its competitors
- top sales people have jumped ship
- employee morale has declined to one of the lowest levels of 500 North American companies
- top managers have all left
- owners and banks are fighting about whether to pull the plug, and whose
- competitors, as well as the press, have publicly stated that it is "toast"?

REPORTS ON INNOVATIVE PRACTICES

This is the story of the role played by a new CEO in bringing Unitel, a Canadian telecommunications company, back to life in just three years by restoring its sources of financial, intellectual, and spiritual capital.[1] We begin with the arrival of the fifth CEO in five years, Bill Catucci, who was sent by AT&T, the U.S. company holding a minority ownership in Unitel.

RESTORING FINANCIAL CAPITAL

Catucci's first job was to restructure the company. The founding owner-companies (Canadian Pacific and Rogers Communications) bowed out, the banks converted some of their debt holdings into stock, AT&T assumed a larger interest in Unitel, and the banks together with AT&T pumped another quarter of a billion dollars into the company. This first step in saving the company represented a shift in financial strategy, which previously had been to slash costs by cutting 1,000 employees. The new approach of capital infusion signaled a commitment to employees and to the marketplace that the company was not giving up.

BUILDING INTELLECTUAL CAPITAL

Having arranged a new financial lease on life for the company, the CEO then turned to rebuilding the company. This included restoring the company's intellectual capital and putting it to work. Areas in which Catucci took action included the following:

Management Team. People expected the CEO to bring up his American cronies, but he brought only one person into the senior ranks from the United States. Catucci found most members of his new management team in Canada, some even within the company. Half of these people "happened" to be women. Also, bucking conventional thinking, he plucked the former CEO out of a dead-end job to be president of a key business unit, a move others counseled him against but one that proved to be highly productive for both the company and the executive.

Strategic Governance. Catucci created a new governance system that focused on the drivers of business performance. Strategic councils, each focused on one driver of business performance, such as business strategy and growth, quality, productivity, professional development, or operations, met regularly. Senior executives were called on to devote 80 percent of their time to their functional jobs and 20 percent to serving on these councils, helping to develop strategies and deal with issues related to each driver. These strategic counsels resulted in faster and more consensual decision making.

Telecommunications Network. Rebuilding the telecommunications network was an early priority because it had to be modernized for the company to have a chance. The executive recruited to oversee the company's network was attracted by the CEO's promise: "We're going to build the finest company in the world!"

Business Process Redesign. This became the intellectual vehicle for improving customer service and productivity. The councils determined what business performance needed to be improved, then put teams together to improve processes. Lofty goals were set: to be the best in the industry and to win the Canadian quality award by 1999.

Measurements. A balanced scorecard, with measures on customers, people, operations and systems, finance, and external stakeholders, was developed to measure progress on all the drivers of business performance. This allowed the senior management team to set priorities and gauge progress. And it enabled managers, teams, and people down in the organization to focus on what mattered most and to see the results of their efforts.

Communications. Breaking out of the old hierarchical approach to information, the company distributed widely the information about goals and progress achieved. Catucci visited offices throughout the country several times a year to communicate personally about the company's mission, direction, objectives, and results.

Training. Reversing its financially driven strategy of cutting costs, the company began investing heavily in the development of its employees. Five hundred managers (out of a company of 2,800 people) went through leadership training guided by 360° feedback. As employees became members of a process improvement team, they received training as well.

■ CREATING SPIRITUAL CAPITAL

Catucci knew from the start that his primary challenge was to re-energize the organization--to rejuvenate the passion, the will, the courage and confidence, and the spirit of collaboration and respect that fuels corporate success. But how to create a purpose that inspires people? How to build team spirit so that people trust each other and want to work in cooperation? And how to restore a sense of personal power and capability in people who have been daily barraged with confirmation of their ineptitude? Here's what the CEO and his management team did to rebuild and strengthen spiritual capital:

The Power of Purpose. Catucci created a vision for the company. Nothing elaborate, simply "to become the leading full service telecommunications company in Canada." He gathered a senior team that also believed in this vision, and he went out to sell it to the organization. Later, by popular demand, the bar was raised to become the "best company anywhere."

Serving the Whole. Spiritual capital serves the highest good, which means all constituents and stakeholders in a company. Unitel's mission became multifaceted:

> To deliver superior products and services to customers over the highest quality network at competitive prices.
>
> To become one of the finest companies to work for in Canada (and, later, "anywhere") by providing a work environment where employees can achieve their best.
>
> To provide good returns to shareholders.
>
> To contribute positively to the communities in which employees live and work.

