CHIEF EXECUTIVE

July 2003, Vol. 190
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MANAGEMENT

Picking Up the Pieces

It takes a special breed of CEO to repair the damage caused by corporate implosion.

BY ERIK SHERMAN

No other word would do: Bill Schleyer was shocked.

He was hardly naive. Schleyer, 51, had spent time running Continental Cablevision's operations, stayed on when it became MediaOne after US West Media Group's purchase, worked as a venture capitalist and had just come off the helm of AT&T Broadband. His MBA was from Harvard and he had served on the boards of half a dozen companies.

Yet, sitting in his new office as chairman and CEO of Adelphia Communications in Coudersport, Pa., listening to the company's head of accounting talk about how previous management had handled money, he suddenly had a sense of how deep he was in trouble. "I thought he was joking," Schleyer remembers. "I didn't think that anyone could be that Machiavellian to dream up those accounting practices."

Global Crossing, Enron, Tyco, WorldCom, Kmart, HealthSouth: a cadre of new and interim CEOs are digging through wreckage left by previous management. Far more than financial disasters, these are examples of the growing number of corporate implosions that attract significant regulatory and legal attention.

CEOs who find themselves in these extreme situations have to fight for credibility with employees and middle management, investors, customers and regulators. They have to quickly understand what went wrong and identify a path out of the morass. They have to reform wounded cultures. And it all has to happen at the same time, making disaster recovery for more challenging than the traditional corporate turnaround. Going into companies under such intense scrutiny, these crisis CEOs must be more than problem solvers: They must be white knights who can slay the dragon of poor performance while restoring a sense of honesty. They must be willing to work long hours and must have the stomach to constantly make tough decisions even while employees and shareholders are distrustful.

Fixing Enron

It is a challenge best solved one step at a time, practitioners say. Steve Cooper is experienced in

going into companies that are under legal as well as financial distress. The chairman of New York consulting firm Kroll Zolfo Cooper, the 56-year-old Cooper is the chief restructuring officer and interim CEO of Enron. He advocates a three-stage process: stabilize, rehabilitate and restructure. “That way we always keep the horse out in front of the cart,” he says. “You can’t fix the balance sheet until you fix the business.” Stabilizing the company involves controlling cash flow and liquidity. In rehabilitation, the CEO rebuilds the organization so that it can operate efficiently—and legally. The last stage is restructuring the business for an optimum and, hopefully, profitable future, while returning as much money as possible to the stakeholders.

But to stabilize a company, its CEO must understand the current state of operations—no small task in a company that has seen financial manipulation and deliberately deceptive practices. Rather than try to ferret out the problems directly, the best approach according to L. Burke Files, vice-president of New York risk management consulting firm Lubrinco Group and an expert in forensic accounting and asset recovery, is to develop a standard for critically evaluating the past. “You have to take a baseline assumption of what should have been going on and then test it against what was going on,” he says.

Schleyer opted for establishing a completely clean set of practices both for the past and the future. “The company had no strategy in place, no vision, no public set of values,” he notes. “We developed a whole management platform for the company.”

Senior management then created the necessary structures and processes, giving Schleyer the framework of an Adelphia as he would want it to run. “We will be a best practices company, but a lot of those practices will be new,” he says. Part of those practices was a move to extremely conservative accounting: “Once you start to go to aggressive accounting policies, you’re basically eating the poison and you have to eat it every month.” Otherwise, the phony results of the past will dissipate and the financial rigging becomes obvious.

With a new strategic and operational plan, Schleyer’s team could use it as a touchstone to examine previous practices. The process took four months of pouring through the books. The time it took is not surprising, as the Adelphia bankruptcy filing listed 260 subsidiaries. Because the financial engineering had been so extreme, Schleyer freely admits that without the baseline of the new plan, he would not have even thought of the questions to ask that might uncover what previous management had done.

Not surprising, says Tal Briddell of Phoenix Management Services, a turnaround firm in Chadds Ford, Pa.: “The folks who do things like that are not amateurs. You take a guy like [former Enron CFO Andrew] Fastow—he was a smart son of a bitch.”

Once he knew what had happened, Schleyer had to sell the new approach the company would take. Counterintuitively, customers were actually the easiest to win over—they just wanted good service. The situation would have been harder if other businesses, not consumers, had been the target market. “If you were selling a service and there were questions a year or so ago about [your] long term viability and to customers it was an essential service, that’s a very different situation.”

Employees are a tougher sell. “They don’t want to worry about the headlines of senior management,” Schleyer says. Vendors, too want to feel assured and have confidence that they will be paid.

