

Interview

“The beauty of transparency is that it eliminates a lot of the external pressure.”

Why **Michael Critelli**, the CEO of Pitney Bowes, considers current demands for greater transparency on the part of corporate leaders not a necessary evil but an essential aid for management.

PHOTOS: JÜRGEN FRANK



RESUMÉ Michael Critelli



Early on Wednesday mornings, the phones of many Pitney Bowes employees start ringing: It's the boss, informing them of the latest trends and developments by voicemail in his weekly Powertalk. Michael Critelli, 57, deals with all replies or questions about his Powertalk directly. This is just one of many ways in which the CEO and Chairman of Pitney Bowes keeps in close contact with his employees; others include some 150 "Skip Level Meetings" per year, and a series of town hall meetings where top management and employees learn a lot about each other.

After completing his studies, Critelli joined the Legal department of Pitney Bowes in 1979, rising to become Vice President and General Counsel. In 1990 he was appointed Chief Personnel Officer before taking over as President of PB Financial Services in 1993. In 1996 Critelli was elected CEO before also becoming Chairman at the beginning of 1997.

This tall Harvard Law School graduate has a reputation as a cool analyst with a razor-sharp mind and a phenomenal memory. He was responsible for refocusing Pitney Bowes on its core strengths and for the intelligent expansion of its mail and document management products and services. Critelli is also a driving force behind the company's pioneering role on many current management issues, as well as in the field of social responsibility. On a personal level, too, Critelli and his wife Joyce are active contributors to the work of numerous charitable organizations.

WHERE OTHER CORPORATE LEADERS see mainly additional cost and effort, Michael Critelli sees advantages for his company. The CEO of U.S. postage meter manufacturer Pitney Bowes views a proactive approach to transparency in corporate management as an outstanding differentiator – one that Pitney Bowes is already employing to good effect. The company's exceptional reputation is founded not only on its products and services but also on its exemplary internal and external communications, and on a benchmark style of corporate governance that far exceeds mere compliance with the law. On this and many other management issues, Critelli and his company from Stamford/Connecticut are not afraid to blaze a trail.

The Focus: Transparency is currently one of the most hotly debated topics in the business world. Companies are bowing to public and political pressure for greater transparency but do they really want to be as open, up-front, and crystalline as they are expected to be?

Michael Critelli: There are some areas where transparency is very good. In financial or shareholder communications, for example, transparency gives investors a clearer idea of how a company is doing and enables them to be helpful to the company when investors and company get together. On the other hand, there are some industries where, if you are a supplier to the leading manufacturers and you reveal that your line of business is profitable, they will use that against you. So companies that are open and honest about how much money they are making, for example, may find that customers use their openness against them.

The Focus: So the mandatory level of transparency can also be harmful to a business?

Critelli: That's right – if procurement people use what somebody is legally obligated to disclose as a way of squeezing companies and saying "you are making too much money." In general, however, I believe that transparency is not only good for shareholders; it is good for employees, as well. Basically it is also good for customers to see the context in which their vendors do business. But for transparency to really make sense those customers must adopt a win-win philosophy. They have to say, "Let's figure out a way in which we can both do better," as opposed to, "Let's make this into a zero-sum-game where I take from you, and you give to me." That is why some companies are reluctant to be more transparent. They operate in environments in which some

stakeholders – be it employees that are represented by unions, customers with strong procurement functions or government regulators – want to take the fruits of their efforts and appropriate them for somebody else.

The Focus: Is your company affected in this way at all?

Critelli: Only to a lesser degree. The one business where we have ferocious price competition is management services, and it is very clear from our financials that we are not making huge margins there. In the mailing business, where we make very good margins, we provide a lot of unique or significantly differentiated products that customers are willing to pay for.

The Focus: Pitney Bowes is often held up as a role model in respect of clarity and openness. What forms does transparency take at the company?

Critelli: We have a long history of communicating openly with our employees about the state of the business – and not only in good times. If something goes wrong, we communicate why it has gone wrong and what we are doing about it. This kind of thing we communicate openly via our in-house broadcast voicemail. Some of our people are very concerned that such information will get taken outside the company, out of context, and end up on a chat line where the competition will find out about it. But we think, on balance, that being very open about our imperfections is a good thing to do. There are several benefits: One is that we live in the world of reality as opposed to denial. Also, because our people know we are addressing the problems rather than sweeping them under the rug, they are more likely to tell management about the next problem because they recognize that we are going to do something about it.

