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Gordon Bethune at Continental Airlines

The airline was so messed up. You had the old Eastern, New York Air, People Express, Old Continental, New Continental, In-Between Continental, and you didn't know if you were on home base or in the dugout. We were called the 'presidential sweepstakes' airline because you didn't know who was president in a given month or year.[1]

—Danny Watson, Continental Airlines Aircraft Support Manager, speaking in mid-1994

When Gordon Bethune was elevated to Chief Executive Officer at Continental Airlines in October 1994, he saw a disturbing trend. For over 40 years, Continental Airlines had just one CEO, Robert Forman "Bob" Six, but, after Six retired in February 1981, the company entered a period of constant upheaval and turmoil, including two bankruptcies. (See **Exhibit 1**—Continental Executive Positions, 1981–1994; **Exhibit 2**—Continental Corporate History Timeline, to 1994.)

After arriving at Continental in 1994, Bethune took a reading of the company's financials and sensed it might be too late to yell May Day for help in saving the airline. Continental had just posted a $38.5 million loss for the final quarters of 1993, a warning sign that the company might be heading for bankruptcy for a third time in a decade. (See **Exhibit 3**—Selected Continental Financial Data, January 1978 to December 1993.)

In Bethune's view, Continental's financial woes were symptoms of a larger problem at the company—its people. More specifically, people working at Continental in 1994 had lost sight of how to effectively collaborate to run an airline.

Continental Adrift –The View from the Cockpit in 1994

Bethune's opinion of Continental in 1994 reminded him of a grave moment during his first job as a commercial airline executive at Braniff Airlines: "It was not the end of the earth, but we could see it from where we were."[2] Everything that Bethune saw or heard about Continental pointed in the same direction: "Continental was a crummy place to work."[3] From the perspective of Greg Brenneman (HBS 1988), the Bain & Company merger and acquisition specialist Continental hired in May 1993, to study and stabilize the company, customers shared the same sentiment that employees expressed about Continental: "The product, in a word, was terrible."[4]

Professor Nitin Nohria and Lecturer Anthony J. Mayo, Director, Leadership Initiative, prepared this case with Research Associate Mark Benson. This case was developed from published sources. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Wall Street and business analysts echoed this dismal view. Salomon Brothers airline analyst Julius Maldutis said of Continental at the time, "here's a company that has some fundamental problems."[5] In the April 25, 1994 edition of *Forbes*, Continental and other publicly-traded companies were grouped by industry and ranked on the basis of key financial data, such as profits, sales and assets per employee. Of the seven companies grouped under the heading, "Travel-Airlines," Continental was tied for last place with US Air.[6] This assessment was made a year after Continental had emerged from its second bankruptcy in the past decade, and in the midst of a new initiative called CAL Lite.[7] CAL Lite was Continental's low fares, no frills commercial flight service modeled after the business strategy that propelled the success of Southwest Airlines.[8]

When that edition of *Forbes* hit the newsstands, Bethune had a job offer from United and was reviewing the information about Continental he had gathered in his short time as COO. What information Bethune already had was mostly discouraging. According to the latest Air Travel Consumer Reports from the U.S. Department of Transportation, Continental ranked last amongst the 10 major airlines in on-time percentage, and near the bottom of the rankings in mishandled baggage reports and complaints about poor service. (See **Exhibit 4**—U.S. Department of Transportation Metrics for Calendar Year 1993.)[9]

Bethune believed Continental had lost focus on its corporate mission. What compounded this problem for Bethune was the lack of team spirit at Continental after years of internal fights over turf, resources and knowledge. Brenneman noticed it immediately after he was hired by Continental, especially when he saw employees ripping off their Continental badges as soon as their shifts were over.[10] As Karen Radabaugh, Continental's Airport Training Manager, said: "If someone asked me what my job was, I would say, 'I work for an airline.' I did not want to say 'Continental Airlines.'"[11]

Bethune's Early Years

Gordon Bethune was born in San Antonio, Texas, in 1941, to parents of modest means, who divorced while he was a youngster. Bethune lived with his mother in San Antonio for most of his childhood, and she tried to make ends meet by selling encyclopedias. Bethune credits his mother for being a fair but tough disciplinarian.[12]

His father was the one who introduced Bethune to airplanes. Bethune's father flew crop-dusting planes in Mississippi, and on a summer visit when Bethune was 15, Bethune helped his father land his crop duster each night on a makeshift landing strip. To prepare the plane's landing, Bethune put a smudge pot on the fence at the end of the landing strip, and parked his father's 1950 Plymouth at the beginning, so the car's headlights would illuminate where his father could safely touch ground. The tasks appeared mundane, but Bethune understood that their importance to the overall success of his father's work day and career were quite significant:

> That summer I learned not only that when you have a responsibility, you'd better carry it out, but that there are a lot of jobs in which the consequences of screwing up were pretty drastic. Not just being a surgeon or the president, but being a pilot or mechanic—or the guy who put the smudge pot out to light the runway. Everybody else can do their job well—the mechanic gets the engine just right, the chemical guy loads up the plane, the pilot flies perfectly—but if the guy who's supposed to park the Plymouth at the end of the runway falls asleep or lets the battery die or steps out for a beer, well, it would be a pretty bad day for everybody.[13]

Bethune was less interested in his high school studies than going out to see the world, so, at age 17, Bethune decided to quit school and join the U.S. Navy. He remembers how he successfully managed that negotiation with his mother.

> …I went up to the attic and got the family suitcase and I started packing. My mom wanted to know what I was doing and I said, "I'm going to California, and I'll send the suitcase back when I get there. I wanted to join the Navy but I couldn't until I was 18 if you wouldn't sign the permission, so I'm going to hitchhike out to California and find some work, something to do until I'm 18 and then I'm going to join the Navy." She said, "Oh, no you're not, you're going to fall in with the wrong kind of people and possibly be in jail or get killed." So I said, "Well, Mom, if you really don't like that, I do have those papers that you can sign to let me join the Navy next week when I'm 17."… Five days after I turned 17, I joined the Navy.[14]

Bethune's first assignment in the Navy was in California, working as an airplane mechanic. After passing the U.S. High School General Equivalency Test, Bethune was dissatisfied with having an equivalent degree, and, after his transfer to Key West, Florida, Bethune enrolled in a local high school's evening program and earned a diploma.

Early on in his Naval career, Bethune showed a keen sense of how to stand out from the pack:

> …The Navy is a huge, bureaucratic environment, and everybody gets a well-defined job. In that environment, guys just sort of do their jobs and disappear. I figured, how much better do I have to be in order to get the attention of my superiors and get the better assignments, the better jobs, the better promotions? And I figured only about 10% better. In other words, not much better. In an environment where people are happy to just do their jobs and stay out of trouble, making sure you do a little better, a little something extra, come to work a little more prepared, is enough to get you noticed and rewarded. So I started doing that.[15]

During Bethune's 20 year Naval career, he earned licenses as an airframe and power plant mechanic and rose to the rank of Lieutenant. Besides learning about how to build and repair planes, Bethune credits his superiors and teachers in the military for providing him training and opportunities to lead people. With some reluctance, Bethune agreed to manage his fellow Navy mechanics when there was an opening for an evening supervisor at one of his stations. In his final year in the service, Bethune and his maintenance department were recognized as the best in the nation by the U.S. Navy's Chief Operations Office. "We won the award that year," Bethune would later say. "You know why? Get those guys to want to do it. And to want to do it you've got to respect them, and you've got to talk with them in their language."[16]

Impact of Regulation and Deregulation on Continental and Its CEOs

The year that Bethune's hitch in the Navy ended—1978—was a turning point in U.S. commercial airline history and for Continental. In October 1978, U.S. President Jimmy Carter signed into law the Airline Deregulation Act, designed to give commercial airlines the latitude to set the fare prices they wanted and determine for themselves when it was best to enter or exit a plane route. Deregulation of the airlines allowed new and existing airlines to charge lower fares than those previously set by the U.S. Civil Aeronautics Board (initially called the Civil Aeronautics Agency), which was formed in the late 1930s to regulate fares, changes in routes, air mail rates and potential airline mergers. As a respected brand name and provider of high quality travel, Continental was an attractive target for acquisitions.[17]

Bob Six

Continental's prestige was due to the vision and actions of Six, who became the public face and persona of Continental from the day in July 1936 he bought the majority shares of Varney Speed Lines from one of its co-founders, Louis Mueller. (See **Exhibit 2**.) Airline historian Robert Serling called Six a maverick, not just for his cowboy hats, or the frank talk and Western lifestyle he enjoyed, but also for his emphasis on the customer.

> Bob Six contributed little in the way of aviation technology…. But he did give commercial aviation something which made it possible for his small airline to command respect even among the giants: a gut feeling for the passenger, his needs and his welfare. He proved the small could compete on equal terms with the great through imagination, ingenuity and a touch of bravado.[18]

According to company lore, Six was concerned throughout his five-decade tenure at Continental with managing all details, large or small. "Six's reign lasted 46 years, and for the majority of that time, every major decision and most of the minor decisions were made by him. There were periods when some members of the staff almost had to ask his permission to sharpen a pencil."[19] And, since Continental generated annual profits in all except his last couple of years in office, micromanaging was not considered a fatal flaw in Six or at Continental.

At the start, Six and Continental did start small. On July 5, 1936, when Six bought a 40% share in Varney for $90,000, Varney featured one air mail, passenger and express route: Denver to Pueblo, Colorado, on to Las Vegas, Nevada, then to Santa Fe and Albuquerque, New Mexico, before landing in El Paso, Texas. Continental remained a regional carrier in the 1930s and 1940s, flying mainly out of El Paso. In December 1954, Continental solidified its position in the regional Texas market through a merger with Pioneer Airlines approved by the Civil Aeronautics Agency, giving Continental additional routes in the Lone Star state, including Pioneer's signature flight from Houston to Abilene to Amarillo.

During the 1950s, Continental grew dramatically in scale, blossoming by a factor of ten from a regional airline that collected $6 million in annual sales in 1950 to a national carrier grossing $61 million by 1960. It was largely the result of one of Six's most heralded innovations: the Gold Carpet Service program for passengers en route from Chicago and Denver to Los Angeles. Service on Continental's Gold Jets was first-rate. A crew captain handled all ticketing and baggage functions on the plane itself, and, each plane offered a concierge type service that included a special radio phone that passengers could use to set up hotel accommodations and rental car arrangements in either Chicago or Los Angeles.[20] While on these planes, Continental offered customers "Country Club" quality cuisine with a choice of four entrees. There were two separate lounges on the DC-7Bs including a stag lounge just for male passengers.

Six's attention to detail and quality control extended to every aspect of the organization. Six conducted flight check visits and watched flight attendants intently to be certain that they poured drinks correctly and brought customers dinner rolls with their meals that were plenty warm.[21] Continental's employees responded well: they wanted to work for a quality airline. "Six's dynamics rippled down to every worker and everyone wanted Six's airline to succeed," said Chuck Cheed, a Continental pilot during Six's tenure.[22]

In 1959, Six and Continental were honored for the success of the Gold Carpet program at an annual meeting of the Newcomen Society. In his speech on that occasion, Six expressed his determination to see Continental thrive:

> There are many highly respected people in the industry who say the costs of the jet age are so great that the smaller carriers will be hard-put to survive and that a round of mergers eliminating or consolidating the smaller trunks is inevitable.… Perhaps these men are right. These consolidations have happened in many other industries in this Country. They can happen in air transportation if some of the trunks lose their ability to compete. Some may, but Continental will not. Over the past three years, we've proved that we can more than hold our own against the biggest carriers in the Country.[23]

Later in that speech, Six revealed his formula for success at Continental:

1. Trim out your deadwood.
2. Give your people tools with which to work.
3. Try to develop a sound marketing area—or in the airline business, a sensible route structure.
4. When expanding into a new area, begin your operations with superior equipment and improved services.
5. If you merge with another firm, seek a partner with logically complimentary routes.
6. Keep improving your product.
7. Avoid a debt structure which will hamper future expansion.
8. Keep your eye on the future.[24]

Six relied upon these eight fundamentals as he led Continental through a very distinct regulatory climate, a climate that changed in the final decade of his tenure.[25] One change came in the early 1970s when Southwest offered cheaper ticket prices for flights within Texas. Six and other companies mounted a legal challenge against Southwest, but lost their case. Another change came in the aftermath of deregulation: while Six groomed Alvin Feldman to take his place as CEO, Six had to reckon with another potential successor in Frank Lorenzo (HBS 1963), who was planning to merge his company, Texas International, with Continental.

