Commit and Deliver

From the outside, a CEO's job looks difficult. From the inside, it's merely impossible — unless you take charge of the company's agenda.

by Cyrus Freidheim

Any good manager has an agenda that he or she is trying to achieve — not just for immediate results, but for the value of the company over time. For most of my two years as chief executive at Chiquita Brands International, I had a single agenda: to rebuild a bankrupt company into a profitable, growing enterprise. This agenda drove a strategy that we called "Commit and Deliver." The company would rise or fall on the quality of its management and our ability to make good on our promises.

Not everybody connected with Chiquita agreed with that agenda. As CEO, I was the focal point for pressure from all of the company's stakeholders: shareholders, employees, customers, suppliers, labor unions, the media, nongovernmental organizations (NGOs), regulators, lawmakers, academics, and local community leaders. Each party had a view on what a public company should do and what its priorities should be. One of the most urgent and important issues that a CEO faces can be summed up in a simple question: Whose agenda should we follow? And a corollary: How can we satisfy the legitimate interests of all our constituencies without losing focus on our agenda?

Illustration by Lars Leetaru

While my previous experience included a number of turnarounds, my intellectual understanding of the challenges facing a CEO in a tough situation did not prepare me for the intense, emotional experience of being in that seat. The story of our corporate strategy and the story of my own education as chief executive are inextricably linked in my mind. Together, they portray some of the pressures facing executives of all kinds these days.

Coming to Chiquita

Chiquita has a long, colorful history dating back to 1895, when two partners — a Boston merchant and a sea captain with a load of bananas — discovered the American market for this then-exotic fruit. During the next hundred years, the United Fruit Company was one of the most active companies in Central America. It built roads, hospitals, schools, housing, and infrastructure, and provided desperately needed employment; but it also had a record of

exploiting the region, with practices that damaged the local environment and the well-being of people who lived there. The term "banana republic" was derived from United Fruit's reputed involvement in subsidizing political upheaval and manipulating governments.

After a series of mergers and restructurings in the 1970s and early 1980s, the company emerged as Chiquita Brands International in 1984. Its senior leaders consciously changed course in the 1990s, seeking a more socially responsible presence in Latin America. They established a partnership with the Rainforest Alliance, an NGO dedicated to environmentally sound agribusiness practices. Nonetheless, the company continued to be attacked publicly for its handling of workers, unions, and working conditions. Again the company responded positively, establishing a corporate responsibility program in the late 1990s and investing significantly in social improvements.

The primary cause of turmoil at Chiquita in the 1990s was the "banana wars": an eight-year period of disputes over banana tariffs in the newly formed European Union. Before 1993, Chiquita held a 40 percent market share for bananas in Northern Europe; the company's leaders expected the E.U. to open its borders to free trade, which could have doubled Chiquita's markets in Europe. The company's leaders invested accordingly in ships and plantations, putting a billion dollars' worth of debt on the balance sheet. But the E.U. regulators imposed a quota system that favored bananas from Africa and the Caribbean over those from Latin America, substantially *reducing* Chiquita's market opportunity. The World Trade Organization and the U.S. fought for open access for Latin America's bananas, but they didn't reach an agreement with the E.U. until 2001. By then, Chiquita had run out of options for raising cash, and later that year the company filed for bankruptcy.

A corporate bankruptcy usually involves a period during which drastic measures can be taken that wouldn't otherwise be possible or legally permissible. That period lasted five months for Chiquita. During that time, to get back into solvency, Chiquita agreed to swap equity for creditors' debt; this hurt the shareholders considerably but allowed the company to survive. The creditors, in turn, picked five new board members, including me, and my colleagues on the board asked me to become CEO. I started in that position on March 20, 2002, the day the judge signed the approval to come out of bankruptcy.

During the next nine months, we added three world-class executives to the board of directors, resulting in a governing body that any Fortune 100 company would have been proud to have. The board made significant contributions to the strategy and direction of the enterprise. It was at the front line in ensuring that best governance practices were constantly observed, and that integrity played an integral role in everything we did.

Early Surprises

From the start, we knew we weren't close to being financially stable; statistics show that more than half of the companies that come out of bankruptcy go back into it. There was still too much debt for the operation, cash flow was low, and there were a number of complicating fac-

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tors. My hip had just been replaced and I spent my first several meetings with the board and company executives as a recovering surgical patient. But most important, the new board expected that we would soon be selling the company. Those who owned most of the company's shares also expected a sale. They were hedge fund managers, who had bought the stock during the bankruptcy in hopes of a windfall.

We discovered quickly that a sale wasn't possible, so we shifted course and decided to rebuild Chiquita. This triggered a profound change in expectations; it felt like buying a house, intending to resell it, and then suddenly discovering that we would have to live there for a long time. Instead of calling investment bankers to sort through the bids, we put together a team of management strategists. In a flurry of shareholder response, more than 40 million shares traded during the first two months, an amount equal to the entire capitalization of the company.

Not all the surprises were bad. Chiquita, despite its hard times, had an outstanding cadre of executives, managers, and employees at every level. I found a spirit of hope and energy, and a deep belief that the company would survive. People accepted the tough medicine of restructuring with a positive attitude. As long as they could see a better future, they were fully on board. We added a few outstanding people from outside the company and reshuffled roles and responsibilities. Then we analyzed and evaluated every part of every business to come up with a plan for transforming Chiquita.

We held our first major shareholder meeting in September 2002, six months after coming out of bankruptcy. We laid out our new strategy. We would start by reducing the company's debt from $650 million to $400 million. Then we would focus the enterprise on its core businesses and sell the outliers. Finally, we would reduce costs by more than $100 million annually. Within three years, with careful cash management, we expected to be consistently profitable, financially strong, and ready for growth.

