Global Organization Design Society

READINGS IN GLOBAL ORGANIZATION DESIGN

ARTICLE #10-11-27-01

HOW DID DENIS TURCOTTE BECOME CANADA'S CEO OF THE YEAR?

by Gerald Kraines

1

How Did Denis Turcotte Become Canada's CEO of the Year?

with a summary extracted from *Canadian Business* magazine

Gerald A. Kraines

WHAT'S IMPORTANT

- *Canadian Business*'s "CEO of the Year" led a masterful turnaround of Algoma Steel from bankruptcy to industry leader in a few short years.
- Denis Turcotte, a three-time CEO user of requisite organization (RO) methods, applied RO as the major management framework to design and lead the company's transformation.
- Gerald A. Kraines describes how Turcotte used his managerial leadership skills and RO concepts to overcome major challenges in:
  - redesigning the organization,
  - transforming the culture to one of accountability where people "keep their word"and"earn their keep,"and
  - transforming the organization's relationship with its unions.

Good leaders make people feel that they're at the very heart of things, not at the periphery. Everyone feels that he or she makes a difference to the success of the organization. When that happens people feel centered and that gives their work meaning.[1]

—Warren Bennis

Part 1 of this article is a summary extracted from a *Canadian Business* article about Denis Turcotte's remarkable turnaround of Algoma Steel in Sault St. Marie, Ontario. It describes his philosophy and actions and how he led an "old industry" company out of its second bankruptcy in ten years to become one of the most profitable steel companies in North America.

In Part 2 of this article, I explain Turcotte's success in terms of his understanding and exercise of personal leadership, accountability leadership, and strategic organizational leadership.

I can do this because of my experience consulting to Turcotte and the three companies he has managed over the past decade. In providing executive counsel, organization design support, and leadership training to Turcotte, his managers and employees over this period, my staff at The Levinson Institute and I have learned as much about leadership as we have taught.

Part 1: Executive Summary[2]

On a Roll

Our top CEO for 2006 took struggling Algoma and turned it into the most efficient steel producer in the world. The question is: What's next?

Denis Turcotte was in danger of losing his job—along with 1,200 of his colleagues. Barely 30 years old and fresh out of business school in 1990, Turcotte was working as a maintenance superintendent for the Spruce Falls Power and Paper Co., in Kapuskasing, Ontario. The mill's owners, Kimberly-Clark, had been trying to sell the ailing facility for months, without success. The only option left was to slash the

1 www.quoteworld.org/quotes/1223: Accessed March 17, 2007.

2 The original article, written by Joe Castaldo, was printed in *Canadian Business* Magazine, October 9-22 2006. Part 1 of this article is an executive summary of that Canadian Business article adapted with permission of courtesy of CB Media Limited 70, The Esplanade, 2nd floor, Toronto, Ontario M5E 1R2. To learn more about *Canadian Business*, visit the *Canadian Business* website at: http://www.canadianbusiness.com.

workforce down to 250 workers, a move that would devastate the economy of the small town that depended on the mill.

The massive restructuring had just been announced to employees at a special meeting, and Turcotte was milling around with a few co-workers. A secretary asked him, "You've got all this business training. Can't we buy this company?"

While the other employees chuckled, Turcotte returned to his office and started making phone calls. In the end, the buyout, in partnership with Quebec pulp-and-paper company Tembec, saved the jobs of 800 employees, along with Kapuskasing.

That was just the first time Turcotte proved instrumental in saving a company. The second time came as president and CEO of Algoma Steel Inc. The company, based in Sault Ste. Marie, Ont., had teetered on the edge of bankruptcy twice within 10 years, most recently in 2001.

Five years ago, more than 40 other steel companies in North America had filed for bankruptcy protection, and no one who'd been watching Algoma sink deeper into debt as steel prices plummeted could have been surprised when it followed suit. But what has been surprising has been Algoma's return to profitability.

There's no question, Turcotte, 45, has improved Algoma's standing by transforming it from a mismanaged hulk collapsing under its debt into a slim efficient producer—one that has rewarded shareholders with more than $500 million (CDN) in cash distributions since 2002.

