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"NEVER STOP TRYING"*

HOWARD D. PUTNAM**

Thank you for inviting us to participate in this great annual event.

In September of 1981, I was presented with an exciting challenge and opportunity to leave Southwest Airlines, probably the world's most successful and profitable airline, to go to Braniff to see if we could help turn around a great Texas institution. I convinced Phil Guthrie, the outstanding Vice President of Finance at Southwest Airlines, to come with me. This allowed us to hit the deck running as a team.

We were able to research only public information prior to making the decision to go and there were two major surprises upon our arrival on October 1, 1981. First, there were only ten days of cash and, secondly, the costs that were in place from the expansion were not declining rapidly as the Company had been down-sized.

We had only 120 days until February 1, 1982 to develop a financial restructuring plan and get it approved by our 39 private secured lenders. For them to agree, we first had to develop a market niche and a marketing strategy. In addition,

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**Howard D. Putnam was named president and chief executive officer of Braniff in 1981 and Chairman of the Board in March 1982. Before joining Braniff, Mr. Putnam was president and chief executive officer of Southwest Airlines in Dallas from 1978 to 1981. Mr. Putnam earned an MBA in marketing from the University of Chicago in 1966 and completed the Harvard Business School's Advance Management Program in May, 1978.

we needed to re-negotiate several union contracts plus obtaining an immediate cost and staff reduction. Five weeks later on November 4th, we announced "Texas Class" - "Single Class" on our 727s with quality, with leg room, with simplicity and unrestricted, no-gimmick fares.

We simplified the management structure and eliminated two levels of Management including some 18 officer positions in the first six months. Through this period, we had tremendous support from the public and the business community across Texas. Employee attitudes went from negative and skeptical to extremely positive. We cut costs as rapidly as possible and "Texas Class" was an immediate success. In December, 1981, its first full month, we attained a 60.7% load factor, the highest of any major airline. Advance bookings increased a similar 60% upon the announcement of "Texas Class". But, the rumor mill worked overtime in January, 1982, as to a pending bankruptcy and we did not get our secured lenders to agree to a financial restructuring timetable until January 22, only eight days prior to the February 1, 1982 deadline. Our advance bookings then suffered as a result of the rumor mill which was frequently fed by certain competitors and airline analysts. Travel agents began to plate away from us and cash grew shorter, we had to devise creative approaches to keep the operation going. We pulled off the now famous "Two-For-One-Sale" in February and then in March, we had to resort to a 50% payroll deferral for eight days. Also, in March, we leased our South American routes to Eastern Airlines for six years for approximately \$30 million cash. But, each one of these miracles also became a self-fulfilling prophecy that Braniff was in trouble.

The early days of May brought us to the conclusion that we were in danger of running out of cash before we got to the summertime traffic and before all those fixed costs I mentioned were removed from the system. Early in the year, we had retained Levin, Weintraub & Crammes of New York as Special Bankruptcy Counsel to train and prepare our Board and Senior Management Committee for the possibility of a bankruptcy filing.

So, on May 11, 1982, at Noon, we made the decision to get all of our attorneys and our Board of Directors together on May 12 and prepare for a Chapter 11 filing. Our small Senior Management Team worked long hours to devise a plan to return our assets to Dallas and shut down the airline on May 12. This was done safely and successfully without incident and without notice to anyone. The filing was made at the home of Federal Bankruptcy Judge John Flowers at 12:01 a.m. on May 13 in Fort Worth, Texas, by Mike Crames, President of Levin, Weintraub and Crames and myself. Under a sad and difficult situation, a new era began at that moment in the history of Braniff, of the airline industry, and in our personal lives and in the formulation of a team of outstanding attorneys and Senior Management people that have lived and worked together almost non-stop for nearly ten months.

We have had excellent support from Levin, Weintraub and Crames, Arnold & Porter of Washington, D.C., our corporate outside Counsel for many years, and Fisher and Phillips of Atlanta, our special Labor Counsel. We have operated as a team . . . not as lawyers versus management. Several of them are here this evening. We thank them and we are proud of our association. They have never stopped trying! Since May 13, 1982, this team has doggedly pursued a reorganization in order to maximize the assets of the Braniff Estate and aid our creditors, our former employees, stockholders, ticketholders and various Governmental agencies involved in the billion dollar bankruptcy.

