

Losing Is Not an Option

An Interview with Michael D. Capellas, Chairman and Chief Executive Officer, MCI, Ashburn, Virginia

EDITORS' NOTE Armed with the knowledge that "there are no home runs in business," Chairman and CEO Michael Capellas took on the unenviable task of turning around telecommunications giant MCI less than a year ago. Since that time, he has begun building a new MCI, one founded upon the principles of integrity, service, and trust. He has appointed a new board and a new senior executive leadership team, and has introduced a set of company guiding principles, as well as instituting a zero-tolerance policy.

Most significantly, in just 100 days he established a realistic three-year recovery plan, built upon "the company's extremely clear value proposition and its differentiating factors" rather than specific growth forecasts. After all, Capellas points out, as yet there is still "too much uncertainty to pin down any firm predictions about the future." And in the maturing telecommunications market – where, he freely admits, "in many cases we may be delivering the same products as our competitors" – providing high-quality "customer service is the way to stand apart." Indeed, "quality of service has become a huge differentiating factor," he observes, particular "through difficult times," to such an extent that "no matter what happens, if you keep your customer service at a high level, you will continue to move forward and make progress." Accordingly, "we have made that our rallying cry," he reports, noting proudly that throughout this period of radical transformation, MCI has "not lost a single top global account."

The recipient of a B.B.A. in computer science and accounting from Kent State University, Capellas is a 27-year veteran of the information-technology industry. Prior to assuming his current posts in December 2002, he was president of Hewlett-Packard Company, after serving as chairman and CEO of Compaq Computer Corporation, which Hewlett-Packard acquired in May 2002. Capellas joined Compaq in 1998 as the company's CIO, and served as its COO before being named CEO in July 1999. Before joining Compaq, he held various

executive and managerial positions with SAP America, Oracle Corporation, and Schlumberger Ltd.

COMPANY BRIEF Founded in 1968 and based in Ashburn, Virginia, MCI is a global communications company with operations in 65 countries on six continents, providing mission-critical communications services to businesses, consumers, and government clients around the world. With more than 50,000 employees, MCI offers an extensive portfolio of global voice services and owns the farthest-reaching global Internet protocol (IP) network in the world, based on the number of company-owned and -operated points-of-presence (POPs). For the first six months of 2003, MCI reported revenues of more than \$12 billion and operating income of \$680 million.

When you joined MCI in December 2002, people must have told you that you were crazy. Why did this troubled company seem like a good fit for you?

I had long been promoting the idea of convergence in computing and networking because I've always been a great believer in intelligent networks. So taking this job made sense from a technical perspective. However, perhaps more importantly, at the philosophical level, everybody – including myself – wants to make a difference. Interestingly enough, I was recruited by MCI's employees. I had known the company for 15 years or so because MCI was a large customer of Compaq and Hewlett-Packard, where I used to work. And, having watched MCI's employees in the marketplace, I believed I could make a difference. I believed in the company's people and I believed this could one day be a great turnaround story.

Additionally, being involved with healing a troubled company gives me a sense of pride. The last time I was interviewed by LEADERS Magazine, I indicated that I like to take on the toughest jobs. I certainly haven't backed off from that sentiment, because here I am doing it one more time.

MCI's employees have weathered the company's recent turbulence, and as a result, they might be skeptical about the current restructuring program. How are you able to excite them and get them on board with your strategy?

There are a couple ways to do that. First, in difficult times it's crucial to promote internal communications using multiple vehicles. In other words, I have to reach people in different ways. With this in mind, we organize employee meetings and rallies, send regular e-mails and voice-mails to employees worldwide, and routinely have Web-casts and videoconferences. In my view, we need to take a very factual approach and share information with employees, because in times of uncertainty, knowing your own position is half the battle.

Second, it's important to make the most of the spirit of the employees. Some leaders approach a situation like this thinking they can instantaneously change the corporate culture; they probably think too much of themselves, actually. But the employees of MCI already have a feisty spirit and a will to succeed. The job of the management team is to harness that spirit and their rejuvenated sense of company pride.

Third, it was important for us to establish a 100-day plan for the reorganization. We spelled out identifiable goals that people could relate to. We also made a point of letting employees know that it was okay to have a little fun. That's important when times are tough. Along those lines, we encouraged employees to "Act with an Outrageous Sense of Urgency," and on our internal Web site we highlighted "Outrageous Employees of the Day" and "Outrageous Songs of the Day" – some of these were even written and performed by our employees. Times were tough, but those programs encouraged people to believe in the business.

Getting people excited about the business is all about blocking and tackling. I like to say that there are no home runs in business; rather, we just have to get down to basics by establishing a clear plan

and rallying people around the new corporate culture. And, of course, we have to encourage constant communication.

As you come out of Chapter 11, what is your outlook for future growth?