Death threats

Another lesson is to play offense, not defense. John Legere, previously CEO of Asia Global Crossing, learned that he had to move quickly after he became the CEO of Global Crossing (a separate company) in October 2001—its fifth leader since 1997. The company went through three CEOs in 2000 alone.

At first, the 45-year-old Legere took prudent first steps as suggested by his previous experience in taking over large teams: negotiating with the board of directors before starting to get the wide authority he needed and significantly changing his leadership team within his first five days. He had performed a preliminary financial analysis and knew that he'd need to make the company live within its means.

But by the end of that first week, Legere saw an image problem beyond the obvious operational issues. "Picture taking over as CEO in the board meeting at our headquarters in Beverly Hills, Calif," he says. "We got onto a company jet and were served lunch by company employees. We landed in New Jersey and boarded the company-utilized helicopter into New York City. That's just a quick picture of one small aspect of culture that clearly needed to change."

Global Crossing

Crisis: Telecom high flier pumped up cash flow by selling capacity, then plummeted when the market fizzled.

Fixer: John Legere got the call while he was CEO of Asia Global Crossing.

Quote: "It became clear it was time for someone whose background was less banking and acquisitions and more operations."

Legere and his team moved ahead with right-sizing the company. Then the implications of the Enron scandal began to explode in the press, the telecom market tanked and the company was caught in a firestorm. It was beyond what anyone could have anticipated. By March 2002, Legere saw all hell breaking loose: "We were getting death threats and hate mail. Each morning you'd have to wake up to this depth of scrutiny."

It was the type of situation that makes people want to avoid the limelight. Unfortunately, Global Crossing management didn't have that option. "My senior team sat down and realized we only had one choice: we had to stay together, not run out the door and hope that a year later they'd be writing about our turnaround," Legere says. "If we ran out, we'd be part of the negative story."

Instead of avoiding the attention, Legere and his team courted it to the company's own ends. They met with customers and employees every day, accepting any questions without a filter. "We talked to them about the bad stuff," he says. "We had worldwide conference calls once every two or three weeks." Employees appreciated the candor and stayed, while many customers were so pleased to receive the attention that they stayed with Global and didn't defect to competitors who were trying to use the company's dire straits to their own advantage.

Addressing the issues

The willingness to talk extended to the press—not to mollify investors or protect their personal reputations so much as to use the media to reinforce a targeted message. "Even though I'd be talking to an audience of hundreds and thousands or even millions of people, I was most concerned about the employees on the other end of that line and the customers," Legere explains. Although the experiences were often unpleasant, senior management could get more air time than it could ever buy.

Enron's Cooper has found that legal issues can be another field where cooperation is the only answer: "At Enron, we're being investigated by at least a dozen congressional committees, at least a half-dozen regulatory agencies or departments, and at least a half-dozen state attorneys general, so we've had to devote managerial, financial/accounting, and legal resources," he says. The effort has taken hundreds of people, both within the company and from external sources. By the time all the investigations and hearings are done, Cooper estimates that Enron will easily have spent tens of millions of dollars.

Addressing all issues takes a toll on management's time. "Every newspaper in the world was

tracking and reporting the issues and accusations when my team was just trying to run an operational restructuring," Legere says. Senior management runs the risk of being so drawn into what happened in the past that they may be distracted from doing what they must to ensure the company's survival. What they should do is bring in the specific help they need, then unload the problem as much as possible.

Without fast and decisive action, new CEOs at companies in crisis can quickly find themselves over their heads in hot water, according to Mark Claster, co-president of the ironically named merchant bank, Carl Marks & Co. "Most CEOs, in a normal business sense, are good at what they do," he says. "It's when things start going sideways that they are very poor because they aren't trained to deal with crises; they don't know how to act."

And faltering will spell disaster, for the company and the CEO both. "What you are essentially asking good, competent management to do is make a huge career risk," Cooper says. Failure can end a career quickly.

So why do CEOs take the leap into the lion's den? Because the rewards can be kingly. "The experience in a two- or three-year period is unbelievable compared to the typical corporate world," Cooper says.

Success in such a difficult assignment can mean a star turn for a CEO, with a commensurate hike in compensation. Schleyer, for example, is receiving a reported $7 million cash and $10.2 million in stock grants during his contract, with an additional bonus if he can lead Adelphia out of bankruptcy. Legere took a 30 percent cut to his $1.1 million salary last April. But at the same time, Global Crossing instituted an annual bonus of one and a quarter times his base salary for meeting performance goals as well as agreeing to cover $8.8 million in taxes related to the forgiveness of a loan from Asia Global Crossing.

So if people have the background and character to stomach the pain, the demands, and the difficulty of taking over true corporate fiascos, it can be worth the effort. And with that type of money, you can afford to pay someone else to take the death threat calls for you.

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