Frank Lorenzo

Lorenzo, who became CEO of Texas International in 1972, responded to the airline deregulation in 1978 by hiring both Kidder, Peabody and Smith, Barney to make independent assessments of how Texas International might take over Continental. By late 1979, Lorenzo had the results. Both investment banking firms advised that a takeover could be financed with Continental's own assets as collateral.[26]

At that point, Lorenzo had amassed a 48.5% stake in Continental stock and was meeting regularly with Six and Six's protégé, Feldman. Feldman, who was elevated to CEO on February 1, 1980, soon learned that Lorenzo had not studied whether Texas International and Continental had logically complimentary routes, or, if a "peanuts fares" airline like Texas International could successfully merge with Continental, whose customers were accustomed to paying a premium for quality service. According to Mike Roach, Feldman's Executive Assistant, at one dinner meeting with Lorenzo in February 1980, "he [Feldman] was 'startled' to find that Lorenzo had no studies of merger 'synergy,' that is, of the operational benefits of a combination of Continental and Lorenzo's company, now under the brand name Texas Air."[27]

Continental employees were well aware of Lorenzo's efforts to accumulate an increasingly larger percentage of Continental stock, and they were not surprised when in February 1981, Lorenzo tendered a hostile takeover bid, agreeing to pay $13 per share to stockholders not already part of the 48.5% he controlled. It was the latest move by the airline executive that James Cook of *Forbes* earlier called "Lorenzo the Presumptuous," for trying to buy much bigger airlines with a questionable debt structure.[28]

Continental responded by taking its battle with Lorenzo into court and the court of public opinion. One Continental pilot, Paul Eckel, took the courageous step of banding together with other pilots and Continental employees to figure out a way to buy enough Continental stock so that they could form a majority interest and run the company themselves. The Continental Airlines Employee Association rallied around the slogan, "We Built It—Let Us Buy It!"[29] Feldman wholeheartedly supported the idea. Feldman also suggested that it might be possible for Continental employees to buy millions of shares through the company's Employee Stock Ownership Program. If the company could offer the new stock issues through the ESOP, the new issues would reduce Lorenzo's percentage of Continental stock below 48.5% and could be a way for the employees to obtain a majority percentage of 51% or higher. Hopes soared higher for the idea when a consortium of banks pledged $185 million in loans to Feldman and the Continental Airlines Employee Association to buy company stock.

However, employee hopes were soon dashed. The California Commissioner of Corporations barred Continental employees from using their rights to stock under the ESOP to effect the change to an employee-owned and operated Continental.[30] Commissioner Geraldine Green stated that Continental could not issue new shares of stock under an ESOP, because new stock issues, certainly the 15.4 million shares needed, required the votes and approval of existing shareholders. The State's ruling against an employee-owned Continental appeared to be the final agony for Feldman, who committed suicide in his office in August 1981. A contributing factor in Feldman's decision to take his own life appears to be that he was still reeling from his wife's premature death from cancer in 1980.[31] But Continental's reversal of fortunes offered no solace: the company that reported $49.2 million in annual profit in 1978, posted a $13.2 million loss in 1979 and another sizeable loss of $20.7 million in 1980. (See **Exhibit 3**.) In October 1981, President Ronald Reagan validated the right of Texas Air to merge with Continental and reorganize it with Lorenzo in the pilot's seat.[32] "[For] the airline that pride built, it was an ego-bruising experience to be acquired by a peanuts airline," said Robert Meehan, a former Continental executive who left the company upon learning of Lorenzo's takeover.[33] Indeed, Six, who stepped in for Feldman after his death, did not drop Continental's litigation to block Lorenzo's takeover bid for another year.[34]

In November 1982, over a year after attempting his hostile takeover bid, Lorenzo officially gained control of Continental, setting into motion a series of mergers in the next few years that had a significant impact on the company's future.[35] Chief among the legacies of the Lorenzo era were massive layoffs and bitter management-employee relations, engendering a bureaucratic culture where internal silos were built to fortify departments and employees against downsizing.[36] These attitudes became entrenched after Lorenzo's announcement on September 24, 1983, that Continental would rely on a recent change in federal bankruptcy laws to declare Continental bankrupt, even though Continental still had $25 million in cash reserves.

Lorenzo later explained that Continental's Chapter 11 bankruptcy filing in 1983 was in keeping with one of his basic goals for Continental. "What we are looking to do coming out of bankruptcy is to have a company that will survive and be stable through the 1990s, strategically sound and diversified."[37] Others claimed that Lorenzo was merely trying to break the power of the unions to renegotiate lower wage and compensation packages for Continental employees. Lorenzo, through his chief negotiator at Continental, Phil Bakes, issued an ultimatum to his pilots and other employees who bristled at making concessions on wages: if you want to keep your jobs, you'll have to work twice as many hours at half the pay.[38] Over a two day span, Lorenzo and Bakes cut a staff of 12,000 people to 4,000, then gradually replaced the 8,000 workers who were dismissed with non-union workers at lower salaries and benefits. The impact on Continental's bottom line was sizeable; by the close of 1984, Continental achieved a record annual net profit of $50 million. (See **Exhibit 3**.)

These healthy bottom line figures masked a growing problem at Continental—sagging morale. (See **Exhibit 5—**Images from the Lorenzo Era at Continental.) Fearing safety repercussions, the U.S. House of Representatives held hearings in the summer of 1984 to determine whether feuding between Continental's executive officers and its pilots compromised the safety of Continental passengers. Psychologist Dr. Phil McGraw warned that safety was indeed compromised:

> Continental Airlines pilots are experiencing chronic stress associated with the labor environment, financial/career uncertainty, technical and physical overload, and self-induced pressures to succeed at any cost. These pressures are present to such a degree as to impair performance and compromise safety. CAL Pilots/crews are demonstrating impaired collective efficiency due to low experience levels of new hires and overload of old hires. This impairment is of such a significant proportion as to compromise safety.[39]

Rather than work on the necessary operations-level synergy to combine Texas Air with Continental, Lorenzo's primary focus was expansion through more mergers and acquisitions. While Continental was still in bankruptcy, Lorenzo joined forces with Michael Milken of Drexel, Burnham Lambert to design the financial terms of Texas Air's takeover bids of TWA and Eastern with junk bonds. Although Lorenzo missed on TWA, he did secure Eastern in February 1986.

Later in that year, Continental emerged out of bankruptcy protection and Lorenzo continued to attempt more mergers. In February 1987, Continental acquired Frontier, People Express and New York Air to become one of the largest U.S. airlines at that time. As a result of the mergers, Continental's staff expanded to upwards of 35,000. (See **Exhibit 3**).

A year after acquiring Eastern, Lorenzo announced that he wanted Eastern's union to accept an annual wage cut of $490 million, 29% of total labor costs. Lorenzo was immediately challenged to a debate by Captain Jack Bavis, chairman of the 3,908-member Eastern Air Lines Pilots Union.[40] Lorenzo declined. Michael Mohr, a Continental Flight Attendant, added his support for Bavis in a letter published in the June 29, 1987 edition of *Business Week*. "As an employee of Continental Airlines, I can't figure out why one of the nation's major and most profitable, airlines won't pay its employees industry standard wages. We only want our fair share, Frank."[41] (See **Exhibit 6** – Labor Expenses of Major Airline Carriers, July-September 1987).

Don Burr, CEO of People Express when it was purchased by Texas Air, offered an important insight into Lorenzo after resigning from Texas Air later that year. "Frank is very simpleminded: you do whatever you have to do to make money. Any means to victory is okay. Frank is capable of any type of behavior to win."[42] Communication at the executive level became strained after four of the Presidents Lorenzo hired – Thomas Plaskett, Martin Shugrue Jr., D. Joseph Corr and Mickey Foret – each left the company after a year or less on the job. (See **Exhibit 1**.) "Only he [Lorenzo] knew the total picture," said Richard Murray, a Continental Information Technology Executive at the time. "He was very cryptic in his conversation. He spoke in half-sentences. Conversations were difficult. You were left to try to interpret what he was saying, and if you pressed it, you'd get him perturbed."[43]

In 1987 and 1988, Continental lost a combined $500 million, and carried a debt of $2.3 billion. In response, Lorenzo asked his increasingly understaffed and underwhelmed employees to help him by cutting costs wherever and whenever possible. To help stem losses, Lorenzo and Continental set up an international partnership with Scandinavian Airline Systems, SAS. However, a key condition of the partnership arrangement with SAS was that Lorenzo would have to step down as CEO. He did so taking with him a multi-million dollar compensation package.

Robert Ferguson III

With Lorenzo's departure from Continental, the job of reviving the company eventually fell to Robert Ferguson III, Continental's Chief Financial Officer during Lorenzo's tenure. Lorenzo's immediate successor was Hollis Harris, who had spent almost 40 years at Delta Airlines before taking over as Continental's CEO in October 1990. Harris was accustomed to a corporate culture at Delta that, as airline historian Thomas Petzinger, Jr. has written, "delivered for its employees. Delta people got a job for life…Delta paid its people exceptionally well."[44] However, in December 1990, Harris signed off on Ferguson's recommendation to move Continental into bankruptcy protection a second time, and begin another reorganization. In late 1991, after an unsuccessful request for a government bailout of the airline industry, Harris decided to leave Continental to work as an airline consultant.[45] Harris was replaced by Ferguson, whose first task as CEO was to shepherd Continental through its second bankruptcy.

Much of Ferguson's experience involved the financial side of the airline business. After graduating with a degree in finance from Lehigh University in 1972, Ferguson worked at Bankers Trust, where he specialized in loans to airlines and aerospace companies for a decade before one of his clients, Braniff, hired him to be corporate treasurer. In May 1982, when Braniff did not have sufficient cash to cover payroll expenses, Ferguson advocated that Braniff declare bankruptcy in order to reorganize the company. The reorganization included the elimination of 10,000 employees within the year. After Braniff folded, Lorenzo hired Ferguson to an executive position at Texas Air in 1985, where he remained before joining Continental's senior management.

Unlike the first Continental bankruptcy, when the company had significant cash reserves to defray outstanding obligations, Ferguson had to solicit new investors to generate required liquid assets. Texas-based David Bonderman, an investment advisor to Robert Bass and the founder of Texas Pacific Group, led a combination including Air Canada and Air Partners with a $450 million offer, a quarter of that amount in equity. When the transaction was finalized, Bonderman became the Chairman of Continental's Board of Directors and an influential voice on the future of Continental, with Ferguson remaining as CEO.

