



The reappraisal of Edward Liddy

Allstate turnaround boosts CEO's stock, but growth issue still unresolved

By Steve Daniels
May 02, 2005

If a chorus of denunciation from angry agents at Allstate Corp.'s 2002 annual meeting bothered Edward M. Liddy, he didn't let it show.

But the CEO was used to that kind of treatment in those days. Agents were suing the company. Managers were reeling from his moves to shake up Allstate's hidebound hierarchy. Investors were unhappy with shrinking profits, a falling share price and the failure of Mr. Liddy's growth initiatives.

It was a test of mettle for a man whose ascent had been aided by the likes of Donald Rumsfeld and former Sears, Roebuck and Co. CEO Edward Brennan. Mr. Liddy refused to yield, and today the agents are vanquished, profits are up and Allstate shares have climbed 60% in three years.

"It took some guts to do it," says Mr. Brennan, an Allstate director.

Still, Mr. Liddy hasn't solved the vexing growth issue. Allstate operates mainly in the slow-growing property-casualty insurance business, and his new ventures in banking, mutual funds and other financial services have yet to bear fruit. The Northbrook company remains the nation's No. 2 auto insurer, behind State Farm Insurance Cos. of Bloomington, and its marketshare has slipped slightly in the last three years.

If moves into financial products eventually improve growth, Mr. Liddy may no longer be around to take credit. Now 59, he's expected to turn over the CEO job to heir apparent Thomas Wilson in the next few years.

Today, Mr. Liddy can take credit for boosting efficiency and profitability at Allstate, the Chicago area's fifth-largest publicly traded company, with a market capitalization of nearly \$37 billion. Since he became CEO in 1999, Allstate shares have risen 40%, compared with a 4% decline for the Standard & Poor's 500 Index and a 22% rise for the S&P Financial Index.

The first outsider to lead 74-year-old Allstate, he confronted an organization steeped in militaristic customs that reflected a penchant for recruiting former military officers. Until the early 1980s, management meetings often ended with choruses of "Anchors Aweigh" and the theme songs of other service branches.

In such a culture, process and procedure were supreme, as was deference to rank and authority. Outsiders were rare, and it took decades to earn the coveted title "Allstater."

Mr. Liddy gave that culture a jolt in his first managerial meeting in late 1998, shortly before formally assuming the CEO job. "A number of you in this room probably will not be with us next year," he told the gathering of 200 top managers.

Such talk was startling at a company that considered frankness impolite, says Allstate Vice-president Robert Pike, a 33-year company veteran. At the next year's meeting, about 10% of the group was gone. Today, half of Allstate's senior leadership is from outside the company. "Ed's gone about dismantling that bureaucracy," says W. James Farrell, CEO of Glenview-based Illinois Tool Works Inc. and an Allstate director.

SOPHISTICATED APPROACH

Along with cutting red tape and taking away cherished perks like a corporate helicopter, Mr. Liddy brought a more sophisticated approach to an insurance business characterized by cycles of brutal price competition, surges in claims and volatile investment returns. He oversaw the development of a risk-based rate-setting mechanism that enables Allstate to offer better rates to drivers who are less accident-prone while charging others enough to cover claim payments.

Before joining Allstate as chief operating officer in 1994 shortly after its spinoff from Sears, Mr. Liddy was best known as the executive who jettisoned the legendary Sears Catalog. As chief financial officer at Sears under then-CEO Mr. Brennan, he helped manage the breakup of Sears' financial empire, which included Allstate, stock brokerage Dean Witter, real estate broker Coldwell Banker and credit card issuer Discover Financial.

Mr. Liddy arrived in Chicago in 1981 to take a job at pharmaceutical company G. D. Searle & Co., then led by Mr. Rumsfeld, now U.S. secretary of defense, who was a Sears board member at the time of the breakup. Mr. Liddy eventually became Searle's CFO.

A New Jersey native who spent his high school years in Florida, Mr. Liddy's roots are middle-class. His father, a furniture buyer, died of cancer when Mr. Liddy was 12. A three-sport athlete in high school, he played basketball for two years at Catholic University of America in Washington, D.C., where he aspired to be a diplomat.

A minor in economics sparked an interest in business, and he got an MBA from George Washington University, also in D.C. His first job was as a financial analyst for Ford Motor Co. in Michigan.

"No one will confuse Catholic University and George Washington with Harvard and Yale," Mr. Liddy says wryly of his lack of pedigree.

With blue eyes made more intense by his bright white hair, Mr. Liddy doesn't raise his voice or slap backs. He prizes data and preparation; executives are expected to scour 3-inch-thick briefing books before meetings and are kept honest by the knowledge that Mr. Liddy reads them, too. He also encourages constructive disagreement.

TOUGHNESS UNDERNEATH

He thoroughly analyzes decisions, even long after they're made. Mr. Wilson, 47, who worked with Mr. Liddy at Sears and now heads Allstate's property and casualty operations, recalls the \$850-million deal the two managed at Sears to refinance the Sears Tower in 1994.

"Every year for the next five years, Ed would say to me, 'Did you think we did the right thing on Sears Tower?'" Mr. Wilson recalls.

Jim Fish can testify to the toughness underneath Mr. Liddy's mild demeanor. A 28-year Allstate agent who ran the largest agency in Wisconsin, Mr. Fish led the agent insurgency after Allstate forced 6,400 employee agents in 2000 to become independent contractors, giving up pension and health care benefits.

Mr. Fish confronted Mr. Liddy at the 2002 annual meeting about a failed overseas expansion and a disappointing effort to sell directly through toll-free call centers and the Internet. Mr. Liddy eyed Mr. Fish impassively and replied: "We wish everything we tried worked and worked well. Not everything you try can be perfect at the outset."

One month later, Allstate terminated Mr. Fish's contract, citing "failure to maintain a professional relationship" with the company. "I miss my agency," Mr. Fish says now, retired at 56 in Mississippi. "Twenty-eight years of your life, it's hard to let go."

Soon thereafter the agents' lawsuit against the company, over forcing them to become contractors and their effort to unionize, collapsed after setbacks in the courts and federal government. Mr. Liddy betrays no satisfaction over the triumph, saying only "in any sample of 13,000 people, there are people who don't like what you do."

Plenty of people like what Mr. Liddy does now. He's a sought-after speaker on corporate turnarounds, holds a coveted board seat at Goldman Sachs Group Inc. and is chairman of Northwestern Memorial HealthCare.

"This is a guy who's on top of the food chain," says executive recruiter Peter Crist of Crist Associates in Hinsdale.

©2005 by Crain Communications Inc.
