Cover Story

Avoiding a meltdown

How Jack Hockema brought Kaiser Aluminum back from bankruptcy by looking to his employees for answers

By Matt McClellan
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Jack A. Hockema didn't want to be the CEO of Kaiser Aluminum Corp. He certainly didn't want to deal with the burgeoning asbestos lawsuits, escalating medical and pension obligations, and underperforming business divisions at Kaiser, let alone the avalanche of debt that was threatening to crush the company.

The Hockema file

He was perfectly happy running the company's fabricated products division, the lone ray of sunshine in a company otherwise besieged by dark clouds.

Hockema had been asked before if he would be interested in the CEO position as part of the board's succession planning. He declined and said he would only take the job in the event of an emergency.

A few months later, Kaiser's CEO stepped down, and Hockema got a phone call on a Sunday night asking if he would honor his commitment.

Because of the magnitude of the issues facing Kaiser, the company couldn't afford to hire an interim CEO. Although he had no desire to run the company, Hockema stood by his word.

"Somebody had to do it," he says. "And it was pretty clear that I was the one to do it at that point in time. We just strapped it on and addressed the issues."

He took control of the 2,425-employee company on Oct. 11, 2001, but the damage was too much to overcome, and Kaiser filed for Chapter 11 bankruptcy five months later after posting a net loss of $459.4 million for 2001 compared to net income of $16.8 million in 2000.

It took Hockema nearly four and a half years to pull the company out of its nosedive. Here's how he did it.

Watch traffic

When Hockema took the helm as president and CEO (he added the chairman title in 2006), Kaiser was a company in turmoil. There were many problems facing the organization, but Hockema's first priority was the company's looming debt maturities.

His financial staff was optimistic that it would find a way to refinance the debt, but the more Hockema watched the proceedings, the less optimistic he became about a possible solution.

He brought in bankers and financial advisers as well as his own people to assess the situation, but the recommendation was always the same: Kaiser's only option was to file for bankruptcy.

Hockema soon realized that he hadn't really been paying attention to the magnitude of the issues facing the company. He had been insulated in the fabricated products business, away from the daisy chain of corporate takeovers and constant leveraging that threw the company into a spiral of debt.

So to get a crash course on what Kaiser's employees thought about the whole situation, Hockema began the process he calls "watching traffic." By asking questions and gathering all the information he could, he was able to mobilize the leadership team to create a plan that addressed the right issues. He started with one-on-one interviews of key employees.

"The one-on-one is just for me to do my homework," Hockema says. "It helps me get up to speed, to get to the same level as the people who work for me."

To find out more about the important parts of the business that he'd never had to deal with before becoming CEO, Hockema started with his new direct reports. Soon he moved on to other critical employees.

"Start by interviewing the people who know best," he says. "Find out what are the issues that are here, what are the opportunities?"

Hockema says that you will recognize a pattern very quickly. Employees generally see the company's problems the same way, and, in most cases, they will see the solutions the same way, as well. Plus, most of them will be more than willing to give you their impressions.

"It's amazing, if you go ask people, what they'll tell you," he says. "Usually, you've got people who've been working in the business or in their jobs for quite awhile. They all have their opinions on what's wrong with the company and what they would do if they were the CEO. In many cases, they've got the right answers. All you've got to do is ask them."

After studying up a bit, Hockema was ready to have an intelligent discussion with his employees about the problems plaguing the company. So he set up meetings with entire groups of employees.

The open discussion of the group setting helped refine the ideas and build consensus. Hockema says a strong consensus is absolutely necessary for a

company in dire straits because it solidifies the team's goals and the role of each person on the team.

"Not only have they committed to me, [but] they've committed to their peers, in terms of what we need to get done" he says.

That's the power of group dynamics. It takes more time to get a consensus, but the people involved become invested in the consensual solution — plus, you get a lot more ideas.

"You get a lot more creativity from a group than you do with one guy sitting in a room with the door closed, staring at the ceiling trying to come up with ideas," Hockema says.

At the beginning of 2003, Kaiser had set a financial plan to get out of Chapter 11, but there were a few hitches.

One of the biggest contingencies was that Kaiser's fiscal solvency hinged upon the fickle economic climate and the price of aluminum.

"We knew that if the economic climate was a lot worse than we'd been planning for, we'd be in big trouble," Hockema says.

He wanted a larger cushion in case the price of aluminum tanked, and both the treasurer and chief financial officer were out of ideas. So Hockema brought in a group of employees from a few levels below the executive team. The group conceptualized a series of small-scale tweaks and changes that had the executives scratching their heads but ended up shaving millions from the company's debt.

Sort the good from the bad

There was still a long road ahead for Kaiser and Hockema, who says he never lost faith that the company would eventually resur-face.

"At no time did I think we wouldn't emerge from bankruptcy," he says. "However, if we had known at the beginning of 2003 what we knew at the end of 2003 about how difficult the business circumstances would be, we might have thrown in the towel."

There were 22 legal entities working on the Kaiser bankruptcy, and it still took a full year to sort out all the intercompany transactions, and that was just the tip of the iceberg.