By 1993, Ferguson and Continental were dedicated to a new strategy for Continental: splitting the airline into two brands—CAL Lite focused on short haul, low frills service and Continental focused on traditional service for long-haul national and international flights. Ferguson proposed making half of Continental's 20,000 annual flights low fare CAL Lite offerings. This strategy seemed to Ferguson like the wave of the future in the new era created by deregulation. Reporters at *Business Week* were somewhat hopeful about the proposal:

> CAL Lite will try to imitate the successful strategy of Southwest Airlines Co…. Current and former employees worry that Ferguson's management style is creating turbulence and driving away key executives. To improve morale, Ferguson plans to reinstate pay that was cut during the bankruptcy and plans to give employees 4% of Continental's stock…. While Ferguson denies that he has people skill problems, he has surrounded himself with managers well-regarded in that area.[46]

By early 1994, there were doubts whether Ferguson and the CAL Lite strategy would resurrect Continental after its second bankruptcy. Robert Rowen, Continental's deputy General Counsel, left the company rather than support Ferguson and his CAL Lite initiative. "If he [Ferguson] doesn't like an idea, he seems to go out of his way to ridicule it," recalled Rowen, one of a dozen top Continental managers who departed after Ferguson succeeded Harris.[47] In Fall 1994, Continental reported a third consecutive quarter of sluggish earnings, prompting Ferguson to resign. Bethune, while not CEO in title, was given Ferguson's responsibilities.[48] One analyst described the task ahead for Bethune in the following way: "While Bethune must improve operations and boost revenue, it is marketing that looms as his most daunting task."[49]

Bethune's Career in Commercial Aviation Before Continental

After Bethune received an honorable discharge from the Navy, he joined the executive team at Braniff, and began his career as a commercial airline executive. When Bethune started work at Braniff in 1978, it was the leading commercial airline in Dallas, as significant a presence in that city as Continental had become in Houston during the 1980s. Braniff was a venerable brand, a company that employed Dallas-area residents for generations. In September 1978, Braniff announced that its third quarter earnings hit a record high of $15 million, an increase of 81% over the prior quarter.[50] In January of 1979, Braniff offered its customers Concorde flights in Air France and British Airways planes out of the Dallas-Fort Worth Airport.[51] The good times for Braniff did not last. In 1979, Braniff's earnings declined by 21% in the second quarter, then, in the fourth quarter it suffered a $51.4 million loss.[52] As Braniff Chairman Harding Lawrence explained, the price spikes in international oil and fuel markets in 1979 were dampening the company's profitability.[53] Braniff was soon bankrupt, and Bethune cited the reasons for Braniff's demise: "The company had a bad business plan, high costs, poor management and, when all was said and done, a poor product."[54]

Bethune stayed at Braniff until 1983, learning more about the administrative side of the airline business while spending his evenings earning a bachelor's degree in business at Abilene Christian University in Dallas, before switching to Western Airlines and working out of its Los Angeles office. It was there that Bethune decided to get a private pilot's license, learning to fly a single engine Cessna. The following year, Bethune improved his flying skills after taking a position at Piedmont Airlines in North Carolina as Senior Vice President of Operations by enrolling in Piedmont's training school:

> That experience helps me when I'm dealing with pilots. We're part of the same club. I'm not just some suit. I'm a pilot, and I'm a mechanic. When we're talking about the best way to run an airline, they know that I know something. They respect what I've done. We speak the same language. If I say, 'Don't over rotate,' when I'm talking about not getting the company moving too fast, they get the idea.[55]

After leaving Piedmont in 1988 to work at Boeing, Boeing CEO Phil Condit urged Bethune to take up golf to improve his capacity to sell potential customers on Boeing products. Bethune disagreed and offered an alternative: he wanted to learn how to fly Boeing jets, believing that it would help his credibility in the eyes of Boeing employees. Bethune later reflected on the decision: "You have to prove that you're adding value to the team, that you know something, that you can do something, that you're going to be an asset…."[56] Bethune became a certified pilot of Boeing 737s and 757s, the same planes manufactured by Boeing's Renton Division, the division Bethune managed.[57]

When Robert Ferguson stepped down as Continental CEO in October 1994, Bethune volunteered to be his replacement. Ferguson had courted Bethune from Boeing to be his COO.[58] Continental's

Board agreed to give Bethune the job of CEO and to elevate Brenneman to Bethune's former position of COO. Bethune was not given much time between his hiring as CEO and his first performance evaluation. Within ten days of becoming CEO, Bethune was required to present the Board with an action plan for the company's short and long term horizons.

Bethune Takes Charge

In the ten days leading up to Bethune's first presentation to the Board as CEO, Bethune and Brenneman met nightly for dinner at Bethune's house to discuss strategy and solutions. Bethune referred to these dinners as "The Last Suppers." "We knew a major ending was on the horizon," Brenneman recalled. "Either the old Continental was going to be entirely reinvented or it was going to go bankrupt for the third time and would probably be liquidated."[59]

During the Last Suppers, Bethune and Brenneman had to come up with a budget for Fiscal Year 1995 that would generate positive cash flow to negate 10 years of damage to Continental's profitability. "We drank wine as we worked," Bethune recalled. "When things looked bleakest, we drank scotch."[60] After a few hours of crunching the numbers, Bethune and Brenneman arrived at one of the bleakest predictions: Continental's losses for 1994 would total more than $500 million on a basis of $6 billion in sales.

Bethune and Brenneman quickly realized that profitability would never be possible at Continental given its business culture. "The way we saw it, though Continental had extreme cash woes, that wasn't the real problem," Bethune said. "The problem was that every solution to every problem got lost in a maelstrom of anger, backbiting and plain old dispirited disgust."[61]

Although it had been four years since Lorenzo ran Continental, Bethune recognized that Lorenzo's business philosophy was entrenched into the company culture:

> To be honest, the deal culture that had started with Frank Lorenzo still existed at Continental. Deal makers look at problems and think deals. As a friend of mine has often said, if you're a hammer, everything is a nail. To deal makers, the solution is always more deals. Did you ever see a deal maker try to fix a watch? It doesn't work. Deal makers buy and sell watches. If a watch is broken, they usually try to sell it. Or they buy more watches to divert attention from the broken watch—to bury its problems while they're making money on other watches. [62]

"I didn't think more deals were going to work," Bethune continued. "We're an airline and the solutions to our problems were airline solutions, not deals."[63]

The result of the remaining Last Suppers was the Go Forward plan for Continental.[64] With the Board's approval, Bethune and Brenneman unveiled the Go Forward plan in January 1995 to Continental's employees: Fly to Win (a product-service plan); Fund the Future (a financial plan); Make Reliability a Reality (the product plan); and Working Together (the people plan). (See **Exhibit 7** — Gordon Bethune's Original Go Forward Plan, January 1995.)

Fly to Win

Fly to Win was designed to allow Continental to maximize its strengths. According to Bethune, Brenneman presented the concept as a way of re-establishing a winning tradition at Continental. "We decided to stop doing things that didn't make money," Bethune said. "Greg said that at a meeting once and I really liked the sound of it. It sounds simple, even obvious. After all why would you do things that wouldn't make money?"[65] As Brenneman put it, "we were going to build up our Houston, Newark and Cleveland hubs…and expand our customer mix from backpacks and flip-flops to suits and briefcases."[66]

Continental's Denver hub, historically significant in Six's Gold Carpet program, was closed in 1995, as Houston's George H.W. Bush International Airport had essentially replaced it. Bethune recognized the decision was right from an operations perspective. When Bethune joined the company in Spring 1994, Continental planes flew 22% of the flights out of Denver, its most expensive hub to run. Meanwhile, Continental had 77.6% of all flights out of Houston, and nearly half of all flights out of Newark and Cleveland.[67] When Bethune explained his rationale to Continental employees, he did so by emphasizing that certain programs and people were cut not only to save money, but also to strengthen core businesses and the long-term health of the company.

> We were losing money flying all of these point-to-point routes for ridiculously low fares in markets where we were at best a minor player. We decided to drop those routes and fly only to places it seemed people actually wanted to go. We realized that we simply had too many seats out there—like the farmer who tries to sell more tomatoes in a glutted market at depressed prices. Removing capacity would keep the same revenue while reducing our cost.[68]

Bethune and Brenneman crunched the numbers and determined that 18% of Continental's flights were not making money, and, that most of those were flights on CAL Lite.[69] Bethune and Brenneman saw CAL Lite as a drag on the Continental brand, and jettisoned it from Continental's future offerings. Bethune noted that "frequent shuttle service in markets like New Orleans and Houston work well, and we'll continue to have that. It won't necessarily have 'Lite' painted on the side of the airplane and it won't be an all-coach airplane but it will be everything else. The part of 'Lite' that was profitable and works will continue. We don't necessarily have to call it a separate product."[70] The decision came at a great cost—a one-time $446.8 million charge.

To reconnect with vacationers and business travelers, Bethune decided that he had to move boldly and with hat in hand at the same time. Bethune made it a point that Continental would apologize to travel agents for past customer complaints. If a vacationer did not like his experience on Continental, travel agencies would become reluctant to book vacation flights on Continental fearing another negative response. Bethune tried to reverse that trend by apologizing directly to travel agents and taking more steps to make Continental customer friendly. Bethune did the same with past business travelers, once-loyal Continental customers who had opted to fly other airlines due to poor service.

Bethune solicited feedback from customers about the services they wanted from Continental. But Bethune focused his inquiry with a specific goal in mind. "We didn't ask, 'What do you want?' We asked, 'What would you be willing to pay for?'"[71] In response, Continental kept its OnePass frequent flier program, put first-class seats and food back in all Continental planes, and, focused on flying customers to places they regularly wanted to fly.[72] "We schedule airplanes when people want to go, at 8a.m. and 5p.m., like most commuters."[73]

Fund the Future

On Thanksgiving 1994, almost a month after Bethune and Brenneman first presented the Go Forward plan to Continental's Board, Brenneman determined that Continental did not have sufficient cash reserves to pay its 40,000 employee salaries in January 1995.

Bethune and Brenneman determined that Continental's planes comprised the most expensive fixed assets, so they came up with a three-pronged revenue generation plan based on restructuring Continental's fleet. First, Continental would reduce the number of fleet types from 13 to 4. Second, Continental would match airplane sizes with the size of the consumer market. Third, Continental would eliminate above-market leases on planes.[74] One of the first planes that Bethune phased out was the Airbus A300—Continental purged itself of all 21 of this class of plane by January 1995, and the 4,000 employees specifically designated to service them.[75] Bethune also approached Continental's most sympathetic creditors, including GE Capital, to relax the size and length of the repayment terms for existing loans. GE Capital and other sympathetic lenders agreed.

These actions still did not generate enough money nor were they timely enough to prevent Continental from another potential bankruptcy. In December 1994, Brenneman informed Bethune that the company would be forced to declare bankruptcy by the end of January without an immediate infusion of new funds. Bethune decided to try to find money wherever he could, and, begged Boeing, his former employer, to refund Continental's $70 million deposit for a new series of planes. It was not industry practice for a deposit to be returned, even if an order was canceled. However, Bethune decided to make a call for help to Boeing president Ron Woodard:

> "Ron," I said, "I know you're not contractually obligated to return that money for our cancelled orders but dammit, you need to give us this money back. We need it in the worst way." Ron kind of laughed…then he thought about it for awhile. He trusted me. He believed in the direction we were pushing Continental. "I'll tell you what," he said. "We'll give you half of it back." He said he'd send it to me. I said, "Ron, you don't understand. I need you to wire it to me." Ron laughed. And he wired us $29 million.[76]

According to Brenneman, that wire transfer from Boeing allowed Continental to make payroll on January 17, 1995, and averted the bankruptcy crisis.[77]

Bethune later added that cost-cutting could not be the central component of funding the future. "Any dumb S.O.B. can manage costs. Revenue is a lot harder. You can make an airline so cheap nobody will fly it. It's not how cheap the product is; it's got to have some value," he stated.[78] That is one concept that Bethune believed separated his business philosophy from the ones practiced by his immediate predecessors:

> My predecessors at Continental were more concerned about saving money than keeping customers. The old philosophy was that the only way to make money was to cut costs…. They actually rewarded pilots for saving fuel. Now I'm a pilot and I know how to save fuel. You just slow the airplane down and turn off the air conditioner. The pilots were up in the front thinking they were doing great, while all of our customers in the back were hot and late—not a good combination if you want to keep your customers happy.[79]

Make Reliability a Reality

Bethune and Brenneman decided to measure Continental's reliability using 15 performance metrics, the most significant and most public being those measured by the Department of Transportation. These included statistics for on-time performance, mishandled bags, overall customer complaints and involuntary denied boardings.[80] (See **Exhibit 8**—U.S. Department of Transportation Metrics, January 1993 through December 2004.)