Since our first announcement on October 18, 1982 of a joint venture with Pacific Southwest Airline (PSA) of San Diego, we have been in and out of more court hearings than any of us wish to remember. But, no one stopped trying. After agreeing to new lower wages and benefits, we reached a labor impasse over seniority integration with ALPA, the pilots union and AFA, the flight attendants union. They decided no job at all was better than a job without retroactive seniority. PSA came back with a new approach where they would hire the employees directly into "The Texas Division." We were then back in Bankruptcy Court getting the old labor contracts of ALPA

and AFA rejected as well as the IAM who simply refused to negotiate.

Then the rest of the opposition to the deal came to light, led by American Airlines, the FAA, Continental Airlines, Muse Air and the three rejected unions. Finally, this week we reached the Appellate Court, the Fifth Circuit in New Orleans.

Unfortunately, yesterday, they overturned the Federal District Court and Bankruptcy Court on our Braniff/PSA transaction. This was after they ruled that the Federal District Court did have jurisdiction. Since that all occurred last evening, we are still evaluating our alternatives. We have not given up yet.

I would like to read you a statement now that came out of a special report to the White House on the ills of the airline industry and recommendations to cure them. The report points out that if the air carriers are to have an opportunity to finance their equipment program at a reasonable cost, the industry must be able to show private lenders and investors a favorable level of earnings. The only apparent way in which a reasonable airline earnings level can be achieved in time to attract adequate financing appears to be the following according to the report:

- (1) Through the elimination of reduction of certain fare discounts now in effect;
- (2) Through increased promotion and reduced fares of air travel during off-peak periods;
- (3) Through increased fares for certain classes of air service;
- (4) Through continued aggressive action on the part of management to improve their operating efficiency.

That report was distributed by the President of the United States not Ronald Reagan not Jimmy Carter but Dwight D. Eisenhower on August 5, 1958 nearly 25 years ago. For those advocates of regulation and re-regulation who have forgotten how the industry suffered under regulation, this is a timely reminder. Under the Fourth item about management improving its operating efficiency, it was more talk in those days and less of a reality. Today, it is

the key to survival and revival of our industry. Sure, you can continue to balme deregulation, inflation, higher fuel prices, high interest rates and even fare wars as most airline managements seem to be doing today. But, that is what management and free enterprise are all about. That is where the focus must be in the 80's and with a fresh approach toward managing.

Why hasn't deregulation gone beyond the airline and trucking industries? Possibly, because we are only a small percentage of the total economic bucket and Congress was able to politically pass them and test the waters before trying any other industries. Many other industries under Federal and State regulations extract far larger economic costs. I have never heard anyone including Senator Kennedy or President Reagan championing a cause to eliminate industry-wide collective bargaining, which is a practice supported by politically powerful segments of organized labor and business in certain industries. It tends to eliminate competition in labor costs and, thereby, raise prices in our nations's largest industries which, in turn, is inflationary to our country.

We are in a unique industry today. One that is deregulated and where we, as managers, have an opportunity to throw out the old ways of thinking and acting and setting the industry on a positive and favorable path . . . if we have the guts to do it. No business can remain stagnant. Corporate cancer will begin to set in and your most talented Managers and your most talented management people will drift off as the element of excitement of pioneering and growth goes away.

Most CEO's agree that the long-term purpose of any business enterprise is to bring together resources to create wealth. If you get side-tracked from that purpose or are unable to achieve that purpose, all of the essential social benefits that we agree are necessary can come to a halt . . . Braniff's did. I am talking about employment, quality products, paying of taxes, re-investment of profits into our economy and contributions to charity and humane activities.

In my opinion, you create wealth not with high prices, not with regulations and false ceilings or floors, but by doing things efficiently. That means higher productivity of your as-

sets, be they factories or airplanes, be they people or machines or even the use of your own cash. That sets the foundation for a low-cost structure which is where the leverage and flexibility are in our industry and in most industries that I can think of. Many constituencies are necessary to achieve it. There are managements, unions, investors and even research analysts who have some responsibility. We seem to have a management syndrome in our industry that blames everyone and everything except themselves.

An airline CEO recently stated that most carriers have done all they can to trim their fat and now it is up to the economy to save the industry. That same airline also recently agreed to a highly inflationary labor agreement. Those seem contradictory to me. We have to have the fortitude to be the designers of our own destiny. One analyst recently stated of one airline that they were long on potential but have had inconsistent profit performance for years. What an embarrassing tag line to have attached to your management performance.

