CHAPTER 1

DRIVEN BY VALUE

TRUST AND CONFIDENCE BUILDING: A VALUE-DRIVEN MECHANISM

A turnaround must operate as a disruptive process from the company's previous history, otherwise it merely painfully prolongs the past. A new CEO consciously embodies this challenge and this is reflected in the system of values that he or she brings to the new mission. The question is not how these values are formulated, but how the CEO intends to use them. This is the kick-off of the confidence- and trust-building process. The style of the new CEO determines how enthusiasm and passion for the recovery process are ignited. Salespeople say that you only have one opportunity to make a good first impression; the CEO's challenge is the same.

In SN Brussels Airlines' case there were three aspects to enforcing the new set of values: how to be transparent with these values in opening up part of one's private thoughts; how some disruptive behaviours prolong the initial momentum; and finally, how the impact of the values can be perpetuated.

TRUST COMES WITH TRUTH

Back in summer 2002, Peter Davies faced a very straightforward issue: how to bring together all the inherited talents of SN to achieve the initial simple goal of *survival*. But you can't just *decide* to foster energy or talent, this is a consequence of a trust-building mechanism. The birth of the company mobilized some substantial resources among the Belgian financial community. In simple terms, SN's cash in February 2002 amounted to €140 million. The rate at which the company was burning cash didn't offer it a very long lifespan without encountering some crucial difficulties, unless it was able to regain a self-supporting level of operations quickly.

Incidentally, the Swiss International Airlines story illustrates precisely the realization of this risk. Moritz Suter, the founder of Crossair (see www.wikipedia.org/wiki/Crossair), very clearly explained the nature of this narrow path for survival when he said:

> They (SN) began modestly based on reality and true market needs. While they built up operations and made a profit, Swiss annihilated €2,5 billion and was bought by Lufthansa. I am pleased that decisions in Belgium are taken more intelligently.

Air France's Director General, Patrick Alexandre, echoed virtually the same opinion:

> SN Brussels did something radically different from SABENA in terms of ambitions. In fact they managed their risk appropriately, while Swiss replicated Swissair's ambitions and its failing model, with just a difference in scale.

Peter Davies, whom I had known since his DHL days, invited me in July 2002 to help him design the first management conference that he was planning for early September, and to contribute as outside guest speaker and moderator. One of the goals for this first large-scale management development event was to instil a strong sense of urgency in the team, whatever encouraging signals had been received so far – for instance code share agreements, or the withdrawal of some opportunistic newcomers on routes historically operated by SN such as Newcastle or Bologna.

This does not contradict Sébastien Bazin's observation on page 2 about how fast you need to share the tempo of the mission; Peter's case was slightly different. He had to share the shoes of Rob Kurjpers, the Executive Chairman who had launched the process a couple of months earlier. He therefore inherited a context whose tempo was already partly set. In this situation, his sleight of hand paradoxically consisted in the smoothness with which he took the baton, so that the company only perceived the boost in the turnaround programme due to his arrival.

Being new is an advantage: it means you enjoy the benefit of the doubt, which can be significant.

Secondly, Peter had always expressed sincere compassion over what his new team had experienced through the bankruptcy. So he did not hide the fact that the relaunch deserved some genuine respect. He said that one of his missions, as newly appointed CEO, was 'to tick the box of how to transform this bankruptcy trauma into a winning collective dynamic'. In attempting this goal, he had the advantage of being a company outsider, someone who was neither from Belgium nor from SABENA. He was not linked to the past nor to the decisions that had led to the company's fatal decline. But simultaneously, given that Peter had not hired the current staff, there was no natural reason for them to trust him on the journey back to prosperity.

In this context, it is wise to bear in mind that realistically one must count on the benefit of the doubt and no more. Nationality is not a determining factor in success or failure. The key is results. In Belgium, like in any other country, business results – progress – can obviously be quantified. Numbers are universal and have the same value. Changing a company happens from the inside if the CEO can clearly explain what is needed and the desired outcome.