He will certainly need to stay positive, since some of Algoma's biggest challenges lie ahead. But the picture is rosier than it was five years ago. Algoma had already survived one bankruptcy scare, in 1991, and it emerged on shaky ground thanks to a $60-million (CDN) bailout package from the Ontario government. In the years that followed, Algoma embarked on a program to bulk up operations and took on a mountain of debt in the process. The centerpiece of the strategy was a $440-million (CDN) state-of-the-art mill. The mill, called the Direct Strip Production Complex, was completed in 1997. The DSPC was plagued with bottlenecks. Time and money were lost on repairs, and the output was far lower than the company estimated. These issues, combined with falling steel prices and hundreds of millions of dollars in debt, forced Algoma to declare bankruptcy once again.

Into this bleak picture stepped Turcotte. Turcotte grew up in Thunder Bay, Ont., and says he comes from a "hardworking French Canadian family." After the buyout of Spruce Falls, Turcotte rose through the ranks at Tembec to become president of its paper group by the time he began interviewing with Algoma in 2002.

The similarities between steel and forestry surprised him. Both are capital intensive, commodity-based industries sensitive to market conditions. In spite of this, his inexperience in steel made some people uneasy.

Nonetheless, Turcotte's outsider status allowed him a fresh perspective. Others looked at Algoma and saw little hope of salvation; Turcotte saw opportunity. He was particularly impressed by Algoma's $1 billion (CDN) in assets as well as its production technology and capacity. A lot of the company's problems were mechanical, stemming from the failure-prone DSPC. The kinks in the DSPC were smoothed out by 2003, and it began producing at levels for which it was designed.

That was no small victory, but there remained that $300-million-plus debt, along with the troubling fact that Algoma was still a weak player in a market that was just beginning to recover. One change was to reorganize the management structure, which was ill-defined and often had workers reporting to more than one senior employee. Turcotte implemented a company-wide restructuring, simplifying the chain of command and eliminating two layers of management between the executives and the shop floor.

Regrettably, Turcotte says, there had to be layoffs. About 600 employees were let go in 2003. (A hundred or so have been hired back.) But Turcotte has also taken strides to cut costs without having to axe more jobs by enforcing a spirit of entrepreneurship on employees. Many CEOs promote that line, but few have been as successful as Turcotte. He's also the first to admit that he can't take credit for the cost savings—a whopping $180 million (CDN) since 2003. "No one guy could have done what this company has done," he says.

"You have to induce a culture where people value the input of the guys on the shop floor—who know more about running the business than anyone else," he says. That kind of change takes time, especially in a 105-year-old company like Algoma; but as management began to act on some of the ideas, employees became more confident in offering suggestions.

Given the number of cost-saving suggestions, Turcotte expected to save $100 million (CDN) within three years. Instead, it took only two. These savings and increased production from the DSPC, along with an improving steel market thanks to surging demand from China, made 2004 Algoma's most successful year ever, with $344 million (CDN) in profit. Last year wasn't bad, either: the company earned $240 million (CDN).

One of the most important things Turcotte has been able to do with Algoma's new-found wealth is pay down nearly $350 million (CDN) in debt, putting the company in a much stronger position to weather steel's ups and downs. Analysts are also impressed with his ability to handle cash. He's opted to stockpile it, spend it strategically, or return it to shareholders, instead of blowing it all on expansion.

But not everyone has been impressed with Turcotte's fiscal management. New York-based hedge fund Paulson & Co. Inc., which held a 19 percent stake in Algoma, demanded more money from the company in October of last year. So adamant was John Paulson that he pushed for a shareholder vote that could have ousted Turcotte and his colleagues from the board.

Turcotte fought back. The company had been planning a $200-million (CDN) share buyback at the end of the year, and Turcotte told Paulson that was all he was going to get. Paulson eventually acquiesced, but he reduced his stake in Algoma to 5 percent afterward.

Despite this experience, Turcotte is far from being anti-hedge fund. In fact, he's credited some hedge funds with bringing discipline to CEOs and boards. "You have to focus on short-term performance. Otherwise, there's no constructive tension. I think hedge funds bring a bit of that." As for Algoma's long-term prospects, all the company's successes lead to one thing for Turcotte: "Now we've earned the right to start thinking strategically."

The big question for Algoma now is how it will fit with the global steel giants who are leading consolidation in the industry.

Exploring joint ventures is one option. Algoma recently entered into a partnership with Germany's Schaarf Industries Co. to build a wind-tower manufacturing plant in the Sault. Such proactive strategies mark a departure from the Algoma of old, which would discount its steel just to give itself a competitive edge.