We are moving from the old, regulated environment ways of thinking to higher technology. The old order, old thinking and the era of entitlement are ending. Some have seen this change and are reacting. Some still do not. We still pay extremely high wages for low technology jobs, i.e., baggage handling or cleaning.

As Dr. Don Beck of the National Values Center said to me recently, "We are the butterfly coming out of a cocoon but we are still trying to jettison the old layers of the cocoon. We still are not flying in our thinking or our managing." There will be new managerial systems in the 80's different from what we were taught in the 50's and 60's. We learned at Southwest and at Braniff that bureaucracies are unnecessary and are a liability. You do not need large staffs to do research and make decisions. It is amazing how few letters you have to read if there is no one on the payroll to write them. I looked at the organizational chart of a very large trunk airline recently, and from the Chairman of the Board to the front-line employee there were nine layers or levels of management. You have to flatten them out. You have to give more authority and responsibility

to fewer management people. They love it and if your selection process works, the system will work. Do not build in additional costs before you even start to make the product. People at all levels love to contribute, be a part of a team and not just a cog in an assembly-line operation where boredom and repetitiveness deter from quality.

I recently read a study of the construction industry. This is an industry whose regulation by government goes back four thousand years. The CPI rose 147 points from 1967 to 1980. However, construction went up 204 points; one-third faster and their productivity declined by 20%. The buyers of construction were subsidizing the largest American industry by paying for inefficiency. No one element can be found totally responsible for its present bad state. There is plenty of blame to go around amongst management, labor, government, academia, analysts, money markets and even investors. The same is true in our industry where we still have archaic practices and resistance to change and adversarial attitudes between management and unions. We cannot afford to have it continue.

Employees are more sophisticated than they were years ago. Excellent data systems and computers plus higher levels of education have increased their interest in financial areas, in productivity, in the quality of their product and in results. Where you have profit sharing, as Southwest Airlines does, you see an increased involvement and enthusiasm on all levels that further contributes to an 'esprit de corps' and personal monetary wealth. They are ahead of other companies in spreading the wealth around. The concept is coming and we better get ready for it.

A power redistribution is occurring as a result, the present management v. union approach is not working. It is counter-productive. It is like having two management organizations working against each other in the same company. It produces internal conflict of the entity. People cause problems because they are bored, want recognition or feel they are being treated unfairly. The more complex the organization, the greater the opportunity for this to grow faster. It did at Braniff.

Some Unions are preventing progress in order to keep order within their ranks. Why? Because declining Union memberships over the past few years indicates members wonder why they are paying dues. Unfortunately, some Union leaders are still prisoners of their own outdated militant systems and they do not know how to structure a retreat or change course without showing weakness or loss of strength. Without their cooperation, managements, at least in our industry, have had no choice of late but to push them to the edge in confrontive episodes to gain productivity and cost savings in order to save their companies. Unfortunately, some managements push and threaten and then cave in anyway, which only worsens the situation for all and reduces management credibility. I would like to compliment the International Brotherhood of Teamsters who throughout our attempts to put people back to work have been most cooperative.

All of the employees of Braniff in March 1981 had agreed to a 10% salary cut, but after Phil Guthrie and I arrived, we quickly saw it would take much more than that on the labor side to save Braniff. One Union leader stated to us "We'd rather see Braniff go under than give you anything". They got their wish. Their attitude was management got this airline in trouble and we are not giving any more. We tried to be creative and restructure the bargaining process with Dr. Beck's help to take it from an adversarial process to a cooperative one. Progress was evident but we ran out of time. We had also offered to issue stock to the employees and put in a Profit Sharing Plan.

How many more failures will be required to bring workers and management together? As bad and tragic as the Braniff failure has been, we have hoped it would enlighten others both in management and labor to learn the basics of a strong airline. The era of deregulation has removed the false price supports for the airline industry but has also removed the false labor cost increases that seemed to occur every year or two under regulation. It is forcing management to truly face up to labor costs and poor productivity, which, in most cases, we gave away ourselves. If you look across our country, you

see industries, be they steel, automotive or airlines, where the older generation companies are in trouble with their high fixed costs, their bureaucracies, their strong unions, their high labor costs, and there is new low-cost competition in each industry both foreign and domestic. If those companies cannot be changed rapidly, they will die. Some progress was made this week in the labor costs of the steel industry. The new start-up airlines have tremendous cost advantages and that is the name of the game . . . cost. We should stop worrying about yield as the only savior. We, the airline industry, are suffering from 'yielditis'. Yield is the revenue per passenger per mile flown.

