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CULTURE IS NOT THE

WHEN ORGANIZATIONS ARE IN CRISIS, IT'S USUALLY BECAUSE THE BUSINESS IS BROKEN.

BY JAY W. LORSCH AND EMILY MCTAGUE

CULPRIT

When organizations get into big trouble, fixing the culture is usually the prescription. That's what most everyone said General Motors needed to do after its recall crisis in 2014—and ever since, CEO Mary Barra has been focusing on creating "the right environment" to promote accountability and head off future disasters. Pundits far and wide called for the same remedy when it came to light that the U.S. Department of Veterans Affairs, deemed a corrosive bureaucracy by federal investigators, kept veterans waiting months for critical health care. Cultural reform has likewise been proposed as the solution to excessive use of force by police departments, unethical behavior in banks, and just about any other major organizational problem you can think of. All eyes are on culture as the cause and the cure.

But the corporate leaders we have interviewed—current and former CEOs who have successfully led major transformations—say that culture isn't something you "fix." Rather, in their experience, cultural change is what you get after you've put new processes or structures in place to tackle tough business challenges like reworking an outdated strategy or business model. The culture evolves as you do that important work.

Though this runs counter to the going wisdom about how to turn things around at GM, the VA, and elsewhere, it makes intuitive sense to look at culture as an outcome—not a cause or a fix. Organizations are complex systems with many ripple effects. Reworking fundamental practices will inevitably lead to some new values and behaviors. Employees may start seeing their contributions to society in a whole new light. This is what happened at Ecolab when CEO Doug Baker pushed decisions down to the front lines to strengthen customer relationships. Or people might become less adversarial toward senior executives—as Northwest employees did after Delta CEO Richard Anderson acquired the airline and got workers on board by meeting their day-to-day needs.

The leaders we spoke with took different approaches for different ends. For example, Alan Mulally worked to break down barriers between units at Ford, whereas Dan Vasella did a fair amount of decentralizing to unleash creative energy at Novartis. But in every case, when the leaders used tools such as decision rights, performance measurement, and reward systems to address their particular business challenges, organizational culture evolved in interesting ways as a result, reinforcing the new direction.

Revisiting their stories provides a richer understanding of corporate transformation and culture's role in it, so we share highlights from our conversations here. Most of these stories involve some aspect of merger integration, one of the most difficult transitions for companies to manage. And they all show, in a range of settings, that culture isn't a final destination. It morphs right along with the company's competitive environment and objectives. It's really more of a temporary landing place—where the organization should be at that moment, if the right management levers have been pulled.

DOUG BAKER

Doug Baker took over as the CEO of Ecolab, an industrial-cleaning-products company, in 2004. At the time company revenue was $4 billion, and he set out to triple that figure, a highly audacious goal. By 2014 he had completed some 50 acquisitions, most notably buying Nalco, a water treatment company based in Naperville, Illinois. Sales had grown to $14 billion, and the workforce had more than doubled.

The acquisitions allowed Ecolab to offer a more diverse set of products and services—essentially one-stop shopping—for its customers' cleaning needs. But as it absorbed each new entity, complexity grew. Organizational layers multiplied, and managers became siloed into different offices and units. Key decision makers spent less time

Business Challenge:
Staying connected with customers while tripling in size

Levers Pulled:
Encouraged more frontline decision making and instituted a more meritocratic reward system

Cultural Change:
Shift from father-knows-best management to a collaborative and independent workforce

DOUG BAKER

CEO OF ECOLAB

BUSINESS CHALLENGE: QUICK INTEGRATION OF A GIANT ACQUISITION DURING A DOWNTURN
LEVERS PULLED: SHARED EXECUTIVE POWER, BUILT MORE-DIRECT RELATIONSHIPS WITH EMPLOYEES, AND FOCUSED ON ACCOMMODATING THEIR WORKPLACE DEVELOPMENT AND COMPENSATION NEEDS
CULTURAL CHANGE: SHIFT FROM ADVERSARIAL MANAGEMENT-EMPLOYEE RELATIONSHIP TO MUTUAL LOYALTY AND TRUST

RICHARD ANDERSON

CEO OF DELTA

interacting with customers and with one another. The expanding bureaucracy was eating into Ecolab's customer-centric culture, and that was hurting the business.

Baker wanted to restore customer focus as a core strength at Ecolab. The company's model was to provide on-site evaluations and training for customers and build them customized portfolios of products and services based on those visits. Many of its clients had worked with the company for years, and it was essential to maintain those strong relationships.

The answer, Baker believed, was to encourage more decision making on the front lines, by carefully training the employees who were closest to customers. The more they learned about all the products and services the company provided, the better equipped they would be to figure out on their own which solutions fit customers' needs.

It may seem risky to push decisions down, but Baker found that the bad calls were caught and fixed faster that way. Eventually, managers began to let go and trust their employees—which was a huge cultural shift. It took time to train employees, and it required constant tweaking and reevaluation as customer preferences and business dynamics changed. But ultimately fostering frontline responsibility allowed Ecolab to stay connected with its customers.