To Bethune, airlines had to do a few things well: "Reaching destinations on time. Being clean, safe and reliable."[81] If there were obstacles to achieving those goals, Bethune needed to know so these obstacles could be addressed and eliminated. Bethune realized that there might be some reluctance on the part of employees to speak up out of fear of the repercussions. To eliminate that set of fears, Bethune set up an 800 telephone number that only he answered.[82]

To become more reliable, Continental also had to hear from another constituency—Continental's customers. Continental placed postage paid reply cards in in-flight magazines and asked fliers to grade services. Bethune also created a customer 800 number, 800-WECARE2, to give customers a way to voice their concerns and get a response from corporate headquarters within five business days. Bethune discovered that letters of complaint sent to Continental in the past often were ignored, or, if there was a response, it was a response along the lines of what Bethune humorously said: "'Sorry you hated your flight. Hope you'll fly with us again!'"[83]

Open communication inside the Continental corporation was an important aspect to Bethune's strategy. Bethune kept his executive office open, ready to receive employees and their questions at any time during the day. He also held weekly open houses on Friday nights, inviting staff to meet and talk with him over drinks and snacks outside his office. It was considerably different from the interaction with senior management before Bethune took the helm. "You would have senior management in offices screaming for people that would be rows away," Watson said. "It was so disrespectful. People would be crying in their cubicles. It was horrible. It was nasty. You lost your self worth.[84]

Working Together

Bethune and Brenneman were convinced that mutual trust was required to make the Go Forward plan work, to get people working together rather than against each other in a sort of Darwinistic survival of the fittest culture. "Members of Continental's existing management team were not up to this challenge," Brenneman said. "They were too busy trying to knock each other off. In fact, for 15 years, the way to get ahead at Continental was to torpedo someone and take his or her job."[85] Two actions that Bethune initiated were the elimination of the security cameras at Continental's headquarters in Houston and the removal of locks to the executive suite.[86]

In mid-1996, Bethune even invited comedian Rodney Dangerfield to join him in a Continental employee instructional video on the subject of respect. Dangerfield, who often interjected his comic sketches with his famous line, "I can't get any respect," helped illuminate through humor how Continental employees could treat each other and customers better with the right amount of professional respect and courtesy.[87] It reinforced a concept that was simple but often overlooked, as Bethune later noted to an audience of business school students: "There are no successful companies that don't have a good product, and there are no successful companies that have employees who don't want to come to work every day."[88]

The Go Forward plan itself presented common company-wide goals for working together, but Bethune added a financial incentive for on-time flights to further encourage collaboration. If employees upped Continental's percentage of on-time flights over the previous quarter, then the company would distribute a special $65 bonus check monthly to each employee. When the Department of Transportation report came out in April 1995, Continental rose to an 80% rating, up 21% from the first quarter of 1994, and 35,000 employees each received a $65 pretax bonus for the next three months. When Continental improved its second quarter 1995 numbers, another set of checks for $65 were sent out to the entire company for three more months. Employee trust and confidence in Continental grew stronger with each day. Bethune believed that "there is a 100% correlation between employee happiness and customer satisfaction."[89]

Given that Continental was rising up the ranks of the major carriers, Bethune promised that in FY 1996, if employees contributed to elevating the company to the top three Department of Transportation rankings for on-time flights, a $100 monthly bonus would be the reward. In February 1996, Continental was listed as the best major commercial airline in the U.S. for on time flights in the fourth quarter of 1995. As a result, Bethune had a decision—the company had already exceeded the bonus goal for 1996, so, should employees get the promised $65 or the future bonus of $100? Bethune opted to give everyone at Continental the $100 reward for finishing first in the final quarter of 1995.[90]

Moving Forward

In early 1995, Bethune made another break from the Lorenzo-Ferguson era by inviting his employees into the company parking lot in Houston to join him in a ceremonial burning of the old Continental employee manuals and rule books. At the center of the bonfire was what was known around Continental as "The Thou Shalt Not Book," a bible almost nine inches thick stuffed with dictums about what Continental employees were allowed to do and what was forbidden.[91] Staff were asked to throw their copies on top of the bonfire.

> Symptomatic of an organization in which nobody trusted anybody, we had rules—specific rules—for everything from what color pencil had to be used on boarding passes to what kind of meals delayed passengers should be given to what kind of fold ought to be put in a sick-day form. Even worse, it spelled out job responsibilities to such a fine degree that employees were utterly bound by arcane rules and demands, and the penalties for disobeying the rules were severe. If a person whose plane was cancelled had an unrestricted full-fare ticket, that person might get a hotel room; an adjoining passenger with a less expensive ticket might get a meal voucher and a pat on the arm. It didn't matter if this policy started a war at the airport. The gate agent was not allowed to solve a problem that didn't make sense, so he or she just had to take the abuse the passengers gave and smile. The smiling, needless to say, had pretty much stopped.[92]

Bethune had to pick his spots to exert his influence as CEO. One spot was to get all of Continental's planes painted the same colors and with the same logos, to rid the company's image as a hodgepodge of many organizations. Bethune demanded that the repainting be completed by July 1, 1995. His operations staff balked, including Bethune's long-time business associate, C.D. McLean, but with some pointed cajoling, McLean and Continental's Operations staff completed the job.[93]

Another way in which Bethune exerted influence was through the introduction of "bananas" as the appropriate weapon in stalled negotiations. Yelling "banana" was a trick Bethune learned while at Braniff. When a meeting at Braniff veered off the agenda for a few minutes, people in the room would say "banana," a code word for "Wait a minute—this doesn't make sense at all." Shouting "banana" at a Continental meeting was useful to all concerned and ensured that important goals to be discussed would not continue to be ignored.[94]

Bethune worked with his senior management team to identify the strong players, the role players, the staff members who need improvement, and those who were an overall drag on the achievement of team goals. Bethune ranked the strong players highest with a I, the weakest, the lowest ranking of IV. Those ranked as a IV would be encouraged to take an early retirement or find employment elsewhere. Bethune argued that his decision to let go employees he ranked as a IV was not a setback. Remaining Continental staff realized that these people could not be part of the new way of doing business and would be better off elsewhere.

> All through 1995 we talked to people about their performance, giving them a chance to either get on board with the company's new direction or not, as they saw fit. I don't say it was easy, because you never want to fire employees…(But) that final cut didn't cause the smallest amount of unhappiness or fear or dissatisfaction in the ranks. Instead, there was a big sigh of relief. Employees said, "Jeez, they got rid of Harry—that jerk should have been shot 20 years ago and somebody finally did something."[95]

According to Brenneman, team leadership was the driving philosophy behind the Go Forward plan. "Cultivating honesty, trust, dignity and respect becomes the job of the leaders. It may even be their most important job; Gordon and I certainly considered it our top priority."[96] "Bethune's formula is deceptively simple," Jonathan Burton noted in *Chief Executive* magazine. "He restored first-class seats and personally courted top customers. Thinly traveled markets were cut. He replaced 34 of 60 vice presidents with two dozen handpicked corporate doctors, focused on revenue, cost, and margins. For the first nine months of 1995, Continental earned $183 million. And a $6,500 investment in its Class B shares in January 1995 was worth $36,000 just 10 months later."[97]

Bethune and Continental's Continued Upward Trajectory from 1996 to 2000

Bethune was eager to take the successes from Continental's turnaround in 1995 and extend them into the future. In January 1996, Continental ushered in the New Year with an announcement heralding the new era at the airline by reporting a $224 million annual profit for 1995, the best ever in company history. As Bethune and Continental continued to follow the Go Forward plan, accolades soon followed. In June 1996, J.D. Power named Continental as the "Best Airline with Flights of 500 Miles or More," in essence, the best airline in the major commercial airline industry. *Air Transport World* was equally impressed and honored Continental as its airline of the year for 1996.

Later in 1996, Bethune was identified by *Business Week* as one of the top 25 managers in the world that year. In 1997, the Smithsonian Institution and the trade journal *Aviation Week & Space Technology* honored Bethune with its Laureate in Aviation trophy. In 1998, Bethune was recognized as the Outstanding Business Leader, where he said that "a leader is only as good as the people you lead."[98] Raymond Neidl, an industry analyst, said that with Bethune at the helm, "Continental has done all of the right things to get this company in shape and make money and at the same time improve employees' finances and psychological positions."[99]

Bethune also received Wall Street's highest praise - in a December 1997 *Forbes* article, Maldutis was bullish in favor of airline stocks, especially Continental.[100] (See **Exhibit 9**–Selected Continental Financial Data, 1994-2004; **Exhibit 10**–Continental Labor Costs, 1994-1999.) Continental had succeeded in generating $385 million in profits in 1997. The 1997 profits also came despite a new 10% ticket sales tax that the federal government added. Maldutis also urged market watchers to buy Continental after noting the steady return of business travelers to Continental. In just four years, the percent of Continental's revenues from business customers increased by more than ten percentage points, from 32.2% in 1994 to 43.8% in 1997.[101]

To enhance Continental's service to its customers, Continental announced on November 20, 1998 that it had formed an alliance with Northwest Airlines that translated into a reciprocal relationship on code-sharing on domestic and international routes, reciprocity of frequent flyer programs and shared airport lounges. The alliance expanded Continental's industry status to be on par with the big three U.S.-based airlines—Delta, United and American Airlines.

When Continental issued its annual report for the year 2000, it highlighted five of the strongest years in company history. Between 1995 and 2000, Continental's revenue nearly doubled, from $5.8 billion in 1995 to $9.9 billion in 2000.[102] Bethune's renewed focus on serving his business travelers had a sizeable impact on revenues—by 2000, 47.6% of all Continental's revenues were from business travelers.[103]

Continental was a more financially reliable company than before, and, its performance was as well. In the final quarter of 2000, the U.S. Department of Transportation ranked Continental first in on-time arrivals.[104] Other executives, like Houston Astros baseball team owner Drayton McLane, saw Bethune and Continental standing on home plate and asked how it happened. As Bethune explained to McLane in a baseball analogy he recalls in his autobiography, *From Worst to First:*

> The umpire gives you immediate feedback—strike or ball…. At the risk of oversimplifying, this is basically the key to running a successful business. You have to decide what constitutes success…. If it's a baseball game, what makes an out and what scores a run? If it's an airline, what are the indications that it is doing well? You have to explain to the people who work with you what those are, and the people have to buy into that. You have to measure that, and let them know how you're going to measure it. And you have to reward them if they succeed. That's it.[105]

Predictability in Unpredictable Times—Bethune and Continental after September 11, 2001

Continental's desire to be the top on-time major airline with the fewest complaints and mishandled baggage claims continued into the first years of the 21st century. (See **Exhibit 8**.) Continental seemed poised for even more growth, but like all other airlines, it was ill-prepared for the aftereffects of the terrorist attacks on the U.S. on September 11, 2001.