As Algoma continues to explore its role in the marketplace, a more immediate issue is a negotiation of a new contract with the United Steelworkers. Labor relations have never been easy, and with Algoma in possession of more cash than ever before, there's a possibility that both sides could get greedy. But Turcotte will approach the issue with his usual Boy Scout optimism. "The company will be reasonable, and I'm expecting the employees will be reasonable," he says. "I just gotta believe that people at Algoma today are much happier than they've been in years."

Part 2: Firsthand account of Denis Turcotte's Turnaround of Algoma Steel by Gerald A. Kraines

Introduction: What Every Leader Can Learn from Denis Turcotte's Example

The following account reveals how Denis Turcotte applied personal leadership, accountability leadership, and strategic leadership to successfully turnaround Algoma Steel.

A CEO—even one who has the raw ability, who understands business and strategy, and who understands the principles and applications of requisite organization—cannot transform a company alone. The Turcotte story emphasizes that organizational transformation requires leveraging the potential of an entire organization. And leadership is a set of actions that leverages the potential of all organizational resources.

Personal Leadership

Denis Turcotte is bright and intellectually curious. He possesses a clear moral compass, yet he is intensely competitive. He is analytical and committed to operating from first principles and logic, but he is not afraid to make far-reaching decisions based on the information at hand.

Turcotte values what they call in the UK "man management." He believes that his organization's capability depends on leveraging the potential of all his employees working effectively together. Turcotte enjoys challenging his employees, engaging them around ambitious goals, holding them to high standards, and rejoicing in their successes.

Part of Turcotte's strength is his willingness to ask questions without worrying about revealing his lack of knowledge. He has confidence in being able to figure out solutions to complex problems. When his managers would tell him things couldn't be done, he would ask them why. When they couldn't adequately back up their explanations, he challenged them to look at things differently. When they would assert that, "this is the way it has always been done," invariably he would probe until he got to the underlying principles. In this way, he *simultaneously earned their respect and forced them to think.*

Accountability Leadership

When Algoma Steel came out of its first bankruptcy in 1991, the board made a number of agreements with the union leadership in order to extract financial and other concessions to restore the company to profitability. The two most important were the unionization of all specialists and first-line managers, and the involvement of union members in nearly all managerial decisions. These decisions amounted to union veto authority over managerial business and employee-selection choices.

The effect of these concessions was decreased management authority and accountability, and a decision-making environment based on consensus that led to a culture of inaction and widespread feelings of entitlement by some, and disengagement by others. Managers who expected clarity and accountability were considered abrasive, non-team players.

Turcotte bluntly addressed the status quo when he began his tenure as president and CEO of Algoma in September 2002. "Algoma exists to deliver value to the shareholders, by serving its customers," Turcotte asserted. "The company will survive, endure, and prosper only if we deliver value that exceeds what they could get elsewhere." This was the only approach that could develop the required credibility with the capital markets and the customers. This would in turn lead to good things for employees and the community. He stated that as CEO, he was accountable for making that happen and could achieve that only by holding each of his subordinate executives and their subordinates accountable for delivering their part.

Furthermore, Turcotte made it clear that employment was a privilege, not an entitlement. All employees would be expected to "keep their word" and "earn their keep." Functioning accountably was no longer optional for anyone who wanted to continue to work at Algoma.

Turcotte was first drawn to the leadership principles of requisite organization when he attended a Levinson Institute seminar in the 1990s. At the time, he held a stratum V role as vice-president of the paper division, and general manager of Tembec's Spruce Falls Mill. The requisite leadership practices (context setting, unambiguous assignment definition, significant-incident feedback, effectiveness appraisal, coaching, etc.) not only resonated with his own experience, but they provided a framework and language for teaching and aligning the entire organization with his approach. Even prior to taking the reins of Algoma Steel, Turcotte sent the vice presidents of operations and HR to The Levinson

Institute's Strategic Organization™ seminar and had the Institute deliver Principles of Accountability Leadership training to its top 600 managers and employees.

Strategic Organizational Leadership

Turcotte saw the power of being able to proactively align his organization with strategy, using the requisite organization lenses of:

- Levels of role complexity,
- Functional alignment,
- Three-level-unit processes, and
- System stewardship.

He also realized that a software-enabled system of talent-pool assessment and development, tied to compensation, was the most reliable way to establish consistent, high standards for effectiveness.