For the first management conference the question was which theme to start with. Peter and I strongly believed that although SN Brussels Airlines was in the airline sector, it was just a business like any other. If we had been in another sector in the same context, we would have tried to start exactly in the same way; that is, on the correct foot. Good practice is correlated to the level of margin in one's own sector. If we were in the automotive industry, higher margins would correspond to the lowest level of defects per vehicle; Toyota is a good illustration of this principle. In an airline, higher margins have always correlated with punctuality.

So there we had a theme for the management conference: punctuality. By chance this was neither fiction nor a gimmick: since its relaunch SN Brussels Airlines had ranked in the top two in Europe in terms of punctuality. So the theme of the conference became: 'Invent a corporate tempo to be the most punctual and the most profitable'. The rationale was, in order for it to be observable by the passengers:

- First, punctuality must be verified by a tangible and unquestionable fact, such as a ranking achieved by an independent body.
- Secondly, the passenger's perception is also influenced by the attitude to punctuality and the practices followed throughout the organization, down to the smallest detail of operations.

Summer 2002's results were very encouraging in terms of ranking, but this did not mean that they reflected a superior level of organizational effectiveness, which would have been quite unrealistic less than one year after bankruptcy. Realistically, the low traffic in Brussels airport after SABENA's crash substantially explained the results. But the results were still good news. Being able to harness the energy created by good news is a characteristic of a successful turnaround manager. Therefore Peter's challenge was very basic: since SN had achieved this level of performance, it could not be wasted and collectively this coveted advantage must be capitalized on.

A good theme was part of the challenge of bringing everyone together, but it was not enough. To counter people's natural scepticism, Peter thought that it was important to explain what the common challenge was with something quite personal, such as an icebreaker. His idea was to share with his management team of 40 senior managers some lessons from his great uncle, who, he said, influenced the way he manages his life. (See Business story 1.1.)

Business story 1.1: A mirror for being at ease with oneself

My great uncle was in the SAS in France and Belgium during World War II. Very early on, he influenced the way I should design my life, my career. One of his most salient lessons regarded these who must live with compromises and these who have chosen not to. Many times in his farm in South Devon he hammered into me, if you want to make your living in politics, you need to be ready to be commanded by hypocrisy with compromises . . . I think that he had some unpleasant experiences in this respect. But due to his senior officer reserve, I could never dig further.

Growing up, I understood that the priority was not the superior nature of the drivers you have chosen for your life, but your consciousness of them, how you live with them. So, I came very early on to the conclusion that the less conscious you are of them, the more energy is wasted in developing justifications. The reason is simple. You are lying to yourself! The paroxysm of waste or inefficiency is reached when you know that these justifications are wrong. This raises a crucial question: are you conscious of what you are doing? This also means, aren't you lying to yourself? This inevitably leads to lying to your collaborators, your customers, your shareholders. It is what I want to tell people first: a turnaround starts by not lying to oneself. We are all in the same boat, relying on each other's honesty, the commitment of the person next to us.

But I also have the antidote. The best repellent I have discovered to protect truth is a simple tool: a mirror. Not Snow White's sophisticated one, there is no question and answer, but a very straightforward form of introspection. Without any form of sexual perversion, can you look at yourself in the mirror, in the eyes, naked without any mask, so without any way to avoid answering the question: 'Am I telling the truth or not?'

After this decision to use a very personal story to support the basic value of truth in building trust, Peter carried on commenting on the rationale for the approach. In his opinion, the answer you give in front of the mirror is crucial. 'Truth as a central personal value conveys one's own long-term consistency,' he commented. 'Over time, it becomes one's own most valuable ally.' We can easily follow Peter's principle and agree that it represents not only a very reliable asset, but also a prerequisite in the demanding challenge of organizational turnaround. The turnaround environment is a relentless one where there are no excuses. The principle 'don't make the same mistake twice', which is heard too often as a way to describe a learning organization, is not the right behaviour in this context. From the beginning, 'do it right first time' is a mantra that any turnaround CEO must impose on themselves, because time is the scarcest resource in this type of challenge. Consequently, starting with the right individual attitude is a must.