The Focus: What about external constituencies?

Critelli: Our chief financial officer and head of investor relations do a lot of outreach to investors. We put information out publicly but we also do a lot of one-on-one and small-group investor meetings. The second thing we do is give more guidance regarding our future performance than many other companies. However, it is not the amount of information we release that determines how transparent we are but the quality of our information. To give you an example, we recently shrunk the number of our websites. Too much fragmentation in the branding of the company runs contrary to transparency. It is paradoxical: You can appear to communicate more, but if what you say lacks clarity then it actually means less.

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So through the centralization and coordination of the websites and a more managed, frequently refreshed content we have actually increased transparency.

The Focus: When it comes to reporting and the assessment of business risks, is Pitney Bowes equally open to all sides, or do you differentiate in your communications between the various stakeholders?

Critelli: In terms of what we want people to understand we do not differentiate. But in terms of the vocabulary we use, we have to recognize that we are communicating with different universes where the same words can mean very different things. So while we say the same thing to all constituencies, the vocabulary is different.

The Focus: Can a company be really open in telling external groups about potential risks for its future business without being punished by investors?

Critelli: Yes. What we do with investors is build a fundamental understanding that we are talking about two categories of risk: the 80-percent probability risks that we manage daily in the ordinary course of business, and the low-probability, high-impact risks that we deal with by taking preventive action. But if you're asking “Can I share with the street everything that I'm afraid of and everything we're doing about it?” the answer is no. It is not practical to do that because frankly it would be an incomplete assessment. It is hard to pin down the full range of risks that a business faces. You can cover maybe 80 percent of it effectively, but there are always going to be things that we can't even imagine. So we have to talk externally in a way that communicates the fact that we have a reasonable chance of anticipating most of the risks, but that nobody can cover everything. When we talk about external risk we try to describe it, to identify where it is, what its probabilities are, who is likely to be most affected by it, and what we are doing about it. That way people develop a sense of confidence that we are on top of things. It also helps build credibility, because if you say “there is no risk” your credibility is instantly lost.



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The Focus: You mentioned that many companies are no longer willing to give as much guidance as in the past, presumably because they are afraid of falling short of their own targets in the eyes of investors and analysts. How do you avoid the downside of guidance?

Critelli: The first way is to articulate, when you give the guidance, the assumptions that you have made in giving it. And the second way is to give guidance within a reasonable earnings-per-share range. So we will say to people, “This guidance excludes these items. It also assumes continuation of today’s conditions. If those conditions change, we’ll share that with you.” It’s an approach that has served us well in the past. In the 43 calendar quarters that I have been in the job, including my time as vice chairman, we have missed our guidance twice. Once was in the third quarter of 2001, as a result of 9/11. The other time was the year before and we did take a big hit from investors – our stock dropped by about one third in one day.

The Focus: What went wrong?

Critelli: Basically we make certain assumptions about the ratio of sales to rentals in our business in a given quarter. And in that particular quarter, for reasons it took us a while to unravel, the percentage of rentals was much higher. I think we missed the guidance by two cents, which was not a lot of earnings but it shook everybody up. So, today, having had that experience, we quote a range that we think gives us a margin of safety, and we track things more closely so we don’t get any unpleasant surprises.

The Focus: Doesn’t an experience like that make a good case for not giving guidance?

Critelli: If companies don’t give guidance, the analysts settle on a guidance themselves. I would rather have a guidance that comes from us than one that is dictated to us. There is always a subtle pressure on companies to stretch to the next level of performance. By giving guidance we can stop that happening. One of the beauties of transparency is that it eliminates a lot of the external pressure. It protects us against the claim that we didn’t tell people about the potential downside.

The Focus: How do you balance openness on the one hand with your competitive situation on the other? How do you balance the desire to let the public know about an interesting strategy or business opportunity with the need to keep its potential confidential?

Critelli: The number one rule for us is to tell the truth. If we are excited about something we might say: “This has a lot of potential but we haven’t quantified it yet.” That tends to diminish people’s interest.

The Focus: Proactive transparency seems to be an integral part of your corporate culture. So how did the Sarbanes-Oxley Act affect your structures and processes?

Critelli: I am probably one of a minority of CEOs who think Sarbanes-Oxley was a good idea – directionally. It gave us a platform to push Six Sigma process excellence and drive toward more shared services. We had a highly decentralized culture and silos in both lines of business and staff functions. So for us Sarbanes-Oxley became a catalyst for better quality, better process excellence, and a move toward cost-efficient shared services. It also created more transparency regarding how we come to certain decisions, by making us take a fresh and closer look at our processes.

