

Managing De-regulation, Re-regulation and Reform

Businesses can be highly successful – profitable and growing – under most forms of regulation. When the regulatory climate changes, that is a threat to companies which cannot adapt, but an opportunity for those which can get ahead of the change.

Currently, health-care reform is the topic of the moment, but reform is old and ongoing. When rules and regulations change it can be difficult for people and companies that have spent many years fine-tuning how best to succeed under the old rules, to make the transformation. Yet, it is not only possible, but can be very rewarding. Beyond this, it is



a requirement for long term survival. When airline de-regulation arrived, the large “legacy” carriers thought they could prosper while making few changes. SouthWest airlines created a new way to run an airline – from aircraft purchasing, routing, reservations, seat assignments, the relationship with cabin crews and passengers. As a result, SouthWest



is now the largest airlines in the US. This kind of realignment is quite common. At one time GTE was the second largest phone company in the US – now it no longer exists. Even the company which we know as AT&T is the old spun off Southwestern Bell.

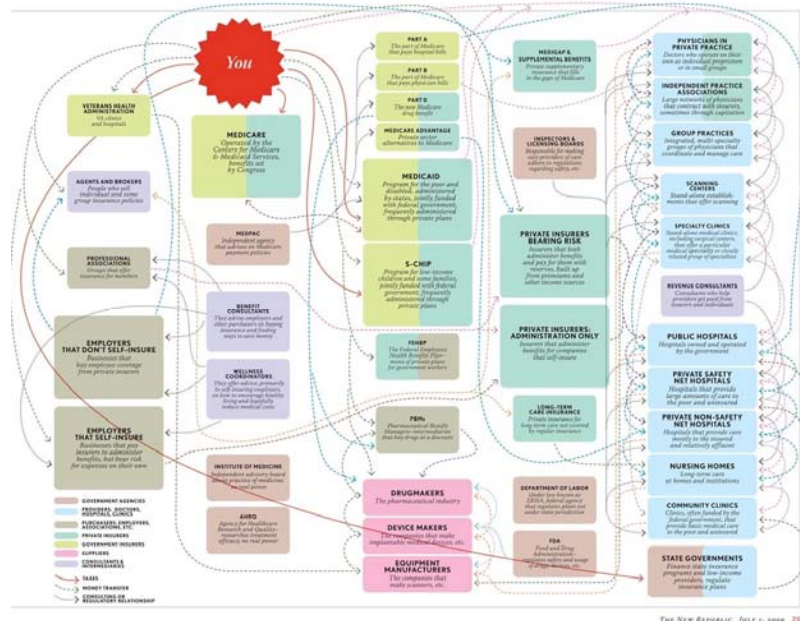
The pattern repeats itself again and again, with size being no protection. Financial deregulation brought with it the collapse of many of the most established companies in the industry and Energy deregulation also resulted in substantial changes in market position, brands and ownership. There are no exceptions to this. Every time regulations change, because there is no true elimination of regulation, merely a shift in how regulation takes place, there are opportunities and threats. However, the long established market leaders are usually at a disadvantage vs. newer and smaller competitors. While investment in physical assets needed to operate under the old rules is often a problem, the most important issue is usually a mindset which is so deeply established that the executives and lowest level workers take it so much for granted that they cannot conceive of any other way to work. However, legislators and regulators and regulators also wear blinkers and smart business people can develop scenarios and ideas which no one else can conceive of.

Having worked in each of the industries listed above as they have gone through deregulation, I have observed, participated in and driven much of the change which has taken place as well as the failure to change which has led to many huge companies going out of business. Where is PanAm now? All too often, people in the corporation, either consciously or subconsciously fight a rearguard action against any change taking place. As President of Reliant Energy I spoke to executives who thought that the changes I was introducing were going to destroy the company, whereas it was those changes which led to the company becoming one of the largest energy companies in the world. Yet, they

and many others would secretly work to undermine or even reverse the changes I was making.

There are keys to being successful to managing re-regulation and coming out of it as a SouthWest, a Verizon, a Reliant, or a CitiBank rather than a PanAm, an ENRON, a GTE or a Manufacturers' Hanover. Among the key rules are:

- 1) Embrace and welcome the concept of re-regulation at all levels. Get out ahead of it, rather than deny it. People resist change.
- 2) Avoid confrontation, but seek to shape the new world in which you will have to live. Build collaborative relationships with regulators, legislators, consumers, and customers.
- 3) Since one person's "waste" is another's livelihood, aggressively seek out opportunities to re-engineer processes to reduce cost. Do not expect people who see their self-interest to be threatened to help, but rather they will hinder.
- 4) Assume you can start with a clean sheet of paper and build a company from scratch. Look at non-US models, other industries, but allow completely new paradigms to be considered.
- 5) Listen to all the constituencies. Listen to them one on one, carry out surveys and listen online using the latest and best tools available. Ensure that people without either vested interest or much "received wisdom" are charged with interpretation. Deeply embed the findings in the organization.
- 6) Ensure that the talent and skills in the company match the new challenges, not the old ones.



Any company which fails to do this will inevitably fail; probably not immediately, but over time it will. GM took many years of cumulatively being slow to change before it sunk from its position in the 1960s. John DeLorean foresaw the end of GM in his 1979 book "On a Clear Day you can see General Motors," yet no one made the changes it called for. Similar issues surface in other enormous companies which have failed or been gobbled up. It is not a luxury, but a requirement to make changes.