There will be discounting and fare wars in a deregulated industry. That is why a free enterprise system should work. The consumer benefits and our economy should benefit in the long term with higher productivity, better quality and more competition especially for those foreign markets, which seem to be eating us alive today. We operate in a world economy whether we like it or not.

Herb Markley, the retired President of the Timken Company, wrote recently in *Industry Week* magazine that the final truth is that quality is not expensive. It is the way to reduce costs. Mr. W. Edward Deming, who spent many years in Japan as a United States Census Bureau employee and as a consultant here to many American companies, was asked how can America get confidence re-instilled in its American customers? The answer is: "Stop trying to inspect-in-quality after a product has been built but instead build quality into the process, materials and services that create the product."

We have to break down the barriers internally, within our Companies, to eliminate politics and fear which lead to insecurity and poor quality. If you look at quality in our industry as perceived by only one small measurement, customer complaints, you find that the leaders are generally the younger start-up carriers plus Delta and Piedmont. They all have employee pride, employee and management involvement, a good selection process for new employees and a clearly defined product and value. They enjoy serving their publics . . . and

they are usually more profitable.

The business community has often sought regulation to protect itself from competition without realizing that those false supports and rules will come back to bite them in the future. I believe we have a window right now to build on de-regulation and strengthen our industry and help other industries by becoming positive in our thinking. We have a chance to exert leadership . . . to set a public agenda . . . rather than defend against it. Will we do it?

If history is a good predictor . . . , "No," says Robert Reich of Harvard University. He says we missed our first opportunity in the 1880's which led to the Federal Trade Commission, to anti-trust legislation, to laws on hours and working conditions and to laws protecting consumers from dangerous drugs and unwholesome meat. We had a second opportunity in 1920's, having gained a measure of public support in a joint effort with the government on the War Industries Board, but again business leaders misread the public and soon more regulation arrived on labor, securities and banking, and consumer protection.

The third chance, says Mr. Reich, came in the late 50's and early 60's after World War II and Korea. Business and government were in harmony and monetary policies appeared to ensure economic growth, but a new wave of public concern on the environment, equal opportunity, political corruption and consumer safety emerged. This third era waned in the late 70's as deregulation efforts again were popular.

The future rightfully rests in all of our hands right now. Are we intelligent enough and thoughtful enough to look deeply into the public's thinking and start planning several years ahead to overcome their objections and gain their trust and our employee's trust.

It seems to me we have two choices. We can put in place a base for long-term profits and a quality of service that will withstand the test and avoid more regulations which are harmful or we can be ambulance chasers driven solely by short-term gains as the analysts constantly pressure CEOs for quarter-to-quarter gains at the expense of the long-term. If we

choose the latter, our mistakes will increase the cry for more regulation by our public and by our own competitors. Protect us from ourselves. Protect us from fare wars . . . or at least stop everyone else *except me* from charging \$99 fares. When they do it, it is suicidal. When we do it, it is just good marketing.

We cannot have it both ways. I, for one, still believe in deregulation. I like the challenge to manage, create, build and cause change. We never asked for a government bail-out for Braniff. We believed when we went there that Braniff should live if we could change it in time, and live on its own oxygen in an environment of fair competition.

In a deregulated environment, our industry moved from having every fare, rule and regulation being approved to one of an open market. That does not, however, give anyone permission to play unfairly, and we are all still subject to anti-trust laws and to above-board business ethics. Fair competition does not include shooting your neighbor just because you own a gun.

We were hurt very badly by unfair competitive practices and activities which are not subject to litigation. Football games, too, can be rough and wide open but there are penalties for those who compete unfairly.

Setting that total issue aside, we are appreciative that we had an opportunity although a short one, in a free enterprise system to turn Braniff around. Unfortunately, that did not occur, but we never stopped trying, and our team is still trying. If you believe in what you are doing and in your team and in our free enterprise system, you will not stop trying either. If you do, you will have only yourself to complain about and, Lord knows, that is no fun.