The Focus: Why do many CEOs complain about the additional costs incurred through the implementation of Sarbanes-Oxley?

Critelli: You can approach Sarbanes-Oxley in a very bureaucratic way, or you can step back and ask, what is this law intended to do? You have to focus on its intent and the good goals that it has and try to reach toward those, as opposed to making it a troublesome compliance exercise, when of course all you see is the extra cost and effort involved. It may have been designed in a punitive way but we have tried to turn it into something positive. Incidentally, at Pitney Bowes the Sarbanes-Oxley Act has changed the way people work. In the past they would keep a lot of tacit knowledge in their heads; today that knowledge is better documented and sharable across the company. As a second step, the Act has created an ability to look more critically at processes. When people do things without any sort of communication, it is very hard to improve on something. When they have to walk you through a process and document it, you start to see improvement opportunities.

The Focus: Did the changes in the law eradicate the silo thinking you mentioned earlier or what else did you do to overcome this mentality?

Critelli: When we began to focus on our core competencies and discontinue or spin off a number of non-core activities in the late 90s, we also realized that there was more interdependency and overlap among our customers than we had thought. As we moved out of unrelated businesses, it made less and less sense to have separate lines of business and silos within the residual core. Part of this was a recognition that there was a lot of inefficient activity inside individual businesses – like having HR, finance, and IT functions in each individual unit. So we pulled those functions out and created shared services. The other thing we did was to change the compensation plans. Until 1996, up to a very senior level people were rewarded predominantly for their individual and line-of-business or staff rating. The corporate rating didn't matter. We changed that. We changed the ratios so that a significant share of performance was based on the corporate rating. Effectively we were telling people that how the corporation as a whole performs matters more. Then we introduced awards for employees who are best at collaborating and partnering across lines of business. Those awards are now considered very prestigious.

PITNEY BOWES

Re-focusing on core business

Pitney Bowes is something of an institution.

In the USA at least, there is hardly an office that does not have one or more of the postage meters made by the company from Stamford/Connecticut. With annual sales of approximately US\$5 billion and 35,000 employees, Pitney Bowes is the world's leading supplier of integrated mailing and document solutions and services. In the postage meter segment, the company has cornered 80 percent of the U.S. market and holds a global market share of more than 60 percent.

The firm's foundations were laid by Arthur Pitney toward the end of the 19th century. Following a visit to the World Exposition in 1893, Pitney, a wallpaper store clerk from Illinois, invented a machine that would print a postage stamp straight onto the envelope. But for many years the U.S. postal authorities persistently refused to approve Pitney's postage meters. Even when, in 1920, Pitney joined forces with hard-headed salesman Walter Bowes, the breakthrough still refused to come. Pitney eventually gave up and left the firm in 1924. Four years later, Congress finally approved the use of postage meters within the U.S. mail system and the rise of the company's virtual monopoly began.

When the experts began predicting the advent of the paperless and letterless office, Pitney Bowes responded by investing heavily in diversification measures, including the acquisition and leasing of truck and aircraft fleets. But the downfall of the mail system failed to transpire, and when Michael Critelli became CEO in 1996 he set about re-focusing the company on its core business: mail and document management products and services. Today, while private individuals may write fewer letters, direct mailshots from commercial suppliers and the mailing of goods purchased on the Internet are taking on increasingly significant proportions. Pitney Bowes has made these new fields its own.



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The Focus: You once said that Gandhi could have taken a course in passive resistance at Pitney Bowes. What did you mean by that?

Critelli: Initially there was a strong tendency among many executives to obstruct the process of change. Decisions would get stretched out over a long period of time. People would delay supplying the information they were asked for, or they would comply with what I wanted, but without getting into the spirit of what I wanted. So we set some vigorous deadlines, installed monitoring systems and we stopped rewarding people for performance within their business or staff functions. Instead, we started rewarding people who are great team players.

And when vacancies came up we gave clear preference to executives who had demonstrated greater collaborative skills. And, little by little, the message diffused throughout the organization. On the other hand, where these methods fail, we don't hesitate to remove people from positions of authority if they repeatedly prove uncooperative. That is a form of transparency, too.

The Focus: What are the values or personal beliefs behind your commitment to transparency?