In the immediate aftermath of the 9-11 attacks, President George W. Bush ordered all commercial planes grounded for the next day and a half. While this was a significant loss of revenue, Continental decided to give full refunds to all passengers with tickets to fly on those days, then pledged to fly them again at no cost once the President restored normal airline services. Continental lost millions of dollars each day—as much as $30 million a day starting on September 12 - and few people were willing to fly, compounding the revenue lost with the refund policy.[106] Layoffs looked like a necessary evil to stem losses. Rather than put 1,000 workers on furlough, Bethune offered a range of options to his employees, including a new Company Offered Leave of Absence option.

> The COLA encourages voluntary leaves of absence for non-management employees and allows them to accept full-time work elsewhere while continuing to receive benefits during an unpaid leave of up to one year. Benefits include the option to continue insurance benefits at company rates, continuing travel privileges and credit for time on COLA for company seniority and the employee retirement program.[107]

This program translated into a $60 million loss to Continental, but, Bethune expressed the negative impact in terms of the loss of valued human resources. "This furlough was one of the most painful events we have had to experience," Bethune said. "We believe that employees should always be treated with dignity and respect, especially when we are forced to make these tough decisions."[108] To amplify this point, Bethune and COO Larry Kellner (Brenneman left in 2000 to become CEO of Burger King), decided to forgo all of their personal compensation for the rest of 2001.

On September 21, 2001, President Bush addressed Congress and the nation, offering words of solace and reassurance about America's future and declared that the government would expand its role in airline and transportation safety and create a new Department of Homeland Security. "We will come together to improve air safety, to dramatically expand the number of air marshals on domestic flights, and take new measures to prevent hijacking. We will come together to promote stability and keep our airlines flying, with direct assistance during this emergency."[109] To make that possible, Bush signed an executive order pledging $15 billion to the airline industry, $5 billion in direct federal aid and $10 billion in loan guarantees for an industry that had announced tens of thousands of layoffs since the terrorist hijackings.[110]

The President's father, former President George H.W. Bush, and Bethune tried to effect that positive approach to the crisis. On September 27, 2001, former President Bush took a Continental flight from Boston to his home in Houston, where he was greeted upon his arrival by Bethune himself. "One thing I wanted to demonstrate, and I realize that it's just symbolic, is the safety of the airways and the confidence I have in Continental," the elder Bush said.

Continental managed to avoid a major loss in 2001, and, in 2002, continued to build on each of the four parts of its Go Forward plan. In January 2002, Continental partnered with Amtrak to provide air/train ride share service in the Northeast U.S. In March 2002, Continental opened its new jet terminal in Newark and broadcast the availability of its BusinessFirst ticket program to frequent fliers on Boeing 777 planes. In the summer of 2002, Continental's Houston hub opened its Airport of the Future with a computerized and automated check-in program, soon to be implemented at airports throughout the nation. As Continental was taking these steps to rebuild customer confidence and sales in the wake of 9-11, another disaster struck—Continental's fourth major hub in Guam was devastated by supertyphoon Ponsogna, contributing to a $109 million fourth quarter loss and a net loss of $441 million for 2002.[111]

Unlike in the past, the losses were not connected to customer dissatisfaction and low worker morale. In 2002, for the fifth year in a row, *Conde Nast* magazine rated Continental best among all U.S. airlines in comfort, reliability and value on trans-Atlantic and trans-Pacific flights. For the sixth year in a row, Continental was listed in *Fortune* magazine's top 100 Places to Work.

Despite doing more with less, Bethune decided with Kellner that Continental had to take further austerity measures in Spring 2003, trimming senior management positions by one-quarter, the top officer group by 15% and issuing 1,200 furloughs to save $500 million. Overall, the airlines had lost $300 billion since the September 11th attacks, and, with the country's offensive in Iraq, it was expected that travel would drop and fuel prices would increase, a double strike against Continental's already lackluster financial figures. To offset the potential negatives from the Iraq War, Continental joined in an alliance with Delta and Northwest on March 31, 2003.

In September 2003, Bethune announced EliteAccess, as a new way to cut into the discount flier market. Believing that "there are still people who want creature comforts," Bethune offered full-fare customers perks like no middle seats, priority boarding and baggage handling, and faster security checks. These services, already available to Continental's business class and first class customers, were extended to economy-class customers who paid full fare, typically one-fifth of all economy class customers.

Bethune agreed to step down at the end of 2004, and from May 2003 to May 2004, Bethune and Continental squeezed out $900 million in operating income improvements to offset the additional $700 million Continental would expend on fuel due to the oil price surges. He resisted any attempt to renege on Continental's financial obligations to current staff and retirees, putting $103 million in cash and another $100 million into the pension fund in September 2003.[112] With great reluctance, in

December 2004, Bethune's last month as CEO, Continental announced a minor pay cut, the last U.S. airline to take this step. However, Kellner, Bethune's successor as CEO, and Jeff Smisek, Kellner's replacement as second in command, did the same, accepting over 20% less in compensation.

As Kellner and Smisek assumed their new roles at Continental, they took stock of Bethune's Go Forward plan and decided that it would remain the guiding vision of their company. "I don't think you'll see a transition in regard to strategy, in regard to culture," Kellner said. "This will continue to be all about our employees and our customers. And if we treat our employees well and do the right thing there, they will treat our customers well, [and] we aren't going to lose our focus on our people and our product."[113]

Exhibit 1 Continental Executive Positions, 1981–1994 (Active President is in **bold type**)

1981	Robert Six, Chief Executive Officer, Chairman of the Board, Continental Air Lines (CAL) **Alvin Feldman**, President, CAL
2/1/1981	Six, Chairman, CAL Feldman, CEO, CAL **George Warde**, President and Chief Operating Officer, CAL
8/1981	Six, Chairman, CAL **Warde**, President, CEO, CAL
4/1/1982	Frank Lorenzo, Chairman, CAL; CEO, Chairman, Texas Air **Warde**, President, CEO, CAL
9/1982	Lorenzo, Chairman, CAL; CEO, Chairman, Texas Air **Warde**, Vice Chairman, Industry and Public Affairs, Office of the President, CAL and Texas Air
12/1/1982	Lorenzo, Chairman, CAL; CEO, Chairman, Texas Air **Stephen M. Wolf**, President, CEO, CAL
4/1984	Lorenzo, Chairman, CAL; CEO, Chairman, Texas Air **Phil Bakes**, President, CEO, CAL
1986	Lorenzo, Chairman, CAL; CEO, Chairman, Texas Air; Chairman, Eastern Airlines **Thomas Plaskett**, President, CEO, CAL Bakes, President, CEO, Eastern Airlines
2/1/1987	Lorenzo, Chairman, CAL; President, CEO, Chairman, Texas Air **Plaskett**, President, CEO, CAL Gerald O'Neil, CEO, New York Air Donald Burr, CEO, People Express (Frontier Airlines is a subsidiary)
7/1987	**Lorenzo**, Chairman, President, CEO, CAL; CEO, Chairman, Texas Air
2/1988	Lorenzo, Chairman, CAL; CEO and Chairman, Texas Air **Martin Shugrue Jr.**, President, CEO, CAL
2/1989	Lorenzo, Chairman, CAL; CEO and Chairman, Texas Air **D. Joseph Corr**, President, CEO, CAL
11/1989	Lorenzo, CEO, Chairman, CAL; CEO, Chairman, Texas Air **Mickey Foret**, President, CAL
8/1990	Lorenzo, Chairman, CAL; CEO, Chairman, Texas Air; CEO, Chairman, Continental Holdings **Hollis Harris**, President, CEO, CAL
10/1991	Robert Ferguson III, CEO, CAL Carl Pohlad, Chairman, CAL and Continental Holdings **Lewis Jordan**, President and Chief Operating Officer, CAL
1993	Ferguson, CEO, Vice-Chairman, CAL David Bonderman, Chairman, CAL
1994	Ferguson, CEO, Vice Chairman, CAL Bonderman, Chairman, Continental Airlines **Gordon Bethune**, President and COO, CAL

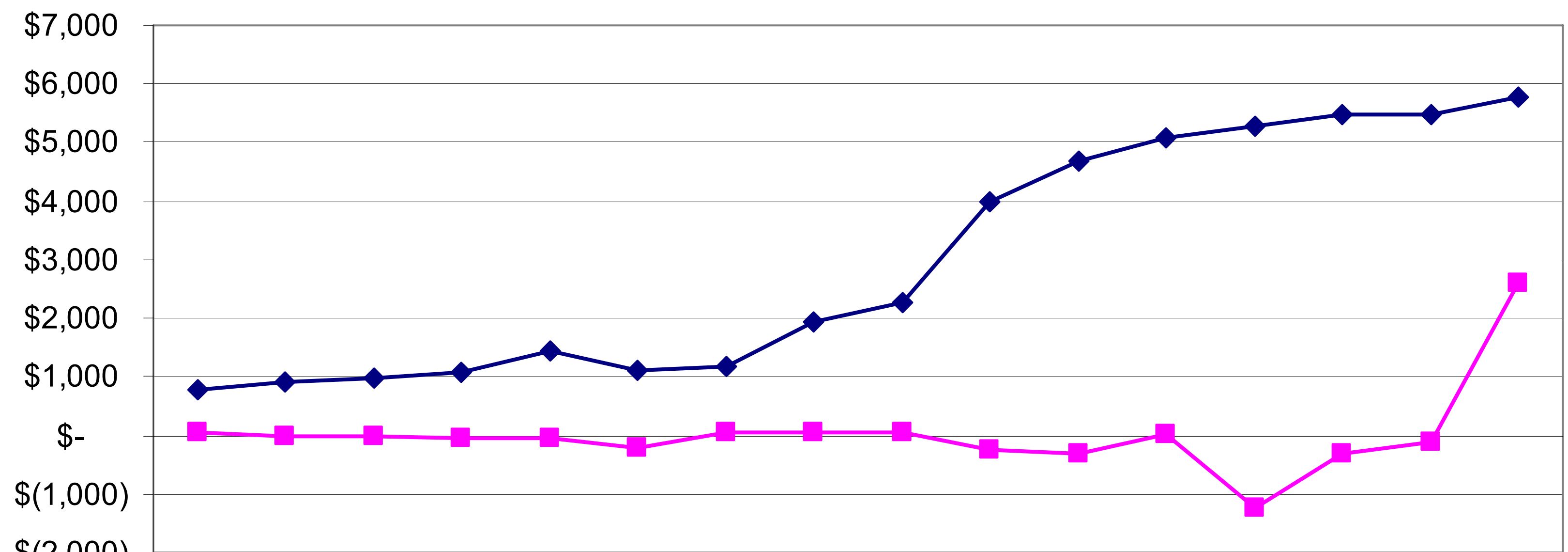
Sources: Various compiled by the casewriters.