When I arrived at MCI, one of my more interesting tasks was developing a three-year plan, and in doing so, I had to work with a number of variables. I found there was too much uncertainty to pin down any firm predictions about the future. So, instead of talking about growth or financials, I chose to highlight the company's extremely clear value proposition and its differentiating factors.

I think people can get too hung up on predicting macro- and microeconomics. Do I believe the Internet will continue to grow over the long term? Yes. Do I believe that we'll find ways to stream voice and data over the long term? Yes. Do I believe networks will become critically important as we expand our multiples devices? Yes. Do I have a clear idea of a specific timeline for when the overcapacity in the industry will diminish or when the economy will turn around? No, I don't.

Ultimately, I believe that the Internet and other core technologies have not yet been fully exploited in either the home or the office. We have the ability to digitize more networks across international borders and the devices needed to improve networks. Nevertheless, am I prepared to say my "crystal ball" is clearer than that of economists? No. In reality, we can only see about six months into the future, and there's no concrete way to gauge the specifics of future growth after that. All that having been said, though, I am confident that growth will occur.

In such a saturated industry, it must be difficult for consumers to differentiate one company's products from those of another. As a veteran of this industry, have you noticed a change in the way products and services are being bought and sold?

Over the past three years, this industry has witnessed a modernization of data centers and other end devices, and, during this post-Internet-boom cycle, the industry has had a chance to mature. We've been able to set higher standards for messaging applications, for instance. So differentiators are now found in different forms. Companies are no longer set apart by product specifics; now, quality of service has become a huge differentiating factor. Of course, there is still room for product innovation, but in many cases we

may be delivering the same products as our competitors. So customer service is the way to stand apart.

In addition, we have to create valuable packages, and demonstrate expertise in how our products work with our clients' networks. We have to be able to offer products and services that fit easily into broader systems. Today, people don't wake up thinking, "I need to change all my applications," or, "I am going to rebuild my entire infrastructure," like they did in the days of the Internet boom. Now our clients are asking, "How can I make incremental investments to make sure



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that I continually receive returns on my original investment?" So investments are being made in these technologies, but at a different pace than before.

Looking down the road a little, what key products and services will MCI offer?

I feel really good about the amount of effort and time we have spent on building the world's most advanced IP backbone. This technology will greatly affect voice and data convergence, for both the end user and the company in its deployment of applications. In fact, I predict we will become the leader in voice and data convergence. We have a great opportunity to intelligently manage and optimize networks, not least because of our impressive heritage in data.

Ultimately, our plan is to continue to

integrate Internet applications with networks so we become one of the leaders that not only provides under-riding transport but also provides manageability. We'll also work diligently on the application of security features, and, finally, we'll work in depth with partners so we all understand both sides of every application.

It stands to reason that partnerships are very important to MCI.

Partnerships are absolutely critical to the success of the company. I've long believed that one company cannot do it all. After all, customers need a combination of heterogeneous components. Simply put, partnering is about deciding what you do very well, then going to market with partners that allow the end solution to come together for the customer. Every other area of the technology industry utilizes partnerships to this end, so I think it's only natural that partnerships play a role in the network world.

Thus, we are reaching out to multiple strategic partners, such as Nortel and Wayport. We're doing a lot of very intriguing work with Cisco, for example. We pick just a few partners, and make the partnerships deep and broad.

When you came on board with MCI last year, did many of your client executives want to meet with you personally?

Yes, they did. The list was long, and it grew quickly and furiously. To my advantage, I came from the CIO community, so I already had strong personal relationships with many of MCI's client executives. In talking to those major customers, I was encouraged to hear how crucial MCI was to their companies' infrastructures.

During my very first meeting with MCI employees, I told them we have three priorities: customers, customers, and customers. I told them that through difficult times, no matter what happens, if you keep your customer service at a high level, you will continue to move forward and make progress. So we have made that our rallying cry, and I'm very pleased with the results. We have not lost a single top global account. Our customer service has been phenomenal, and we've measured it in every way imaginable.

Does MCI pitch its products and services strictly to C-level executives?

Not exclusively, because buying patterns tend to differ. Not every company positions IT in the same way and not every CIO has the same priorities. In some cases, during periods of transformation,

rebuilding, and expanding into new markets, those decisions are taken at the C level. In other cases, a fairly stable, mature business will take decisions on networking services at the VP level. So part of the game is to understand where the decision maker is in each prospective client organization. There is no universal answer, and we have to be flexible in our sales efforts, because the reality for most companies is that there is no single decision maker.

MCI has enjoyed a long business relationship with the public sector. Is that likely to continue?

We believe it will. We have had a very strong 15-year relationship with the public sector, including with the government. In fact, government contracts represent roughly 6.5 percent of our business today, and we have an incredible track record of success with multiple agencies, from Social Security to the Federal Aviation Administration. We've created a great value proposition for the public sector, and we're proud of our work in this area. It will continue to make up a major part of the business going forward.