Critelli: I agree with Warren Buffet when he says that honesty and credibility are core values in management, because people who are honest with others will basically be honest with themselves. I am always trying to make sure that I see the world as it is and I am continually testing my strategic assumptions about individual businesses, about the company as a whole, and about the external environment.

The Focus: Pitney Bowes is considered a pioneer of modern corporate governance. What's your view of good corporate governance?

Critelli: The way I would define it, corporate governance means having a set of decision processes in which the board, the shareholders, and the senior management are appropriately engaged at the right time and with the right information to be able to maximize the chance of making the right decision. One of the critical tasks for any board is to guide the succession planning process. For a very long time now we have not only given a lot of visibility to candidates in the line of succession and had board members meet them in groups, we have also arranged unfiltered, one-to-one interchanges between board members and these high potentials. The important thing here is that, as CEO, I do not control the access between the board and the people they need to evaluate. In this respect I think we are well ahead of the game. The second aspect is that when we encounter a complex issue to which there is no clear answer, I try to expose board members to the different points of view. And the third aspect of board relations is that we have formed more committees than most companies. Most boards have three or four committees. We have six. That adds depth to our board reviews of various issues, and makes for greater insight and a clearer overview in our everyday business, as well.

The Focus: Has the current regulatory environment made it harder to find directors with the right profiles?

Critelli: The one negative side to Sarbanes-Oxley, the stock exchange rules, and the extra work boards have to do, is that certain categories – like active CEOs – are dropping off the map as candidates for boards. I think active CEOs add a lot of value as directors but it is getting harder and harder to find them. Some companies will not allow their CEOs to be on any boards except their own, while others limit them to one or two other boards. We have just lost a very experienced and exceptionally valuable director on account of these mechanical rules, which I believe are misguided. The ability to handle several directorships depends on how well the individuals concerned manage their time, and on how much experience they have of board work.

The Focus: In line with Sarbanes-Oxley, executives and board members will in the future be called to account for their decisions to a greater extent. Won't this reduce their willingness to take entrepreneurial risks?

Critelli: Over time that will not be an issue, because the ground rules for liability will become clearer. I think the bigger issue is the mandatory amount of work that board members now have to do. Boards in general are currently trying to feel their way toward an appropriate level of governance, because there is a fine line between micro-management of a company and providing the appropriate level of governance. Every board slips over into micro-management on certain issues from time to time because the boundary lines as to what is needed today are not yet clear. But they will become clear over time, and some of the fears that are currently being articulated about aversion to risk are going to abate. You could turn a corporation upside down and investigate everything but then you would never get any business done. That is the opposite pole to the sweep-it-under-the-rug approach taken at Enron and Worldcom – but just as excessive. Ultimately we have to arrive at the right kind of process for each situation.

The Focus: As a result of all these scandals we are facing a massive loss of trust in companies and their leaders. Can mandatory transparency help rebuild trust?

Critelli: Over time transparency will be adopted by good companies like ours as a way to differentiate themselves from other companies and drive shareholder value. If you use transparency as a compliance exercise instead of leveraging it to achieve other goals, like better strategic planning, better visibility, and better process excellence, then it will not help deliver shareholder value. But good

companies figure out how to turn such adversity into new opportunities, and over time the gap between the good companies and the not-so-good ones widens. Then the not-so-good companies start to go out of business or they benchmark the better companies and as a result the bar gets raised for everybody.

The Focus: Do you still see room for improvement in transparency at Pitney Bowes?

Critelli: Oh yes. First, we need to do a better job of isolating the issues or risks that are very important to us and making sure that the board members have enough time to deal with them, instead of throwing a lot of less important details at the board. Second, we need to correct the tendency of our management to underpromise and overdeliver. They characterize an investment, acquisition or annual budget as being riskier than it is, and take the rate of return revenue or earning down to a lower number than it should be – so when the board looks at the investment or acquisition, or senior management looks at a proposed budget in an acquisition, they say: Why should we invest here when returns are only going to be slightly better than the cost of capital? And finally, we often underestimate how long it will take to realize benefits in the short run but at the same time we underestimate how long the opportunities are going to be out there. So we need to do a better job of projecting the long-term opportunities. These three factors – the better delineation of risk; better matching of rates of return to reality; and better outlooks beyond a five-year investment cycle – offer plenty of scope for greater transparency even at our company.



The interview with Michael Critelli was conducted by (from left) Marc P. Schappell, Egon Zehnder International, New York, Ulrike Mertens, THE FOCUS, and Karl W. Alleman, Egon Zehnder International, Chicago.