Exhibit 2 Continental Corporate History Timeline to 1994

1934	Continental takes flight when its predecessor, Varney Speed Lines, travels from Pueblo, Colorado, to El Paso, Texas. Later that year, Varney's co-founder, Walter Varney, cedes control to Louis Mueller.
1936	Mueller sells 40% of his company to Bob Six.
1937	In July, Six changes the company's name to Continental Air Lines, then, in October, he moves Continental's headquarters from El Paso to Denver.
1953	Continental signs a merger agreement with Pioneer Airlines that adds 16 new cities.
1957	Continental offers "Gold Carpet Service" on new route from Chicago to Los Angeles, California.
1968	After flying soldiers to Vietnam for the U.S. military, Continental forms Air Micronesia, with a flight route covering seven stops from Saipan to Honolulu.
1972	Continental begins providing wide body jet service on DC-10s.
1978	Deregulation takes effect. Continental posts a record $49 million profit. Meanwhile, Frank Lorenzo of Houston-based Texas Air buys large blocks of Continental stock.
1981	Six relinquishes control of Continental to Alvin Feldman. In August, Continental's employees are thwarted in their attempt to block Lorenzo's hostile takeover. Feldman, sympathetic to Continental's employees, commits suicide.
1982	Continental merges with Texas International, Lorenzo is CEO, and Houston, Texas, becomes the main office. A month later, Bob Six and Frank Lorenzo agree to a "normalization" of relations and dismiss all pending lawsuits between the two companies.
1983	Continental files to reorganize under federal bankruptcy laws in a novel move to renegotiate labor contracts to be more favorable to the company's bottom line.
1984	Continental posts a record $50 million profit for the year.
1986	Continental emerges from bankruptcy protection. Within months, purchases Eastern Airlines.
1987	Continental buys Frontier, People Express and New York Air to become the third largest airline in the U.S.
1988	Continental forms first global alliance with Scandinavian Air Systems in an effort to stem a $258 million loss in 1987 and more losses in 1988. Continental formally changes company name to Continental Airlines Inc.
1990	After Lorenzo is asked to step down and sell his holdings in Continental, Continental files for bankruptcy a second time.
1991	New CEO Robert Ferguson III launches new no frills, low fare CAL Lite nationwide.
1993	Air Partners/Air Canada, working with David Bonderman, invests $450 million in Continental in November 1992, giving Continental the financial boost needed to emerge from bankruptcy five days later. However, in the next nine months, Continental generates $38.5 million loss on $3.8 billion in revenues.

Sources: Various consulted by the casewriters.

Exhibit 3 Selected Continental Financial Data, January 1978 to December 1993 ($ millions)

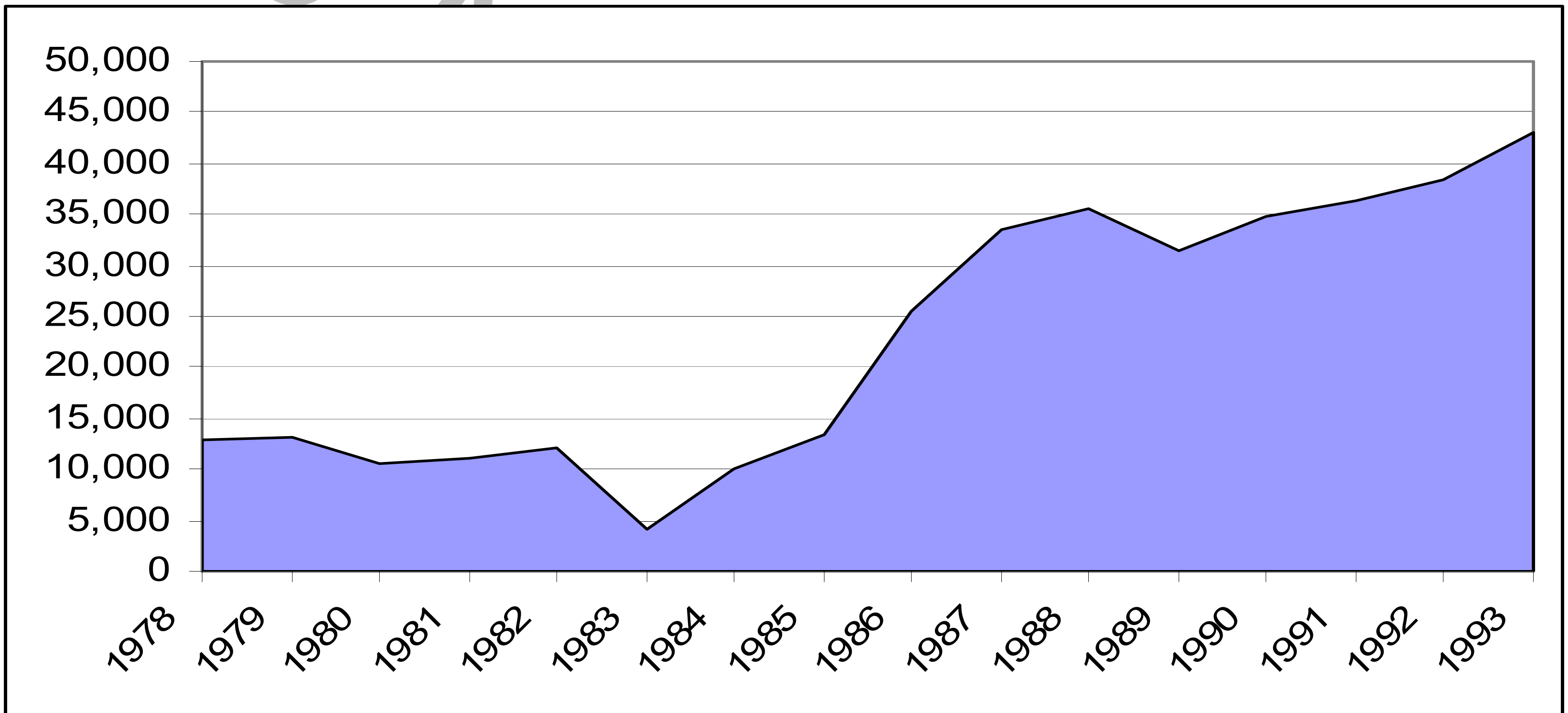


	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Revenues	$775	$928	$992	$1,091	$1,427	$1,113	$1,185	$1,934	$2,269	$3,973	$4,698	$5,076	$5,281	$5,487	$5,493	$5,775
Profits	$49	$(13)	$(21)	$(60)	$(42)	$(218)	$50	$58	$43	$(258)	$(316)	$3	$(1,236)	$(306)	$(125)	$2,602

Note: The profit figure for 1993, a net profit of $2.6 billion, includes an extraordinary gain of $3,618,723. "During the portion of 1993 that it [Continental] was still in bankruptcy, the Company incurred a $113.1 million operating loss, but the write down of liabilities associated with emergence from Chapter 11 resulted in a net profit of $2.6 billion." Robert Ferguson III, Letter to Shareholders, *Continental Airlines Annual Report for 1993*, p. 2.

Sources: Compiled from Continental Annual Reports, 1978–1993, Continental 10-K Filings, 1978–1993.

Exhibit 3 (continued) Continental Employment Figures, January 1978 to December 1993



Sources: Continental Annual Reports, 1978–1980, Continental 10-K Filings, 1978–1993.

Exhibit 4 U.S. Department of Transportation Air Travel Consumer Reports for Calendar Year 1993: On-Time Percentage, Missing Baggage Complaints, Denied Boardings, and Consumer Complaints

Overall Percentage of Reported Flight Operations Arriving on Time and Carrier Rank, by Month and Quarter

	1st Quarter January–February 1993		2nd Quarter April–June 1993		3rd Quarter July–September 1993		4th Quarter October–December 1993	
Carrier	%	Rank	%	Rank	%	Rank	%	Rank
Alaska	85.9	(1)	88.3	(2)	86.0	(5)	77.4	(9)
America West	81.2	(3)	88.1	(3)	89.7	(2)	83.8	(3)
American	76.6	(7)	81.8	(9)	85.0	(6)	79.8	(6)
Continental	**74.1**	**(8)**	**82.1**	**(8)**	**83.4**	**(8)**	**76.6**	**(10)**
Delta	69.8	(10)	79.7	(10)	79.5	(10)	77.8	(8)
Northwest	70.7	(4)	88.0	(4)	88.0	(3)	87.9	(2)
Southwest	84.8	(2)	90.9	(1)	94.1	(1)	88.6	(1)
TWA	77.3	(5)	87.2	(5)	84.0	(7)	81.4	(4)
United	72.0	(9)	82.5	(7)	81.1	(9)	77.9	(7)
US Air	77.1	(6)	87.2	(6)	86.6	(4)	80.7	(5)
Total	78.0		84.4		84.9		80.9	

Source: On-Time Percentage, Mishandled Baggage and Consumer Complaints data taken from U.S. Department of Transportation, *Air Travel Consumer Reports*, February 1994; and Denied Boarding data taken from U.S. Department of Transportation, *Air Travel Consumer Reports*, March 1994.

Mishandled Baggage Reports Filed by Passengers, January–December 1993

		January–December 1993		
January-December 1993 Rank	U.S. Airlines	Total Baggage Reports	Enplaned Passengers	Reports per 1,000 Passengers
1	Southwest	141,822	37,520,809	3.78
2	America West	64,378	14,655,375	4.39
3	TWA	85,933	17,129,395	5.02
4	Delta	454,345	80,342,501	5.66
5	American	387,540	68,239,611	5.68
6	Alaska	33,388	5,812,936	5.74
7	US Air	307,418	52,746,201	5.83
8	Northwest	214,340	36,713,324	5.84
9	**Continental**	**205,214**	**33,808,173**	**6.07**
10	United	388,524	60,580,632	6.41
	Total	2,282,903	407,548,957	5.60

Source: On-Time Percentage and Mishandled Baggage data taken from U.S. Department of Transportation, *Air Travel Consumer Reports*, February 1994.

Exhibit 4 (continued)

Passengers Denied Boarding by Major/National U.S. Airlines, January–December 1993 (ranked by involuntary denied boardings per 10,000 passengers)

January-December 1993 Rank	U.S. Airlines	January–December 1993 Denied Boardings (000s) Voluntary	Involuntary	Passengers Boarded	Involuntary (000s) per 10,000 Passengers
1	American	98,682	3,036	85,307,316	0.36
2	United	73,417	2,331	64,024,005	0.36
3	US Air	47,618	3,558	52,709,844	0.68
4	Delta	104,769	5,885	80,749,556	0.73
5	Northwest	108,297	4,760	39,269,572	1.21
6	TWA	29,339	2,837	17,950,199	1.58
7	**Continental**	**68,526**	**6,153**	**36,318,219**	**1.69**
8	America West	31,601	3,088	14,700,123	2.10
9	Southwest	42,386	10,659	33,508,686	3.18
	Total Majors	604,635	42,307	424,537,520	1.00

Air Travel Consumer Complaint Report by Major/National U.S. Airlines—Rankings, January–December 1993

January-December 1993 Rank	U.S. Airlines	January–December 1993 Complaints	Passengers	Complaints per 100,000 Passengers
1	Southwest	69	37,636,794	0.18
2	Delta	425	84,821,237	0.50
3	Northwest	275	44,201,030	0.62
4	US Air	356	53,926,047	0.66
5	United	589	69,803,709	0.84
6	American	863	82,566,726	1.05
7	America West	164	14,739,644	1.11
8	**Continental**	**608**	**37,527,692**	**1.62**
9	TWA	365	19,003,634	1.92
	Total Majors	3,714	444,226,513	0.85

Sources: Denied Boarding data taken from *Air Travel Consumer Reports*, March 1994; and Consumer Complaints data taken from U.S. Department of Transportation, *Air Travel Consumer Reports*, February 1994.

Exhibit 5 Images from the Lorenzo Era at Continental

Sources: "A New Tradition in Lying," courtesy of the *Houston Chronicle*; Billboard posted outside Continental's Houston headquarters, photo taken by pilot Dennis Higgins included in Thomas Petzinger, Jr. *Hard Landing: The Epic Quest for Power and Profits that Plunged the Airlines Into Chaos* (New York: Random House, 1995), inserts between pp. 234-235.

Exhibit 6 Labor Expenses, Major Carriers, July-September 1987

Major Carrier	Total Labor Expenses	Percent of Operating Revenues
American	$636,396,000	35.49
Continental	**233,912,000**	**22.06**
Delta	624,515,000	40.31
Eastern	**402,610,415**	**36.09**
Northwest	372,599,000	28.88
PanAm	277,056,000	32.67
Piedmont	166,378,979	35.07
TWA	323,443,856	29.82
United	675,961,432	33.94
US Air	192,087,000	41.53
Average	**390,495,968**	**33.46**

Source: Compiled from table found in Linda LeGrande, Congressional Research Service, *Labor Problems at Eastern Airlines*, June 14, 1988, using data provided in *Aviation Daily*, March 16, 1988, p. 412.

