HITS AND MISSES

ALTHOUGH SOME COMPANIES have suffered legitimate, temporary, cyclical business problems because of unusual economic conditions, others seem to have been staggered by long-standing issues. One such company is YRC Worldwide. Were it not for the forbearance of the Teamsters and YRC’s banks (which earn huge fees each time a covenant breach is remedied), the company would likely have been in bankruptcy months ago.

Still, many observers, including YRC’s competitors, are watching the trucking company closely for signs that the company will give in to its financial duress despite the efforts it is undertaking. And their downturn is not necessarily solely attributable to the harsh economy, but rather, to a failure to face long-standing problems.

For those competitors, in the transportation world, looking at how YRC got to where it is can be instructive. There are several lessons that can be drawn:

- **Mergers, even with competitors, do not necessarily add value.** Many analysts do not believe Yellow’s acquisition in 2005 of USF, the then-troubled regional less-than-truckload carrier, added any value, as it was a poor strategic fit and came at too high a price. Some analysts believe the same problem existed with the Roadway merger.

- **Merger synergies need more than lip service.** YRC announced the integration of Yellow-Roadway on March 1, 2009. This is almost four years after the merger of those two national LTL carriers and an opportunity cost of close to $800 million. (YRC placed the annual synergies at $200 million.) Despite this delay, there still were significant customer disruptions.

- **Economics of scale and scope aren’t always economical.** The merged Yellow-Roadway network has become an albatross that cannot shed capacity quickly enough in this downturn. It appears that the network is redesigned on the fly every week. David Ross, of the Wall Street equities analyst firm Stifel Nicolaus & Co., believes “the company is just pricing to defend market share without true knowledge of its costs.”

- **Like transportation equipment, overloading companies at the top can cause problems.** Ross has pointed out due to the severance terms of the CEO’s employment contract, YRC can’t really afford to fire its CEO unless it goes into bankruptcy and can void the agreement. This situation makes it more difficult to bring in fresh views at the top just when the company needs them most.

- **If you want to make a small fortune in China, start with a large one.** YRC’s acquisitions in China do not seem to have generated any significant results, nor any interest from potential buyers.

For YRC and its competitors in the trucking industry right now, there doesn’t appear to be a light at the end of the tunnel. Overcapacity is so pervasive that the demise of the largest provider would only bring the LTL market closer to supply and demand equilibrium, but not really change the underlying dynamics.

One might rightfully ask, where was YRC’s board of directors during the destruction of shareholder value? Until recently, YRC had nine outside directors. Although many have impressive backgrounds, the board featured neither career transportation industry executives, nor fresh industry voices. That may change when the Teamsters take a board seat.

Despite the passage of Sarbanes-Oxley and the financial crisis, corporate boards often fail to exercise meaningful oversight of the management of many companies. The reasons for this vary, but ineffective corporate governance, particularly in failing to provide guidance on business decisions with long-term implications, is almost always an ingredient in the recipe for company failure.

Ironically, the economic recession may provide additional cover to failed business strategies. A company that issued rosy projections several years ago can attribute the plan’s failure to the economy rather than to the plan itself. It might be years before management is called to task for its failures — if ever.

Of course, boards have to walk a tightrope. There is a thin line between an active, aggressive board, and a meddling, micro-managing one. Board oversight is further complicated when, to avoid scrutiny of past planning failures, management develops new plans that ignore the reality of past shortcomings. The desire to move forward can easily overwhelm the unpleasant need to hold officers accountable. This proverbial can be “kicked down the road” until it is too late.

The transportation industry is a key component of the U.S. economy. Hopefully, it will soon be a leading indicator of the economy’s recovery. But as the saying now popular in Washington goes, a crisis is a terrible thing to waste. Everyone needs to learn from the actions that led us to where we are, not only the companies that have suffered most deeply in this downturn but their competitors as well.

Management and corporate oversight officers must work together to make sure the interests of stakeholders are met. That is one lesson that must be learned.

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