MCI is no stranger to the scandals that have rocked the corporate world. Do you think the reputation of the business world in general has been unfairly tainted because of the actions of a few fraudulent companies?

The reality is that there have been multiple occurrences of corporate malfeasance, and as such, we all have to accept the responsibility, step up, and do more. We accept that we must be held to a higher standard and that is okay. Without question, I have to be a role model, because everyone's eyes are on me. That said, I do believe that people are basically good. If I had been asked a few years ago about the probability of these incidents taking place, I would have said it was impossible for that kind of thing to happen in a *Fortune* 100 company. But it did happen. As a result, we are going through an interesting period of adjusting values, which makes it a difficult time to be a leader.

In your view, has the public sector forged a productive relationship with the private sector in crafting the new corporate-governance legislation?

There are two things happening simultaneously. On the one hand, there are many people from the public sector who have fresh ideas and a great interest in the subject, and they have approached the situation from a conceptual point of view. I think that's very good. Then, on the other hand, many business leaders who have always had great ideas are not applying them to practical governance. I believe the problems that arose with the accounting scandals weren't the result of a lack of a plan for governance; it was just that no one executed the plans that were there. So reform is coming from both sides. Businesses are starting to do what they always

said they were going to do, and they now have a lot more discipline. For a long time, the problem with corporate governance was that the meaning of "good governance" was unclear. Now that the efforts of the public and private sectors are merging, the needs of both parties are becoming clearer. For my part, I will take all the help I can get. So we will surely move forward.

In many companies, the CEO has become synonymous with the brand itself. Is that a difficult burden to carry, particularly in a company with a profoundly troubled history?

I've never been a great believer in the concept of the CEO as the company

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brand. After all, MCI employs more than 50,000 people. I work pretty hard at not taking myself too seriously. Obviously, leaders have responsibilities and they should set the tone at the top, but our company's culture is more than 50,000-people strong, and our brand is created by the engineers who stay up all night dealing with technical problems just because they care.

In tough times, a leader has a responsibility to communicate, among other things, but the success or failure of this company hinges on all of us working together – myself, my management team, and all our dedicated engineers. Let's not forget that our sales force, our engineers, and our back office personnel held the company together during the tough times. In fact, I would argue that they created the brand.

As part of the rehabilitation of your company's corporate culture, several new members have been inducted to your board of directors. Was it difficult to attract them?

Not at all. A lot of people are really intrigued by our story, and there are many who want to contribute to our recovery. In filling those key positions, we found an incredible number of great candidates.

As a CEO today, you're pulled in a number of different directions. How do you define your role? Do you find yourself getting more involved than an average CEO because you have a lot of the ideas?

In the first month, I spent a lot of time on core organizational development, such as putting metrics in place and completing other hard operational tasks to ensure we had our finances and day-to-day operations in check. As we approach our bankruptcy proceedings, I am obviously spending a lot of my time on government-relationship issues. Ultimately, there's no right answer to the question of how I should spend my time. So I will admit, in this unusual case, that when faced with so many open issues, I just look to my left, then to my right, and then make my choice.

What would those who know you well professionally say of your personality and leadership style?

One of the first things I said to my new colleagues was that we need to possess an outrageous sense of urgency. So I think they would mention my energy and my sense of urgency.

You're relatively new to MCI. During your earliest days with the company, did you ever doubt that your efforts to stabilize the company would be successful?

I have used one saying forever: Losing is not an option. Someone who has that approach never looks in the rearview mirror. We're in uncharted waters that no other company has ever navigated. While things might look black and white from the outside, on the inside there are an awful lot of shades of gray. Not every decision is obvious. As such, I have to make choices and I know there are going to be ups and downs. And I have to prepare myself to make a few mistakes along the way. Are there things I would do a little differently now? Absolutely, but I just have to keep going.

Given the many challenges you face on a daily basis, do you enjoy the job?

I always enjoy it. On my very first day, I was introduced to the senior management team and I asked them all to stand up. They were looking very stiff, so in my typical style, I asked them all to sing "If You're Happy and You Know It Clap Your Hands." The whole group joined in. So I can have fun in a job like this, and it's certainly my style to try to do so. I won't say it hasn't been very tough and that there haven't been ups and downs. In leading a so-called normal business, you feel that you have more control over the problems that come your way, that you have more influence when things don't go your way. Working in this different environment, I'm often hit by things that I didn't see coming. However, I have to keep having fun. Luckily, I haven't lost my sense of humor.

Your position undoubtedly brings with it quite a bit of stress. Are you ever able to step back and relax?

No. Among my other traits, I can be a maniac with a purpose. I don't normally sleep a lot. The intensity level is high. ●