Exhibit 7 Gordon Bethune's Original Go Forward Plan, January 1995

Continental's New Flight Plan

FLY TO WIN

Focus on core assets:

- Stop scheduling flights that lose money.
- Take out cost as we take out capacity.
- Eliminate CAL Lite.
- Build up Houston, Newark, and Cleveland hubs.

Expand customer mix from backpacks and flip-flops to suits and briefcases.

Revise marketing policies to enhance relationships with travel agents, corporations, and frequent fliers.

GOAL

Increase revenues and deliver

FUND THE FUTURE

Track cash.

Restructure the balance sheet.

Restructure the fleet:

- Reduce the number of fleet types from 13 to 4.
- Match airplane size with market size.
- Eliminate above-market leases on airplanes.

Sell non-strategic assets.

GOAL

Secure liquidity

MARK RELIABILITY A REALITY

Perform in the top 50% of the industry on key DOT service:

- On-time performance.
- Baggage mishandles.
- Customer complaints.
- Involuntary defined boardings.

Improve image of fleet:

- Paint interiors and exteriors.
- Add phones.
- Offer first-class seats.

Improve aircraft cleanliness.

Improve food service.

GOAL

Improve the product and become an airline of preference

WORKING TOGETHER

Restore employee confidence in management:

Offer on-time incentives.

Establish a consistent and reliable flight schedule.

Improve communication.

Deliver a profit and introduce profit sharing.

Maintain peace among the work groups.

Establish a results-oriented culture.

Let people do their jobs without interference.

Treat one another with dignity and respect.

GOAL

Build a new corporate culture

Source: Greg Brenneman, "Right Away and All at Once: How We Saved Continental," *Harvard Business Review*, Reprint No. 4193, September–October 1998, p. 6.

Exhibit 8 Department of Transportation Metrics, 1993–2004

Continental's Rank/Total Number of Carriers

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
On-Time	8/10	10/10	4/10	2/10	5/10	6/10	5/10	1/10	3/11	3/10	7/17	9/19
Mishandled Baggage	9/10	10/10	2/10	2/10	2/10	2/10	3/10	6/10	6/11	3/10	3/17	6/19
Denied Boardings	7/9	7/9	4/10	1/10	1/10	1/10	2/10	8/10	10/11	7/10	11/14	14/17
Complaints	8/9	9/9	9/10	3/10	4/10	5/10	4/10	6/10	7/11	7/10	17/17	11/19

Continental's Figure/Industry Average

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
On-Time	79.0/81.6	78.6/81.5	79.5/78.6	76.6/74.5	78.2/78.3	77.3/77.2	76.6/76.1	78.1/72.6	80.7/77.4	83.5/82.1	82.0/82.0	78.9/78.1
Mishandled Baggage	6.07/5.60	6.59/5.33	4.69/5.18	4.05/5.30	4.96/3.78	4.06/5.16	4.42/5.08	5.35/5.29	4.29/4.58	3.14/3.84	3.12/4.19	3.58/4.91
Denied Boardings	1.69/1.00	1.81/1.16	.67/1.06	.19/1.20	1.06/.10	.14/.87	.34/.88	1.80/1.04	1.51/.82	.87/.72	1.06/.86	1.76/.86
Complaints	1.62/.84	2.15/.79	1.04/.68	.58/.74	.86/.77	1.02/1.08	2.62/2.47	2.84/2.98	2.23/2.11	1.22/1.41	.95/.71	.82/.74

Source: U.S. Department of Transportation, *Air Travel Consumer Reports*, 1996–2004.

Note: Starting in 1993, the 10 airlines measured are Alaska, America West, American, Continental, Delta, Northwest, Southwest, TWA, United and US Air. In 2001, American Eagle is added, and TWA is dropped the following year. In 2003, these airlines were added: Air Tran, ATA, Atlantic Coast, Atlantic Southeast, Express Jet, Jet Blue and Sky West. The following year, Hawaiian and Independence Air are added, when figures are available. Express Jet was tracked separately from Continental starting in 2003 because Continental no longer owned the controlling interest in Express Jet after following up its 2002 IPO with a second offering of Express Jet stock.

Exhibit 9 Selected Continental Financial Data, 1994–2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Continental, 1994–2000											
Operating Revenues	$5,670	$5,825	$6,360	$7,213	$7,951	$8,639	$9,899	$8,969	$8,402	$8,870	$9,899
Profits (loss)	(613)	224	319	385	383	455	342	(95)	(441)	38	(409)
Employment	37,800	32,300	35,400	39,300	43,900	51,275	54,300	42,900	43,900	45,610	38,255
Stock Price[1]	$9.25	$21.75	$28.25	$48.13	$33.50	$44.38	$51.63	$26.21	$7.25	$16.27	$13.54
U.S. Airline Industry, 1994–2000											
Operating Revenues		$95,117	$102,444	$109,917	$113,810	$119,455	$130,839	$115,526	$106,985	$117,920	$134,462
Profits		2,311	2,727	5,119	4,847	5,277	2,486	(8,275)	(11,008)	(2,371)	(7,643)

Source: Continental Figures: Continental Airlines Annual Reports 1997, 1998, and *Hoover's, Inc.* http://www.hoovers.com (accessed October 17, 2008). U.S. Airline Industry Figures: Air Transport Association, 2006 Economic Report.

Note: Except for stock prices, all dollar amounts are in millions.

Exhibit 10 Continental Labor Costs, 1994 through 1999

	1994	1995	1996	1997	1998	1999
Continental, 1994–1999						
Total Salaries and Benefits	$1,437.0	$1,464.8	$1,648.9	$1,953.4	$2,398.7	$2,716.9
Percentage of Operating Revenues	25.3	25.1	25.9	27.1	30.1	31.4
Percentage of Operating Expenses	29.4	26.0	27.0	28.6	30.8	31.6
U.S. Airline Industry, 1994–1999						
Total Salaries and Benefits	28,389.1	29,503.7	31,010.3	32,519.3	35,115.1	37,753.5
Percentage of Operating Revenues	32.2	31.2	30.4	29.7	30.8	31.8
Percentage of Operating Expenses	33.3	33.3	32.4	32.3	33.6	34.0

Source: Compiled from First Equity, *1996-2002 Aviation & Aerospace Almanacs* (Washington, D.C.: Aviation Week Group Newsletters, McGraw-Hill).

1 At the close of trading on December 29, 1995, Continental had Class A and Class B shares on the New York Stock Exchange, and, the Class A shares closed at $42.50, the Class B shares, $43.75.

Endnotes

[1] Rosabeth Moss Kanter, *Confidence: How Winning and Losing Streaks Begin and End* (New York: Crown Business, 2005), p. 231.

[2] Gordon Bethune, *From Worst to First: Behind the Scenes of Continental's Remarkable Comeback* (New York: John J. Wiley, 1998), pp. 71-72.

[3] Bethune (1998), p. 14.

[4] Greg Brenneman, "Right Away and All at Once: How We Saved Continental," *Harvard Business Review* (reprint), September-October 1998, p. 4.

[5] Martin Puris, *Comeback: How Seven Straight-Shooting CEOs Turned Around Troubled Companies* (New York: Random House-Times Business, 1999), p. 21. Although Puris provides a detailed account, he incorrectly states that Bethune became Continental's CEO in February 1994. According to Bethune's autobiography and the Continental Airlines web site, Bethune was named CEO in October 1994. In February 1994, Bethune was President and Chief Operating Officer, Robert Ferguson III was still CEO.

[6] *Forbes*, April 25, 1994, p. 262.

[7] On December 3, 1990, Continental Holdings, the parent company of Continental and 51 other subsidiaries, filed for federal Chapter 11 bankruptcy protection as a Delaware corporation, with total assets valued at $4.8 billion and total liabilities of $5.9 billion. Ferguson was the Chief Financial Officer of Continental Holdings at the time. For a more detailed look at Continental's second bankruptcy, please see Stuart C. Gilson and Sam J. Karam, "Continental Airlines – 1992 (Abridged)," HBS Case No. 9-294-058, November 19, 1993.

[8] Southwest Airlines, launched with its original business plan drawn on the back of a napkin by co-founder Herb Kelleher, has become the model for running a commercial airlines successfully with a low fares, no frills strategy. One example is that Southwest does not serve meals on any of its flights, just peanuts. Anthony J. Mayo and Nohria, *In Their Time: The Greatest Business Leaders of the Twentieth Century* (Boston: Harvard Business School Press, 2005) pp. 233-234, and Kevin and Jackie Frieberg, *Nuts! Southwest Airlines' Crazy Recipe for Business and Personal Success* (New York: Broadway Books, 1996).

[9] Bethune (1998), p. 4.

[10] Brenneman, p. 12.

[11] Kanter, p. 230.

[12] Bethune (1998), p. 248.

[13] Bethune (1998), p. 250.

[14] Bethune (1998), p. 251.

[15] Bethune (1998), p. 253.

[16] Puris, p. 25.

[17] "…a Tiffany airline with one of the best service reputations in the industry." Reporter Tom Bearden quoted on *PBS NewsHour with Jim Lehrer*, March 19, 1998, available at www.pbs.org/newshour /bb/transportation/jan-june98/continental_3-19.html, accessed November 2005.

[18] Robert J. Serling, *Maverick* (New York: Doubleday & Co., 1974), p. 342.

[19] R. E. G. Davies, *Continental Airlines: The First Fifty Years, 1934-1984* (The Woodlands, TX: Pioneer Publications Inc., 1984), p. 9.

[20] Robert F. Six, *Continental Airlines: A Story of Growth* (New York: The Newcomen Society, 1959), p. 14.

[21] Serling, pp. 118-119.

[22] Kevin P. Helliker, "Two Years After Buying Continental Air, Texas Air's Chief Still Facing Resentment," *The Wall Street Journal*, September 8, 1983, p. 33.

[23] Six, p. 17.

[24] Six, pp. 18-19.

[25] Some things remained the same, however. Six authorized two major public offerings of shares in Continental Airlines stock in April 1969 and July 1972 to generate funds to enable the airline to pay for new supersonic jets and expand its ground facilities and hotels in the Asia-Pacific region in connection with the formation of Continental Micronesia in 1968. "Continental Airlines," in the Lehman Brothers Collection, Baker Library Historical Collections, Harvard Business School, available at http://quincy.hbs.edu:8080/lehman, accessed May 2006.

[26] At a November 12, 1984 Question and Answer session with Harvard Business School Advanced Management Program participants, Lorenzo explained the financial structure of the final deal that allowed Texas Air to merge with Continental: Texas Air created a wholly owned subsidiary, Texas International, with a net worth of $25-30 million, and Lorenzo used that leverage to acquire 50% of the outstanding shares of Continental stock. To acquire the other 50% of Continental, Texas Air paid $35 million. Two years after the deal was finalized, those 20 million shares of Continental were trading at $8 a share, making Lorenzo's investment worth $160 million. See "HBS Advanced Management Program Question and Answer Session, Frank Lorenzo, Continental Airlines," November 12, 1984, available at HBS Video Library, Boston, MA.

[27] Michael Murphy, *The Airline that Pride Almost Bought* (New York: Franklin Watts, 1986), p. 49. Texas Air was created by Lorenzo as a parent company to Texas International. Texas International was the new name for Trans-Texas-Airways, founded in 1968. In 1972, Lorenzo and his HBS classmate, Robert Carney, took over Texas International, with Lorenzo becoming President and CEO, Carney, Executive Vice President. Edmund Preston, "Frank Lorenzo," in *The Encyclopedia of American Business and Biography* (New York: A. Bruccloi, Clark Layman Group, 1992), p. 276.