Baker also emphasized the importance of meritocracy in motivating employees to carry out business goals. "People watch who gets promoted," he says. Advancement and other rewards were used to signal the kind of behavior that was valued at the company. Baker found that public acknowledgment mattered even more than financial incentives over time. "What do you call people out for, what do you celebrate, how do people get recognized by their peers? The bonus check is not unimportant, but it is silent and it's not public," he points out. Kudos went to managers who delegated decisions to customer-facing employees and encouraged them to take the lead when they showed initiative.

This was especially critical at the smaller organizations Ecolab acquired. They included a number of private companies that had a "father knows best" style of management: The founders issued the orders, and people followed them. Although that could work in small organizations, it hindered growth and made it difficult to collaborate across divisions at Ecolab.

As frontline employees were rewarded for owning customer relationships and coordinating with one another, a culture of autonomy emerged. (This also freed up senior management time, allowing executives to focus on broader issues.) Once people throughout the ranks felt trusted, they in turn trusted the company more and began to view their work and their mission—to make the world cleaner, safer, and healthier—as real contributions to society. And in their enhanced roles, they could see firsthand how they were making customers' lives better. This shift took time, though, because the process had to happen again and again with each acquisition.

"When we buy businesses, they're not going to love the new company right away," Baker says. "Love takes a while."

RICHARD ANDERSON

Soon after he became Delta's CEO, Richard Anderson oversaw the 2008 acquisition of Northwest, which created the world's largest carrier, with approximately 70,000 employees. At the time, both airlines were emerging from bankruptcy protection and entering a major downturn in air travel.

Unlike Baker, who didn't rush postmerger integration, Anderson felt that this acquisition demanded speed and force. He didn't have the time or inclination to do any wooing. "There's no such thing as a merger of equals," he says. "We called all the shots here. It was going to be based in Atlanta; it was going to be called Delta; there was going to be no joint branding. It was pretty dictatorial."

To quickly integrate systems, processes, and people in a hugely complex industry, Anderson had to empower those around him to lead. He firmly believes in having a nonexecutive chairman, who oversees board agendas and processes, and a separate president, who independently manages deals. "The president and I carry the same cachet," Anderson says, "so we can get twice as much done. He can go run the Virgin Atlantic transaction while I'm in China trying to work a deal with our two Chinese partners." Anderson has also delegated a lot of responsibility to his chief operating officer and chief marketing officer.

Because Anderson had previously served as Northwest's CEO for three and a half years, he had an insider's view of the company—and he knew about a major obstacle he would encounter there. Northwest was highly unionized, which in his view set up an adversarial dynamic between employees and management. It also made communication between the two groups difficult. Management relied on unions to learn about employee needs as opposed to interacting with workers directly. With both management and employees going through a third party, it took longer to address issues.

That's why a critical part of this quick integration—once Anderson had clearly laid out that Delta was running the show—was to build strong relationships with employees. So he looked for ways to satisfy them and motivate them to serve the company and its customers. He decided to focus on meeting their needs both on the job and personally. Delta offered employees first-rate training, flexible scheduling, well-maintained airplanes with world-class equipment, and good crew hotels. Those things were relatively inexpensive, especially compared with fuel—and they paid off handsomely in loyalty and trust.

Compensating people well made a difference, too—it motivated them to perform. "You want them to be very productive and work very hard and do everything right," Anderson says, "but in return you want to provide a really good benefit system and a very good pay system." Each year Delta earmarked 10% of its earnings before taxes and management compensation for employee bonuses. One year after the merger, the airline put 15% of the company's equity into a stock-ownership plan for pilots, flight crews, and ground and support staff. The higher compensation demonstrated that management cared about its people, further feeding the culture of trust.

He also recognized that each employee had specific needs. Take the equipment service workers on the second shift. "It's 10 below zero outside in Minneapolis this morning, with a blizzard, and they've got to get their job done," Anderson says. "They've got to get up in the deicing bucket and get that airplane deiced and get off the gate."

The bets that Anderson placed on meeting employee needs seem to have reversed the troubling "us versus management" dynamic. Two years after he took over as CEO, workers voted to get rid of unions (except for pilots, who gain industry influence from being in a union because it puts them on par with their peers at other airlines). Today Delta is the only major airline outside the Middle East that remains largely nonunionized.

The happier workers are, the longer they want to stay. So the company's "lifer" culture has grown even stronger, which Anderson sees as a good thing. "We have a lot of 40- or 45-year employees in this company, and they may be second or third generation," he says. "But we don't have a nepotism rule, because I want generations of the same family working here." His philosophy is that having relatives of employees join Delta tends to increase loyalty all around. Those hires come in with a certain understanding and a positive view of how the company operates.

ALAN MULALLY

When Alan Mulally took the helm at Ford, in 2006, the company was on the brink of bankruptcy and had lost nearly 25% of its market share since 1990. But, having managed Boeing through a rough downturn, he knew how to make tough calls and act decisively during a crisis. At his first financial meeting at Ford, he realized that the company was just months away from running out of cash. Mulally reversed the firm's course: By the time he left, in 2014, Ford had been reporting profits for five years, and the stock price had jumped significantly.