RO Principles for Levels of Role Complexity and Three-Level Units

The level of complexity of the Algoma CEO role had devolved to stratum V over the previous decade. The board agreed that, instead, the CEO should function as a low stratum VI role, with a 12–15 year outlook. By selecting Turcotte, with stratum VII current potential, the board was able to reestablish the CEO position as a high stratum VI role after three successful years.

At the outset, when evaluating the manufacturing organization, Turcotte identified up to seven levels in a function that required only five levels. He calculated that a competitive ROI for shareholders required a total payroll consistent with 25 percent fewer employees. This was consistent with moving the average human productivity levels up from the 53 percent estimated, toward the 75 percent level defined by "top-quartile" manufacturers. He next engaged an industrial engineering group to help management evaluate process efficiency and identify where roles could be eliminated without reducing productivity. *This required eliminating two levels of supervision and reorganizing the manufacturing three-level units.*

RO Principles for Functional and Process Alignment

Algoma's previous strategy was to "sell as many tons of steel as possible," usually at the lowest price, in order to fully load its production capacity. Turcotte reasoned that in a cyclical commodities market, this strategy was a recipe for bankruptcy. While it was important to load the fixed-cost production engine as fully as possible, he believed that a value-oriented sales approach (high prices) could be achieved with a more intelligent production loading-and-planning process. To reconcile and optimize these two needs, accountability for *production loading needed to be aligned with sales, not manufacturing*. Similarly, the accountability for *production planning needed to be aligned with steel finishing, not steel making*. This necessitated major functional and process realignment at Algoma.

To create a value-oriented sales strategy, Turcotte needed to create metallurgically unique products and services. This required *creating a new product-development capability*, which had been eliminated years earlier during the period of financial cutbacks. This necessitated implementing organizational functional and process realignment.

RO Principles for HR Systems

The most dramatic change in culture and productivity resulted from Turcotte's implementation of a rigorous process for assessing employee effectiveness and potential. Because of his long experience with our firm's talent-pool process, he understood that the systematic assessment of employee effectiveness was the best way to simultaneously 1) communicate and calibrate high standards and 2) implement meaningful accountability for people to "earn their keep." Using software supplied by The Levinson Institute,[3] Algoma Steel was able to quickly implement a comprehensive effectiveness-appraisal, gap analysis, coaching, and compensation system. Using the same system, managers were able to assess the current and future potential of Algoma's entire pool of talent. These assessments were critical in making the role-filling decisions required by the reorganization efforts.

Lessons Learned from Denis Turcotte

Denis Turcotte is an exceptional leader. He understands the value of leadership and organizational consultation. Turcotte has applied the principles and practices—first developed by Elliott Jaques and now adapted and refined by my firm—with enor-

3 This refers to The Levinson Institute's Sonario™ software. Please contact The Levinson Institute for further information about Sonario software.

mous success in three different companies. He was recently quoted as saying that "The Levinson Institute and its Strategic Organization™ approach were fundamental to getting the right structure, integrating our efforts, and driving home accountability. Within 36 months out of bankruptcy we drove $152 million (CDN) in annualized improvements, and over $1 billion (CDN) of equity value."

However, Turcotte's success does not stem from the intellectual prowess of his consultants. Rather, it derives from his personal leadership, accountability leadership, and strategic leadership. Not only does this story prove that one person can make a difference, but it proves that leadership itself can make a difference. Sound, moral, enlightened, and confident leaders can leverage the full potential of almost any work organization.

What then are the characteristics of strategic leaders? Here are six that I have found correlate strongly with the kinds of values practiced by Denis Turcotte.

1. *Strategic leaders value managing and leading people*. In other words, they value getting work done through others. If they are in it just for the power, prestige, or strategy, they will not create long-term value, because the sustained, effective implementation of strategy must involve every employee. Senior managers cannot lead mechanistically with carrots and sticks and expect to be successful.

2. *Strategic leaders are intellectually curious*. They are always seeking new ideas and are receptive to new ways of thinking and working. They know there is no simple formula for winning, and thus continuously strive to discern the underlying principles that will allow them to leverage every resource within their control. In particular, implementing requisite organization concepts and applications requires clear and comprehensive thinking.

3. *Strategic leaders "walk the talk."* They set context with their own subordinate managers about the bigger picture and how each of their functions must work together to support the company's overarching goals. This is how strategic leaders achieve genuine alignment and enthusiastic engagement.