The anticipated output of the Limelette[3] seminar was clear: develop truth-based trust as the common platform on which collective efforts can find their meaning to give a future to this company. While SABENA's bankruptcy was a dramatic event, the relaunch out of its ashes was a team achievement (involving first the company's designer Etienne Davignon, who quickly set up the new team at SN Brussels Airlines). This kind of context is a superb opportunity for a CEO to express the concept that for the team's talent to be turned into business success, everyone must be at ease with themselves in order to be at ease with others. This observation echoed Jack Welch's opinion, quoted by Geoffrey Colvin, *Fortune* senior editor,[4] 'You have to be comfortable with yourself to be a good boss.' This is true for any manager and in any situation – for being a good father or mother, a good husband or wife, the rule is the same. In summary, this aptitude for being at ease with oneself is particularly critical in a turnaround, because it helps create a silver lining to boost recovery. And it spreads like wildfire!

DISRUPTIVE BEHAVIOUR PROLONGS THE MOMENTUM

Stories like that of the mirror, and the values associated with them, operate like a milestone in a CEO's relationship with their senior management team. The question is how the impact of reaching

[3] Limelette was the name used in the company to remind people what occurred during this first management convention, which was held in a castle transformed into a convention resort to the south of Brussels.
[4] Geoffrey Colvin (2006) 'Catch a rising star', *Fortune*, 30 January.

this milestone can be prolonged. An effective CEO relies on a library of milestones, which represent the fuel for building closeness with the senior management team. But the art is also to find a means to prevent key values becoming commodities. Disruptive behaviour can be a way of refocusing attention on some key values (see Business story 1.2).

Business story 1.2: A chair and two flipcharts

At the end of summer 2004 the trend of improved operating performance was still delivering encouraging results at SN. But a major event occurred during the summer: the fuel price rocketed. August is also SN's lowest month of activity. One of the challenges consisted in achieving an August where the sparse traffic was well controlled by strictly assessing operational needs. It was better to cancel flights than to fly with poor forecasted traffic.

One exercise, carried out months in advance, was a simple but very healthy break-even analysis. One of the key components of the variable part of the direct operating cost (DoC) of a flight was fuel, which represented around 17 per cent of the cost of SN's European operations. In August 2004 the fuel price was under strong pressure. Moreover, the possibility of imposing a fuel surcharge was still very limited. Finally, even though the planning was correct, the fine-tuning of the final step of execution, which transforms a mediocre performance into a superior one, was missed. Therefore, the loss in August 2004, which was supposed to be half the previous year's, exceeded it by 30 per cent. This represented a major concern, because after eight months of effort, this one bad month erased all the contributions that had been accumulated since the beginning of the year.

Senior management needed to get together to explore the nature of the new challenge. Again, what should be the theme of the meeting? This question was at the heart of the team's commitment challenge. The cause of the low performance was clear, but we could have run the risk of hearing 'It is those arrogant guys in planning who have not done their job' with the easy reply 'Sales did not make enough effort to boost the number of passengers on the planes'. But all this was nonsense, because knowledge of SN's traffic patterns told us that these 'what-ifs' would not have had an impact. Moreover, we could not organize a management conference on slashing costs because that had been the theme of the previous May's meeting. Cost control was the theme, but Peter commented, 'Now we are beyond projects, we end up in the eye of the cyclone if all the senior managers do not understand that this challenge is not limited to a fuel-hedging one.' The airlines have the sad privilege of not making money or very little, while the rest of their sector is coining it in. Many of their costs are imposed and consequently not negotiable, so the answer to success lies in quality of management and responsiveness.

Peter therefore decided to run a one-day management conference with 60 of his senior executives next to headquarters. The senior managers were quite annoyed because they did not receive an agenda. Nadine, the CEO's personal assistant, was asked 20 times on the day before the meeting, 'This is weird, what does it mean?' The team was merely expected for breakfast, 30 minutes before the beginning of the conference. Moreover, when they arrived in the conference room the setting was not the traditional one, just one chair and two flipcharts in front of the audience. The conference turned into a one-day transparent dialogue on how the future was influenced by superior operating results achieved in one's own department. Peter was alone on a foot-high platform so that he could see all the audience even when he was sitting down, and that was how he ran this unusual management conference aiming at reinforcing peer accountability.

