One.Tel and Management Shortfall

As published in the Australian Financial Review 14th of June 2001

By Jennifer Smokevitch Director, Roundtable Consulting Partners Pty Ltd

The One.Tel insolvency was hardly a surprise if we remember what One.Tel was - a high risk, start-up venture. In a highly competitive market saturated with global competition, its capital intensive global expansion plans were ambitious, and company leadership lacked a compelling track record.

These management issues were the most critical risk that should have been properly managed by stakeholders, but were not.

Management risk has to do with the uncertainty of whether management can execute a strategy to build a sustainable business. The most innovative, well crafted, and analytically robust strategies have no material value unless they can be successfully implemented.

Management risk is always a critical consideration as it is a key indicator of future performance. In a start-up situation such as One.Tel, where the main concern is to convert investor capital into a profitable business, it becomes mission critical.

Several aspects of management risk, or uncertainty, were ignored. The leadership's capabilities, given its prior record, were an obvious uncertainty. True, Jodee Rich's forte' was his ability to create and sell a compelling vision. But his previous failed venture provided ample evidence of his inability to execute.

The rest of the management team's experience fell into two specific areas, marketing and accounting, when what was needed was broader management experience.

What's more, One.Tel's competitive advantage and future value were dependent upon many intangible elements, and intangible assets are tricky to manage in the best of times. Intangibles that One.Tel promoted as critical to advancing its plan were its brand, its customer base, and excellent service.

One.Tel's balance sheet showed intangibles valued at $560 million by year-end, representing 39% of assets. This ratio alone should have triggered alarms.

Its annual report speaks of key performance indicators. But these are typically operational in nature. Clearly, such a significant, strategic portion of a company's assets would require active strategic oversight.

Go back to 1999. What could have been done to mitigate management risk and vastly improve its prospects?

Because leadership is everything in a start-up venture, One.Tel should have appointed a more balanced, experienced and execution oriented team to complement Rich's strengths.

The intangible factors critical to One.Tel had many interdependencies, which should have been identified, understood, and measured strategically. Management, directors, and investors could then have detected any early poor performance, and determined if the strategic plan was becoming a reality. It would have provided time to take appropriate action or modify assumptions before the problem escalated.

One.Tel's insolvency resulted from complex and intertwined factors. But failure to manage these factors was a major contributor to its insolvency. It was also a primary reason why it was not earlier anticipated and not forestalled.

If the One.Tel debacle taught us anything, it's that controlling management uncertainties is so crucial.

roundtable CONSULTING ™