4. *Strategic leaders recognize that they can never figure out all the answers by themselves.* They seek input from their people, share their thinking, and encourage debate in order to get to the best possible understanding. Then, they *push for results*. They model a balance between the need for proper reflection and a bias for action. Twenty years ago Harry Levinson, founder of The Levinson Institute, wrote

a noteworthy book entitled *Ready, Fire, Aim: Avoiding Management by Impulse.*[4] Dr. Levinson proved that strategic leaders engage their entire team in taking aim *before* they pull the trigger.

5. Strategic leaders are comfortable with their positional and personal authority and never shy away from holding their subordinate managers accountable for "keeping their word" and "earning their keep." They establish high standards, recognize and reward success, and confront failures to adhere to policy and/or commitments with appropriate discipline. And most importantly, they hold their subordinate managers accountable for being effective, value-adding leaders themselves.

6. Finally, strategic leaders understand that to deliver full value, every aspect of the leadership system must be aligned with strategy: structure, processes, people, and human resource systems. It is worth reiterating that every element of a strategic organizational system is inextricably linked to every other element.

Work organizations are powerful forces in the lives of managers and employees. The degree to which managerial leaders can create the organizational conditions in which people can succeed is the degree to which they can have a positive impact—on employees, their families, and, ultimately, on society. For you, the manager, I hope Denis Turcotte's story will act as a catalyst to help you renew your own commitment to identifying, developing, and promoting personal, accountability, and strategic leadership.

ABOUT THE AUTHOR

Gerald A. Kraines, M.D. is president and chief executive officer of The Levinson Institute, taking over from its founder, Dr. Harry Levinson, in 1991. He is also on the faculty of Harvard Medical School. Kraines's career has focused on enhancing leadership effectiveness: as an executive for healthcare organizations, as a teacher of leadership, as an executive coach, and since the 1980s, as a consultant to senior executives about leadership systems. Kraines brings a systems perspective to The Levinson Institute's research, education, and consultation. He is continuing Dr. Levinson's mission of disseminating in-depth knowledge about the psychological aspects of lead-

4 Levinson, H. *Ready, Fire, Aim: Avoiding Management by Impulse*. Cambridge, MA: The Levinson Institute, Inc., 1986.

ership, while integrating the work of Dr. Elliott Jaques about managerial leadership systems.

Dr. Kraines consults worldwide to companies of all sizes. He has helped to integrate and implement many successful corporate reorganizations resulting from rapid growth, acquisitions, mergers, and consolidations. Dr. Kraines is also the architect of the Institute's innovative Sonario™ Strategic Organization software system. Born in Chicago, Dr. Kraines received an undergraduate degree from Oberlin College, a medical degree from Case Western Reserve, and a psychiatric fellowship and postgraduate degree from Harvard Medical School. His critically acclaimed book, *Accountability Leadership*, was published in 2001.

GO Global Organization Design Society

GO SOCIETY PURPOSE AND VALUES STATEMENT

To support the organizing of work in a responsible, fair and healthy manner in which people are led in a way that enables them to exercise their capabilities.

The Society believes this requires applying a systems framework* emerging from reflective inquiry in which levels of work and capability are the initial paradigm and growth in human awareness is the essential process.

The benefits are organizational effectiveness, fulfilled people and organizations designed for value-creation, sustainability and social well-being.

Note: inspired by the work of Wilfred Brown and Elliott Jaques

The Global Organization Design Society was founded in 2004 to establish and operate a worldwide association of business users, consultants, and academics interested in science-based management to improve organizational effectiveness.

The GO Society fulfills its purpose by:

- Promoting among existing users increased awareness, understanding and skilled knowledge in applying concepts of Levels of Work Complexity, Levels of Human Capability, Accountability, and other concepts included in Requisite Organization and/or Stratified Systems Theory.
- Promoting among potential users of the methods, appreciation of the variety of uses and benefits of science-based management, and access to resources. The GO Society supports the learning and development of current and future practitioners by holding world conferences and professional development workshops, publishing books and a journal, and maintaining a resource-rich web site with related articles, monographs, books, videos, blogs, discussion groups, and surveys.

GLOBAL ORGANIZATION DESIGN SOCIETY

32 Victor Avenue
Toronto, ON
Canada
M4K 1A8
Phone: +1-317-644-0472
Fax: +1-647-438-5656
Email: info@GlobalRO.org