The comments I heard indicated that this disruptive approach not only gained the senior management's attention, but also gave a new tempo to rejuvenate the momentum of the turnaround. The meeting was followed by a dinner. The head of ground operations, also called Peter, was sitting next to me and outlined a discussion he was then having with the government regarding the pilots' pension scheme, which cost €4 to 5 million a year. As a result of this session, he began to question his own impact on the company's overall cost management performance, and concluded, 'If we don't obtain renewal of the "Arrêté Royal" [a legal ruling regarding the pension scheme] SN loses 1.5 points of RoDoC[5] when one estimates the current RoDoC performance on the European network at around 105. This is nearly one third of the fleet contribution . . . this session was a powerful reminder to put my efforts into perspective.'

This session worked well, but a chair and two flipcharts formed the visible part of a more complex iceberg, which needs to be briefly described to provide understanding of the whole dynamic. Returning to key values demands that the CEO retains a fair sense of balance and undertakes strict preparation within a very short timeframe. In SN's context, the fair balance concerned the management of urgency and hope. Peter enjoyed a great opportunity to boost hope and company confidence by unveiling an advertisement that had just been created. This advertisement was shot with 200 collaborators who volunteered to spend a full day on the tarmac of Brussels airport, generously getting sunstroke and aching legs running after an Airbus 319. In terms of team building, hope, never-been-done-before style and also cost management, this ad was a winner. It even got an award and, before being broadcast on Belgian television, was seen on the internet by 250 000 people.

[5] RoDoC stands for return on direct operating costs. This performance measurement concept is extensively developed in Parts IV and V.

Once the hope had become tangible, the profit-and-loss side became a mere question of discipline in preparation, because such an exercise cannot support any form of improvisation. A CEO works without a safety net and senior managers can very easily spot any approximation. Publicly questioning a department's results and linking them with operating performance at the elementary level of strategic execution[6] is ambitious, but the return is worth the challenge. Do we keep telling ourselves the truth about the performance of our own department or are we unwittingly letting complacency develop? A strong value-driven message and a disruptive communication style build confidence and closeness with one's own management, but this mechanism demands even more effort to perpetuate its momentum.

PERPETUATE VALUES THROUGH SYMBOLS

I warmly encouraged Peter's choice at Limelette to strike his senior executives' minds with the mirror story. But my real concern regarding the effectiveness of the message in such a context was how many days after the management conference Peter's principle of trust through truth would start to fade. Under the pressure of events or the daily routine, how quickly would the team start making the wrong trade-offs between what they had heard and how they were prepared to behave? Instilling a new set of shared values is a mandatory step in the context of a

[6] The concept of elementary level of execution pushed one step further the granularity of the concept of a business unit attached to portfolio management or strategic planning, to be sure that one monitors performance at the correct place so that the management reaction can occur quickly and be appropriate. In the case of an airline, the route seems the appropriate place; in a distribution chain it would be the outlet. The goal is to deal with what is managerially relevant; what is technically correct is insufficient.

start-through process, but the values to be shared with a team of senior managers and consequently with the whole company are not sustainable by themselves. They need to be nurtured for them to last.

I was not questioning the relevance of the mirror message, but reacting like any academic in front of such a brilliant idea. I was thinking in terms of assimilation, the ability to apply the message appropriately in one's own environment. Would this mirror story, selected to build the foundation of a new management attitude and style, be enough to secure the intended transformation in behaviour? We have all experienced this situation: leaving a session enthusiastic, as lecturer or participant, but eventually encountering disastrous results at the next test on the topic. The reason is simple: enthusiasm is the icing on the cake of the assimilation process, not the cake stand. So the question was, how could we prolong the impact of Peter's basic principle in the turnaround context?

The best ally for prolonging an impact is to find a symbol of disruptive behaviour. The mind forgets more easily what the eyes can see permanently. Quite often turnaround champions who are achieving their mission have a set of skills where *style* and *shared values*[7] are as important as cost-cutting recipes. One needs the help of something stronger than words. Symbols are powerful because of their permanent, active presence: they keep reminding us of the key lesson about the style, the attitude with which a company should collectively endeavour to find the path to return to prosperity or to stay prosperous (see Business story 1.3).

The mind forgets more easily what the eyes can see permanently.