The first question at that meeting came from a hedge fund manager. "You'll have a lot of cash as a result of this. When do you start paying dividends?"

Instead of providing quarterly earnings "guidance," we said we would keep our promises.

It was baffling. We were a company rebuilding itself out of bankruptcy; the concern with dividends seemed incredibly naive. But the shareholders were not interested in hearing about a three-year plan. Some had taken a loss on the stock; others had bought it at a bargain. They wanted to build the price up quickly so they could cash in.

Most of all, they wanted earnings guidance — a quarterly estimate. But three of the most important variables that determined short-term earnings were out of our hands. A hurricane could wreak havoc with production. A new European Union regulation could change the economics of our most important market. And a shift in the euro-to-dollar exchange rate could affect our margins dramatically. How could the company then commit to earnings of 20 cents per share for the fall quarter? "We will commit," I told the shareholders, "only to those metrics over which we have control. And we will deliver what we promise."

Of course, the real reason shareholders wanted a number was to hold us to it. Those who miss their guidance numbers are crucified in the market. But demanding earnings guidance also gave analysts an easy way to judge the company without having to do their homework. If we missed our numbers, they could easily conclude that we didn't know how to forecast, or how to control our business.

As an alternative approach for our investors, I found myself returning to the phrase "commit and deliver." Ultimately, the team who prepared the annual report put it on the cover in 2002. This report was a turning point. Hereafter, our focus was clear. To investors, customers, and employees, we would be a Commit and Deliver company.

Mantle of Infallibility

While all this was going on, of course, we were engaged in running the company. Again, I was taken aback by something I had previously understood only on an intellectual level: the mantle of infallibility attributed to the CEO. Managers do not want to openly disagree with a CEO. You have to make it comfortable for people to express their points of view, and yet retain decision rights about important things.

Chiquita had a history of dominant chief executives. Too many

people reported directly to the CEO; far too many trivial matters crossed the CEO's desk. My e-mail inbox overflowed, often with grievances by one individual against another, or with copies of routine reports and memos. An entire financial reporting system had been set up exclusively for the CEO. It deserved an "A" for volume and an "F" for content.

It took more than a year to sort through and structure the deluge of data into a form that was useful to me. I killed the special financial reporting system, reorganized the hierarchy, and restructured the management committee. Anything not related to the strategic direction of the company was delegated. Meetings were redesigned to encourage people to express their own points of view instead of trying to second-guess mine.

One area was kept at the top: the enforcement of our commitment to integrity. Chiquita's bankruptcy had coincided with the collapse of the Internet bubble and the fall of companies like Enron. We were now in a much more transparent world. Consumer products companies, in particular, were scrutinized by their customers. We had to live up to a set of legal and ethical standards that hadn't even existed 10 years before. To do that, we had to open doors that many people within the company would probably have preferred to keep closed. For example, whenever the board became aware of a potential legal or ethical problem, we reported it to the Department of Justice, the Securities and Exchange Commission, the European Commission, or other appropriate government agencies, and worked with them on a resolution. We also decided, despite the bankruptcy, to continue investing money to meet environmental and social objectives and to obtain certification from independent NGOs.

We took transparency to new levels for us. For example, we used a corporate social responsibility scorecard that rated the company in several specific areas: green for doing well, orange for showing evidence of improvement, and red for needing a lot of work. I remember looking at our yet-to-be-published results and saying, "There is too much red. We're reporting to the world that we're doing a lousy job."

Nevertheless, we went ahead, and the relevant NGOs praised our honesty. Getting praised by them had been a rare experience at Chiquita. Looking back, I think our decision was another manifestation of the Commit and Deliver policy. Having established integrity as a core value, we had to deliver on it. That meant reporting not just on our successes, but on the ways in which we weren't so wonderful. And if we wanted to make it work over the long term, we would have to turn those red marks into green marks.

The Aftermath

It took about 18 months for the Commit and Deliver strategy to pay off. Even some of the angriest investors, people who had hammered on the table at meetings, started to let me know they had decided to stop aggravating us. We had clearly impressed them by delivering on our promises — apparently something they weren't used to from other companies. It was as if the provision of quarterly guidance, and the pressure to perform in that one respect, made companies less likely to deliver on their other, more strategic, promises.

By late 2003, the company was on a strong financial footing and had met almost all the three-year goals in half the time. We then came up with a strategy for the future. Chiquita would henceforth be a consumer products company, expanding its lines of branded fresh fruit beyond bananas and leveraging the extraordinary Chiquita brand. We then put a management team in place to take it forward. In January 2004, we announced a new CEO: Fernando Aguirre, a former global division president at Procter & Gamble. Chiquita subsequently acquired Fresh Express, a branded produce line. The stock has done very well. On my last day as CEO, it was selling at $23 per share, more than double the price it had been during our dark days a year before.

I believe the Commit and Deliver choice is viable for many public companies. But it takes a lot of energy. Most business executives have learned to resist being driven by their inbox. It's easy to get trapped, spending your time dealing with everyone's problems, the pressures of the day, and the insistence of squeaky wheels. But this strategy sets you up against the agenda of shareholders, who, after all, own the company; you represent them as a director and chief executive. You can't ignore them, even if you feel they're wrong. Instead, you must make the case that your agenda is the best one for everyone. I now understand more completely why some companies seem to act without mooring and purpose. In the absence of a strong agenda of your own, others will fill the vacuum. +

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