The company broke with traditional Wall Street wisdom by not claiming its primary purpose as "maximizing shareholder value." By striving for equilibrium and balance, and thus focusing on other stakeholders besides financial shareholders, the company actually achieved impressive gains in shareholder value, as we'll see later.

Guided by Values. One the first endeavors Unitel's new CEO undertook was to develop the company's values. He recalled, "In fact, I asked the employees what they wanted our values to be, while asking myself, Do I trust them? Are they going to come up with values like 'We want to make a lot of money?' Here's what they came back with: integrity, customer delight, respect for people, innovation, teamwork, and risk taking. So, we said, 'Great! Those are our values.'" Going beyond placards and platitudes, Catucci exhorted his organization to "show our values every single chance we get." For example:

- The bonus and compensation system was redesigned to give as much weight to how well an employee lives the values of the company as it gives to what "results" are achieved. And the President's Club, originally make up of top-performing sales people who were taken off to a sunny resort, now includes an equal number of staff support people selected by how well they exemplify the company's values.
- The CEO changed the compensation system for executives: "If we are a team and we are working together to help each other--because that's one of our corporate values-then we're

all going to get paid bonuses the same way out of the same pot." Executives were rewarded not on their "individual" performance but on the performance of the whole company.

- Catucci modeled values-based leadership: "As the CEO, I was often asked, 'What's the most important value?' I had any easy answer: 'Integrity. If you're not honest, if you don't meet commitments, if you don't keep your word, you're not going to be successful. And I will tell you this: we have a problem in this company with integrity.[2] I want every single employee to look in the mirror each morning and say, I'm honest. I want to work for an honest company. We do not do anything that's wrong, even if it helps our bottom line.'"

Collaboration and Unity. Traditionally, competition and adversarial behavior characterize the corporate environment. This company, however, built a collaborative environment:

- The focus on company purpose and performance on the balanced scorecard measures motivated people to contribute to the bigger picture rather than fight over turf.
- The councils became a place where the senior executives sought counsel from their peers rather than a place to strut their stuff and defend their failures.
- Addressing the union leadership, whose animosity toward the company was reflected in its 3,000 grievances, Catucci said, "I know you're upset that the company outsourced a number of jobs before my arrival. I tell you what: I will break that contract if you will work with me." Reflecting later on how the union became one of his strongest allies, he mused, " How hard is it to say 'I'd like to sit down and explain some things about the company, and I'd like to hear from you?'"

Inspiration. Much of what the CEO and his senior team did was aimed at inspiring the organization to become the best. For example, Catucci make it clear that he was available to help sales people make their calls. On many occasions, he helped them get to the CEO of a potential customer by setting up the meeting himself and joining the sales person. His personal involvement showed the customer and the sales force that he was committed to backing up his organization, and it empowered the sales organization to go out and attract more customers. Often this made the difference between winning an account and not.

Council meetings were not used to berate or to call for an accounting by each executive for his or her unit's performance. Rather, they became forums for people to ask for ideas on how to deal with balanced scorecard measurements that were in "red" condition. Managers began taking greater initiative and calling on their colleagues for insights in shaping strategies for improving performance.

THE RESULTS

Three years after the start of Unitel's turnaround, here's where the company stood:

In the areas of quality and service,

- Network defects were cut from 1,400 to 40 million in just the first two years. Within three years, the company had exceeded even the AT&T Corporation operating standards.
- New products and services, such as internet services and electronic commerce, were introduced.
- Time to put a new customer on the system was cut by 80 percent.
- The Yankee group, a firm that assesses companies, noted that by the end of 1997, the company's network had been transformed…[having] passed the WorldPartners quality hurdles in six months, while others have more typically taken a year for this feat."

In the marketplace,

- Customer turnover declined by 30 percent, and customer satisfaction soared.
- Market share doubled in targeted markets.
- Revenues nearly doubled in three years and grew 25 percent annually, well above the competition.

- Within a year, because the company's quality had risen sufficiently, Unitel took on a new name: AT&T Canada Long Distance Services.

On the employee front,

- The annual employee survey showed dramatic improvements each year, eventually putting the company in the top 10 percent of North American companies in such categories as corporate direction, communication, recognition, training and development, management style, supervision, employee satisfaction, and commitment to employees.

Financially,

- Losses had been dramatically reduced.
- The value of the company, as calculated by outside investment banks, quadrupled in just three years to $1 billion.
- The banks that had converted part of their loans into stock reaped a 300 percent return on that investment.