[7] Style and shared values refer to two of the McKinsey 7S concept, addressed in Thomas J. Peters and Robert H. Waterman (1982) *In Search of Excellence*, New York: Harper & Row.

Business story 1.3: A library of symbols

In 1983, at what became Carnaud Metal Box (CMB) in the late 1980s, I had the opportunity to collaborate on some consulting assignments with the CEO, Jean-Marie Descarpentries,[8] who is an expert in the management of symbols. A decade later, he accepted the challenge to turn around Bull, which had accumulated €3 billion of losses over the four years before he took charge.

The French-based IT company experienced positive financial results under his management. At Bull, as at CMB, he used his sense of symbol management as a powerful tool to first ignite and then accelerate change. Among his early decisions, at least two reinforced the management of values illustrated earlier.

A few days after his arrival, he left his presidential office on the top floor of one of the towers of La Défense in Paris and installed his office on the salesforce's open-plan floor, right in the middle of the stream of information regarding the company's survival. 'I needed to plug myself into the business reality to save time. Reports are fine but I need tangible facts,' he commented to his troops and added, 'I am just starting . . .'

A few weeks later, considering that this address in a steel, glass and marble tower and its associated costs were not consistent with the company's current financial situation, he decided to relocate the headquarters. 'There are always idle assets that can be perfectly useful if you break some mental representations of what is and what is not appropriate,' he said. Some

[8] Jean-Marie Descarpentries is the former CEO of Carnaud Metal Box, a group that he contributed to developing and transforming in the mid-1980s. He became the CEO of Bull in the mid-1990s, a period during which this company nearly knew its only period of profits.

ex-NATO premises in Louveciennes near Versailles were a good symbol to remind people that the company couldn't burn cash it hadn't got. In order to save money both by reducing the rent and downsizing the functional staff for obvious physical reasons, there was limited space at the new premises. The message in terms of rationalizing costs was unambiguous. But the move was also full of surprises, one of which was very relevant to SN. When Jean-Marie arrived in what was initially designed as a barracks, he asked that the door of his office be removed and left in the corridor next to his executive PA's office. 'My open-door policy is not an accident. The signal that it is a deliberate management value must be clear and permanently understood as such over time,' he commented.

After Limelette, a mirror was planned to be installed on the right-hand side of the door of the CEO's office when SN moved to its new facilities, gathering together all the departments scattered around Brussels Airport.

CEOs who are leading a turnaround must do it with a strong management philosophy, principles and values, supported by symbols to perpetuate their impact. But it is necessary to add a nuance, which I heard in a discussion with Xavier Huillard, CEO of Vinci the world's leading French-based civil engineering and concession group (www.vinci.com). Xavier Huillard's comments on the management of corporate values help remind us of the constant challenge of optimizing the impact of those values. His opinion is:

> Values are crucial, but as soon as you write them down you run the risk of falling into the trap of interpretations and comments. So if I can avoid it, I don't carve values in stone, reserving the opportunity to fine-tune them continually as the context evolves. But not writing them down paradoxically imposes a more demanding discipline. One must hammer in the value message again and again at any opportunity for contact with the collaborators, the customers,

> the board members, to scrupulously manage the consistency of its evolution and keep all the stakeholders aligned on the company's ultimate goal . . . its survival and its independence.

Turnaround is about turning the page from the past. The management style of the new CEO must reflect this willingness. Finding the correct tempo for the new era is one thing, but it must also be supported by active reminders, which is the role of symbols. Moreover, the search for the correct symbol is not a management trick but a mandatory step in securing a transformation process. Finally, transformation is about continuous adjustment. It is a mistake, or more precisely a form of complacency, to formalize the transformation into a glossy paper document, which by its intrinsic nature limits the opportunity for micro adjustments to fine-tune the effectiveness and the relevance of the transformation process. So the CEO must welcome any contact with all the stakeholders – staff, board members, customers – as an opportunity to repeat, repeat and repeat again the fundamentals of this transformation. In the first steps of the turnaround this is a job for the CEO, but they must be quickly joined in this exercise by their closest collaborators, to create a critical mass of transformation in the whole organization as quickly as possible.