The challenge he faced wasn't just financial, though. To set the company straight, he had to get the management team working more collaboratively. It was notorious for being cutthroat and aggressive. Executives from different units hid information from one another instead of sharing it. Mulally says that Ford was like a "bunch of separate companies" when he took over. Each unit made different cars, targeted different markets, and operated independently—all of which reinforced the defensive "turf" mentality and generated enormous waste.

Drawing on his experience at Boeing, Mulally instituted regular meetings where several levels of executives gathered to share updates on their units. They used a color-coded system (green for good, yellow for caution, and red for trouble) to assess Ford's overall performance on a variety of initiatives quickly and holistically.

At the peak of the company's problems, the group met daily. Mulally hoped the meetings would help identify issues before they became intractable and encourage executives to share ideas and support one

JOCK FISTICK/GETTY IMAGES

alan mulally

FORMER CEO OF FORD

Business Challenge:
Bringing a global manufacturer back from the brink of bankruptcy

Levers Pulled:
Increased transparency among unit heads and streamlined business processes

Cultural Change:
Shift from defensive and disparate to cooperative and connected business units

DAN VASELLA

FORMER CEO OF NOVARTIS

BUSINESS CHALLENGE: MANAGING A MORE DIVERSE PORTFOLIO OF PRODUCTS AND CUSTOMERS LEVERS PULLED: ARTICULATED A CLEAR VISION, GOALS, AND EXPECTATIONS, AND DECENTRALIZED DECISION MAKING CULTURAL CHANGE: SHIFT FROM NARROWLY FOCUSED AND BUREAUCRATIC TO A CUSTOMER-CENTRIC AND PERFORMANCE-MINDED ORGANIZATION another. He also wanted to foster personal accountability; managers had to explain the problems they had and the headway they were making.

Mulally also launched "One Ford," a strategy to integrate Ford units around the world so that the company could eliminate waste and streamline processes. He created global heads for manufacturing, marketing, and product development to lead collaboration internationally and simplify operations.

With all executives working openly, as a team, Mulally could more easily identify low-performing brands. He sold off several of Ford's luxury vehicle brands to focus on the production of smaller, energy-efficient vehicles, including the Fiesta and the Focus, which had potential to expand. Ford returned to its original mission of producing quality cars for the masses.

At the beginning, executives were afraid to speak up about problems—they worried that their colleagues would pounce on any sign of vulnerability. In the first several meetings, all the charts were green, but Mulally pushed back: "We lost billions last year, and you're telling me that there is not a problem?" Eventually, a few brave executives started speaking up, and he praised them for their transparency. (One of them was Mark Fields, who would succeed Mulally as CEO.) In time people realized that being honest allowed them to work together and find solutions more quickly, and their charts reflected what was really happening in their units.

DAN VASELLA

After Dan Vasella orchestrated the merger between Sandoz and Ciba-Geigy, in 1996, he was named chief executive of the combined company, Novartis. It eventually became the largest producer of pharmaceuticals in the world.

To meet a broader range of customer needs—and better insulate the company—Vasella led the shift from a prescription-drug-based business to a diversified portfolio of health care products. This major transformation required a much more complex organization.

For Vasella, leading change started with a clear sense of purpose at the top. He had a series of early discussions with a small group of senior managers to establish the company's vision and objectives. The chief goal—"to discover, develop, and bring to patients better medicines again and again"—spoke directly to the challenge of broadening the company's offerings. To achieve it, Vasella increased spending on research and development during his tenure.

In those meetings, he also clearly spelled out his expectations for employees. They needed to be flexible, for one thing. As a growing company developing new medicines, Novartis would face challenges no one could anticipate, and the team would have to roll with whatever issues came up. And employees had to be accountable and act in the customers' interests.

To that end, Vasella set up clear metrics for gauging performance and ensuring quality across the company's increasingly diverse units and product groups. As Novartis grew, he knew, more people would need to take charge, and a good performance management system would help keep employees focused on the right things. "You also have to make it clear what you won't tolerate," he says. "I will not tolerate bribing. I will not tolerate bad stories internally."

Vasella believed that collaboration and alignment across divisions should not be forced in a growing company, so he decentralized decision making to empower people to do what was best for their own units. He felt that this allowed teams to move faster and to think and act more creatively. "My view was to focus on the outside—on the competition and the customers," he says. "Don't get inhibited or slow down because of concerns about whether you're behaving in a collaborative way with people you don't need to collaborate with for your results."

As the new practices were implemented, Novartis employees became more customer-centric and performance-minded at the same time. "First you have to deliver to your customers what they hope for [better medicines and vaccines]," Vasella says, "and then you can ask for a return for what you deliver." With each organizational change he made, he realized that the company's culture was starting to match the vision he'd outlined in his early meetings with senior executives.

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