It was clear to Hockema that managing the bankruptcy was going to be a major undertaking. So for the company to succeed, he needed to toss out what was bad about the company, keep what was good and isolate the business from the bankruptcy proceedings.

Kaiser had been a fully integrated aluminum producer, owning each step of the process — from miners and smelters to refineries and fabrication plants. Hockema knew that the fabricated products business was well-positioned for success. The only thing holding it back from steady growth was the company's financial instability.

On the other hand, Kaiser's commodity businesses were too cyclical to be good long-term assets. When aluminum prices were high, they would be successful, but when prices were low — like they were during the early part of this decade — the businesses were enormous cash drains.

"It would go from feast to famine as you go through the cycles," Hockema says.

Cost was paramount in Kaiser's situation, and most of the upstream commodity businesses were very high on the cost curve. So Hockema concluded — and the company's creditors confirmed — that the right choice was to shed the commodity businesses and focus on fabrication for the future of Kaiser.

The next step was to find a way to ensure that the fabrication business was separated from the bankruptcy proceedings. His first act was to appoint his general counsel to the post of chief restructuring officer — essentially making him president of the bankruptcy. This allowed Hockema, as head of the company, to also be the head of operations. From that post, he was in position to keep his employees' eyes on the ball — and he could continue building the wall between operations and the restructuring.

"As far as the fabricated products business was concerned, we weren't in bankruptcy," Hockema says. "It was business as usual for them. They were moving to improve the business every day, just like we did whether we were in bankruptcy or not."

While he did spend many hours working with the chief restructuring officer to unravel the intricacies of the Chapter 11 proceedings, Hockema also had a responsibility to keep morale high on the home front.

"I've always stressed communications and leadership and making sure the employees know where we're going, but in the dire straits the company was going through back then, that became magnified," he says.

So, on the first day of the bankruptcy, Hockema had a conference call with all the managers in the company, briefing them on what was happening so they could handle any follow-up questions from employees. He also made calls to many customers and other key constituents to keep them up to date.

Hockema then crafted a video message for his employees. It was shown at every plant, and, in the video, Hockema reassured his employees that while the bankruptcy did not mean the end of Kaiser, there would be changes. He told them they needed to conduct themselves the same way and continue working to improve the business.

Hockema says sugarcoating the facts is one of the worst things you can do in a dire situation.

"It's difficult to establish trust, and it's very easy to lose it," he says. "It all gets down to telling the truth and calling a spade a spade."

When Hockema became CEO, he made rebuilding trust with the unions a top priority. This trust became even more important because the unions were intimately involved with many of the major factors in the bankruptcy filing

including the asbestos liabilities from a plant Kaiser had sold in the 1980s and the spiraling costs for retiree pensions and medical care.

From that unique vantage point, the union was able to see how the executives represented the company in the midst of a very difficult situation.

“They saw us in the worst of times, in a way that the union very seldom gets to see management,” Hockema says. “They were under the covers, so to speak.”

His work negotiating through the Chapter 11 restructuring did a lot to bolster Hockema’s reputation with the union. However, the company took its knocks, and the tangle of liabilities ended up costing Kaiser $4.7 billion.

“They saw me go up in front of the creditors’ committee every month and take my arrows and talk about what was good about the business and what was bad about the business,” Hockema says. “I was talking about the business and not blaming the issues on the employees — really talking about the real issues, so they saw up close and personal how I view the business and how I view management’s responsibility for fixing the problems and not blaming them on someone else.”

The future

What had initially been expected to be a two-year recovery process ended up taking four and a half years. During the restructuring, Kaiser endured net losses of $788 million, $746 million and $753 million for fiscal 2003, 2004 and 2005, respectively. On July 7, 2006, Kaiser emerged from bankruptcy with its books balanced, a plan to move forward and a strong sense of relief.

“I can’t find the words to express how complex the issues were and how difficult it was dealing with the myriad of entities,” he says. “It’s a process of herding cats. You think you’ve got them all but one, and you go get that last one, and two others have escaped while you’re putting the last one in the herd. It’s a very frustrating process for businesspeople who are used to making a decision and acting on it and just moving on.”

Now that the bankruptcy is behind them, Hockema is excited about the company’s $139 million investment in its plant in Trentwood, Wash., and Kaiser’s 2006 revenue of $1.4 billion — the company’s third consecutive year of revenue growth.

Hockema learned a valuable lesson from the bankruptcy ordeal: Don’t get too high on the highs or too low on the lows. He says you have to understand and accept that some things are just beyond your control. The most you can do is prepare as best you can and try to anticipate the external factors.

“If you think you control everything when you’re in a bankruptcy, you think you’re a loser when you’re not necessarily a loser,” he says. “You’ve just been dealt a bad hand. Figure out how to make the best out of a bad hand. But when you’re dealt a good hand, don’t sit back and smoke your cigar and say, ‘Well, we’ve got everything whipped.’

There are a lot of things that happen in spite of us — not because of us. Be clear what's happening in spite of us and what's happening because of us, and make sure we're doing the right things on the things that happen because of us." <<

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