IT'S WHO YOU ARE AS MUCH AS WHAT YOU DO

When people hear this remarkable story, they invariably ask, "What did the CEO do to bring it about?" We live in such an action-oriented business world that we think all the answers lie in action. So companies emulate so-called state-of-the-art management strategies, often with disappointment. Why? Because the forces of productive change and leadership have as much to do with who we are (or who the leader is), what motivates us, and what we believe as they have to do with what we do. To complete the picture of this turnaround, let's look at the CEO and who he is:

Motivation. What drives a CEO affects his decisions and his ability to attract and motivate good people. "I came to Canada not primarily to make money. I came to make this company the finest it could be." This was not merely a goal, derived from some analysis. It was Catucci's heart's desire.

Beliefs. Contrary to conventional wisdom, he did not see the need for tradeoffs between constituencies. Catucci's corporate model was one of interconnection, and thus his goal was to find balance and equilibrium between apparently conflicting objectives and constituencies. For example, early on he discovered that company pensioners had not received increases in their monthly payments for several years. Despite no legal requirement to do so, and the fact that Unitel was still in the red, he had the amounts raised, reasoning that "current employees are getting bonuses, and the pensioners helped to build the company, so why shouldn't they share in this?" This became another event that signaled the CEO's values and the company's purpose of serving all constituencies, and it contributed to the turnaround in morale.

Expectations. A CEO's expectations have a powerful impact on an organization. We used to call this the Pygmalion Effect. Catucci "truly believed we could become the best telecommunications company in Canada," and his beliefs had a powerful effect. "But you don't just waltz in and tell people who've suffered such prolonged disappointment, 'We're going to be a great company.' You have to go out and sell yourself and your vision." Furthermore, "You must have an underlying faith and trust in people and their potential for growth." Then positive change can come quickly. "It doesn't have to take ten years."

Values. Putting values first means the rest will just follow. As we've seen, Catucci put integrity above all: For example, Unitel was hampered in its ability to make a profit on customers' calls to Europe because the company was required by law to go through another carrier and pay high rates for that service. Despite having the technical ability to go around the other carrier and the fact that major competitors were already doing this, Catucci refused to break the law just to expand business and increase profits. He appealed to the Canadian communications regulatory commission to change the law to allow free access, but to no avail. Despite being urged to follow the competition by some of his business unit heads who were being hammered in the marketplace, he stood firm, sending a clear signal that "We do not break the law. We stand on higher ground than the notion that 'profit justifies breaking the law.'" This decision became widely known throughout the company. (At a later date the law was finally changed.)

Energy and Connection. Catucci used the jujitsu principles of leading. Rather than confronting and fighting against negative events or supposed adversaries, he took the energy of a situation and used it as rallying cry to unite people in “turning adversity into advantage.” Early in his first year, a major switching system failed. The customers were angry, the employees were discouraged. The CEO brought together his people, who expected an inquisition. Instead he said, “Okay, let’s think about how we can take advantage of this. We’re already working on improving the network. So let’s go out to customers and commit to them that this type of failure will never happen again.” He joined his sales people on these visits, establishing a personal connection with customers, and personally committing that the failure would never happen again. His actions galvanized the determination of people to redouble their efforts to turn their network into one of the best.

Events as Change Agents. Unitel’s CEO found ways to use events as a way to focus attention, ratchet up commitment, and shift beliefs concerning what was possible. For example, soon after his arrival, he sent a message to employees by using the bonus pool created for senior managers to send everyone in the company a check for $175. In his accompanying letter he acknowledged that “this is a small amount, but I want you to know that, together, we’re going to build this company, and we will all share in the rewards.” Letters poured in from employees and spouses expressing appreciation and support.

Responsibility to Make It Happen. According to Catucci, “Conceptualizing the corporation is what CEOs should be doing. Then communicating it, getting feedback, bouncing it around….Anyone can develop the vision, but can you implement it?… None of this is hard work. It’s important work. It takes discipline. It takes focused efforts, but it’s not hard. It’s fun work when you see what the purpose is: making employees better, making companies better. If we’re not having fun, we should be in another business. I’d come into a meeting and say, ‘I’m having so much fun, I’m going to put this day down as a vacation day!’”

Corporate turnarounds, even of companies in great distress like Unitel, are indeed possible. They require a revitalization of the company’s energy through additions of all forms of capital--financial, intellectual, and spiritual. And they require courageous and inspiring leadership from the CEO. Who the CEO is--his or her motivations, beliefs, and values--plays an important a part as the capacities for analysis, strategy, and focus that person brings to an organization. The energy of the CEO sparks the transformation, attracting and inspiring good people to take the kind of bold and innovative actions that Catucci and his organization took.

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[1] Unitel’s name was changed to AT&T Canada about nine months after Catucci’s arrival, following quality improvements that brought it up to par with its U.S. counterpart.

[2] Before Catucci arrived, newspaper stories revealed the company had been keeping two sets of books.

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