[28] James Cook, "Lorenzo the Presumptuous," *Forbes,* October 1978, pp. 115-117.

[29] Eric Pace, "Both Sides Pledge Fight for Continental Air," *The New York Times*, April 25, 1981, p. 31.

[30] Roy J. Harris, "California Official Bars Continental Air from Issuing 51% of Stock to Employees," *The Wall Street Journal*, July 14, 1981, p. 7.

[31] Roy J. Harris, "Continental Air Chairman Found Dead in His Office, Apparently a Suicide," *The Wall Street Journal*, August 11, 1981, p. 6; Puris, p. 29.; Thomas Petzinger, Jr., *Hard Landing* (New York: Times Business Press, 1995), pp. 198-200.

[32] "Texas Air Bid Cleared by Reagan: Decision Ends Eight Month Fight for Continental," *The New York Times*, October 13, 1981, p. D1.

[33] Helliker, p. 33.

[34] Six worked closely with Feldman's replacement as President and CEO, George Warde. Warde served in both roles until September 1982, when Lorenzo created an Office of the President with Warde as one of four Vice Chairmen along with Richard Adams, Technical Operations; Phil Bakes, Finance and Legal; and Robert Galloway, Sales and Marketing. Warde was not officially replaced as Continental President until December 1, 1982, when Lorenzo appointed Stephen Wolf as President.

[35] The merger was officially approved by shareholders, and was structured in the following way: Texas Air Corporation, also called Texas Air, was incorporated in October 1982, as the parent company for Continental Airlines Corporation (CAC), also organized in October 1982. CAC had two subsidiaries – Continental Air Lines, Inc. (CAL) and Texas International Airlines Inc. (TXI).

[36] Kanter, p. 231.

[37] Lorenzo at November 12, 1984 Q&A with HBS AMP participants.

[38] Lorenzo took his cue from President Ronald Reagan, who, in fall 1981 replaced striking members of the Professional Air Traffic Controllers Organization, PATCO, with cheaper non-union workers, thereby breaking the power of that union and weakening the American union movement in the process. Soon after seizing control of Continental in 1981, Lorenzo took an aggressive stance in negotiations with two of its major employee unions, International Association of Machinists, IAM and the Air Lines Pilots Association, ALPA, demanding that Continental be given the latitude to hire non-union outside contractors. Rather than cave in to union demands, Lorenzo recognized that the new industry rules created after deregulation in 1978 offered Continental a chance to declare bankruptcy, then slash costs and employees as part of the corporate reorganization that would take place while in Chapter 11 protection. After experiencing shock after what Lorenzo did with the loophole in the bankruptcy laws, Congress promptly closed this loophole in 1984. For more on this subject, and Lorenzo's subsequent career in the airline industry, please see Aaron Bernstein, *Grounded: Frank Lorenzo and the Destruction of Eastern Airlines* (New York: Simon & Schuster, 1990) and Thomas Petzinger, Jr., *Hard Landing: The Epic Contest for Power and Profits that Plunged the Airlines into Chaos* (New York: Random House, 1995), pp. 34-48 and 95-114.

[39] "Aviation Safety Management: Continental Airlines – A Case Study," Report of the US House of Representatives Subcommittee of Government Operations, 98th Congress, Second Session, June 13 and 14, 1984 (Washington, DC: US Government Printing Office, 1984), p. 86.

[40] Martha Hamilton, "Lorenzo Asks for 29% Cut in Eastern Labor Costs," *Washington Post*, January 22, 1987;

[41] "We Only Want Our Fair Share, Frank," Letters to the Editor, *Business Week*, June 29, 1987.

[42] Petzinger, p. 335.

[43] Petzinger, p. 316.

[44] Petzinger, p. 390.

[45] Harris would later become CEO of Air Canada from 1993 to 1996, Cal Jet from 1998 to May 1999, and then CEO for World Jet before retiring. After Air Canada helped bail out Continental from bankruptcy in 1993, Harris represented Air Canada on Continental's Board of Directors. See Mark Clothier, "High Flier: Hollis Harris Has His Hand in the Air and His Feet on the Ground," *Georgia Tech Alumni Notes*, Fall 1999.

[46] Wendy Zellner, "This is Captain Ferguson, Please Hang on to Your Hats," *Business Week*, May 25, 1994, p. 54.

[47] Quote is from Zellner, "This is Captain Ferguson, Please Hang on to Your Hats," also cited in Charles O'Reilly and Jeffrey Pfeffer, "Southwest Airlines: Using Human Resources for Competitive Advantage (A)," Stanford University Graduate School of Business Case, HR-1A, 1995.

[48] Clark Onstad, a former General Counsel for the Federal Aviation Administration, described Ferguson's resignation as motivated by a lack of confidence from Bonderman and the Board. "He (Bonderman) chose Bethune over his longtime friend Ferguson because he thought Bethune would do a better job." Riva Atlas and Edward Wong, "Texas Pacific Goes Where Others Fear to Spend," *The New York Times*, August 25, 2002.

[49] Jennifer Lawrence, "Bethune Called to Rekindle Continental," *Advertising Age*, October 31, 1994, p. 4.

[50] "Braniff Sees Record Profit of $15 Million in Third Quarter; Plans to Buy 22 Boeing Jets," *The Wall Street Journal*, September 22, 1978, p. 6.

[51] Company history information available at www.braniffinternational.com, accessed in December 2005.

[52] "Braniff International Earnings Declined 21% In the Second Quarter," *The Wall Street Journal*, July 23, 1979, p. 8; "Braniff Had Loss of $51.4 Million for 4th Quarter," *The Wall Street Journal*, February 11, 1980, p. 14.

[53] "Braniff International Earnings Declined 21% In the Second Quarter," p.8.

[54] Bethune (1998), pp. 150-151.

[55] Bethune (1998), p. 264.

[56] Bethune (1998), p. 268.

[57] "Boeing 737-X Nears Go Ahead," *Aviation Week*, June 21, 1993, p. 30.

[58] "Continental Taps Boeing Executive to be Chief Operating Officer," *Aviation Daily*, January 31, 1994, p. 160.

[59] Brenneman, p. 4.

[60] Brenneman, p. 21.

[61] Bethune (1998), p. 21.

[62] Bethune (1998), p. 17.

[63] Bethune (1998), p. 17.

[64] John Kotter, in his 1990 book, *A Force for Change*, identifies three goals for leaders who hope to champion corporate turnarounds: (1) establishing direction, (2) aligning people and (3) motivating and inspiring. John P. Kotter, *A Force for Change: How Leadership Differs From Management* (New York: Free Press, 1990), p. 5.

[65] Bethune (1998), pp. 22-23.

[66] Brenneman, p. 4.

[67] Continental Airlines 10-K Filing with the Securities and Exchange Commission for 1994, pp. 3-4.

[68] Bethune (1998), p. 23.

[69] Bethune (1998), p. 47.

[70] "Continental Scraps 'Lite' Experiment, Takes Huge Loss," *Oklahoma City Journal Record*, April 14, 1995.

[71] Bethune (1998), p. 50; Thomas J. Neff and James M. Citrin, *Lessons from the Top: The 50 Most Successful Business Leaders in America – and What You Can Learn From Them* (New York: Currency Doubleday, 1999), p. 58.

[72] Bethune (1998), p. 63.

[73] *CEO Exchange: Mastering the Art of Corporate Reinvention*, WTTW—Chicago Video, 2000.

[74] Brenneman, p. 6.

[75] "Continental to Save $150 Million a Year with Further Capacity Cuts," *Airports*, January 3, 1995, p. 4; "Continental Plans 4,000 Job Cuts as It Clips Capacity," *Aviation Daily*, January 18, 1995, p. 85.

[76] Bethune (1998), pp. 84-85.

[77] Brenneman, p. 7.

[78] Jonathon Burton, "An Outsider in Continental's Cockpit? That's OK, He Knows How to Fly," *Chief Executive*, December 1995, p. 26.

[79] Gordon Bethune, *Continental Airlines: From Worst to First: The Remarkable Turnaround Story of an American Corporation* (New York: Newcomen Society of the United States, 1999), p. 13.

[80] Brenneman, p. 6.

[81] Bethune (1998), p. 101.

[82] Bethune (1998), p. 115.

[83] Bethune (1998), p. 114.

[84] Kanter, p. 231.

[85] Brenneman, p. 7.

[86] "Gordon Bethune, Chairman and Chief Executive Officer of Continental Airlines," *Aviation Week & Space Technology*, April 7, 1997, p. 11.

[87] Kanter, p. 234.

[88] *CEO Exchange: Mastering the Art of Corporate Reinvention*. Bethune has assimilated into his leadership style the five coaching traits that Tom Peters suggests leaders must have: educating, sponsoring, coaching, counseling and confronting. For new Continental employees, the Rodney Dangerfield video would have an educating purpose, orienting staff to the norms of the business culture, while it would serve as a coaching vehicle in dealing with existing employees. Counseling would be the heart to heart talk, confronting, a frank discussion about an employee's unacceptable performance and the negative repercussions if it continues. See Tom Peters, *A Passion for Excellence* (New York: Warner Books, 1985), especially pp. 398-446.

[89] *CEO Exchange: Mastering the Art of Corporate Reinvention*.

[90] Bethune (1998), p. 105.

[91] Brenneman, p. 11.

[92] Bethune (1998), pp. 36-37.

[93] Bethune (1998), p. 39.

[94] Bethune (1998), pp. 160-161.

[95] Bethune (1998), p. 141.

[96] Brenneman, p. 11.

[97] Burton, p. 26.

[98] "Acceptance Speech Given by Gordon M. Bethune, Outstanding Business Leader 1998," available at www.northwood.edu, accessed December 2005. Bethune elaborated upon this idea in a separate conversation. "I've worked for some good companies, like Piedmont and Boeing. And I've worked for companies like Braniff who overreached. But everywhere I have seen failures that were 100% attributable to the people element. The single biggest criterion for success as a leader is to recognize and openly appreciate your subordinates. They'll kill for you if you do that. But if you treat them like they're ciphers, they'll let you know in a hundred different ways why you shouldn't have done that." Neff & Citrin, p. 59.

[99] "Concorde Suit Could Cloud Bethune's Clear Skies," *Financial Times*, September 27, 2000, available at ft.com, accessed August 2003.

[100] Bruce Upbin, "Teaching an Airline to Fly," *Forbes*, December 15, 1997, p. 92.

[101] *Continental Airlines Annual Report for 1997*, p. 9.

[102] *Continental Airlines Annual Report for 2000*, p. 8.

[103] *Continental Airlines Annual Report for 2000*, p. 9.

[104] *Continental Airlines Annual Report for 2000*, p. 16.

[105] Bethune (1998), p. 232.

[106] Al Frank, "Continental Airlines' Gordon Bethune Faces His Biggest Challenge," *Newark Star Ledger*, October 26, 2001.

[107] "Continental Expects to Avert Over 1,000 Furloughs; Severance Costs Total Over $60 Million," *PR Newswire*, September 26, 2001.

[108] Ibid.

[109] Ibid.

[110] "Bush Signs Airline Bailout Package," *CNN*, September 23, 2001.

[111] "Continental Airlines Reports Fourth Quarter and Full Year Loss," *PR Newswire*, January 15, 2003.

[112] "Bethune Defiant as Continental Plugs Pensions Gap," *Airline Business*, October 2003, p. 12.

[113] Bill Hensel Jr., "A Hometown Inauguration: Changing Guard at Continental," *The Houston Chronicle*, December 26, 2004, p.1.