Grow Culture in Bad Weather

When the going gets tough, savvy leaders invest in their company's culture to ramp up performance.

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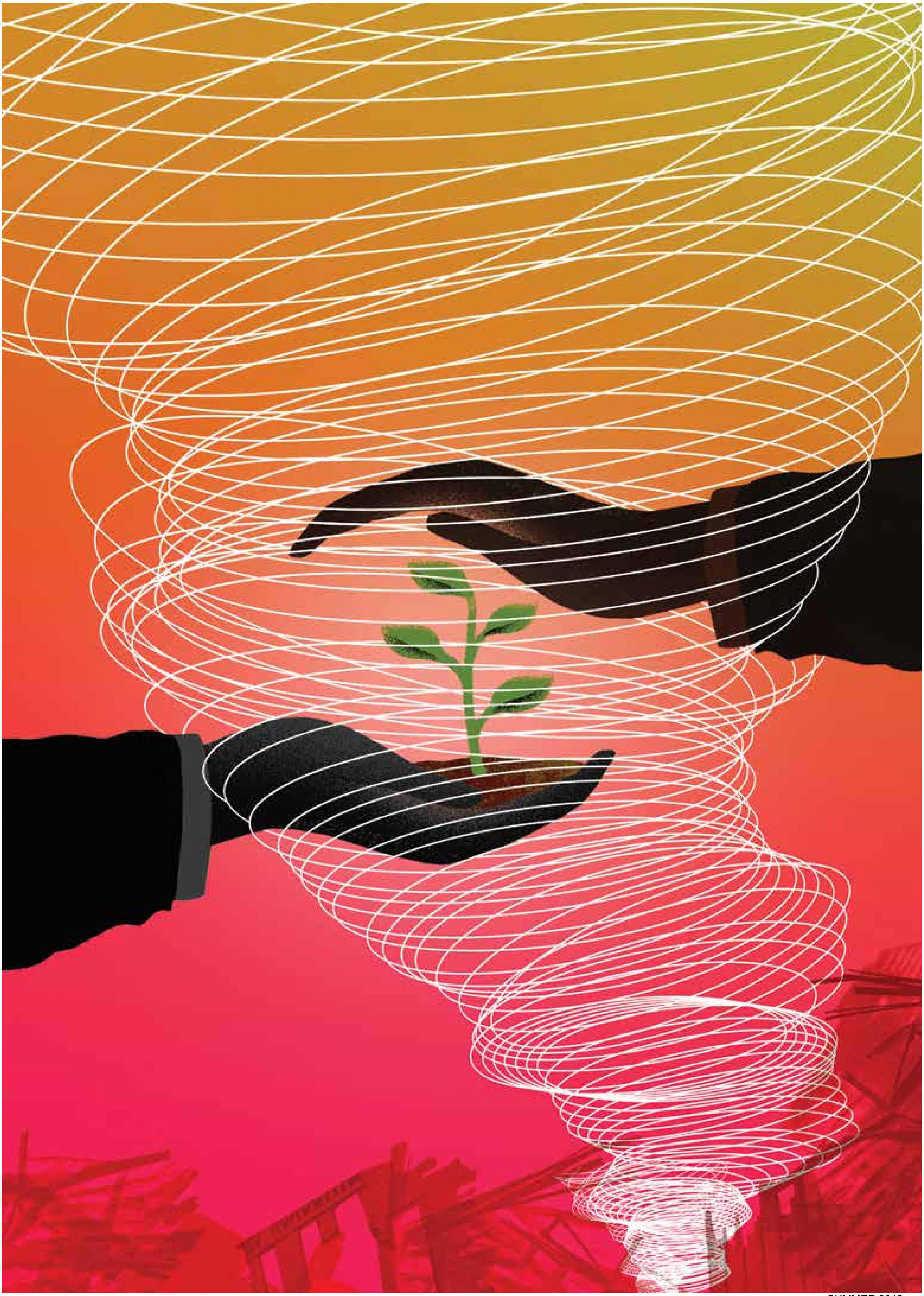
ILLUSTRATION BY BRIAN STAUFFER



An unhappy client is always a problem.

But when your client is the U.S. military and believes your company's services may endanger the lives of fighter pilots—well, that is a big problem.

That was the scenario Bill Fitzgerald faced as a senior executive at Control Data Corp. When he arrived at the company's U.S. Government Systems division in the mid-1980s, he found that the sophisticated computers it built for the military's F/A-18 fighter jet had a calculated mean time between failure (MTBF) rate of 25 hours. That risk of failure was far too high—and it put Control Data in danger of losing a contract worth hundreds of millions of dollars, possibly sinking the whole company. Having just restructured to try to restore profits after years of losses, the company could ill afford to lose this Pentagon contract.

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But fixing the problem would not be simple. Mr. Fitzgerald knew that these computer product issues were indicative of Control Data's much larger culture issues. And so, even as a major account hung precariously by a thread, he invested in a three-year effort to transform the entire U.S. Government Systems division and its 1,800 employees. Mr. Fitzgerald made safety, quality and protocols the division's new sacred values, while deputizing every employee, no matter their rank, to help apply these new standards.

Mr. Fitzgerald proudly recalls an assembly worker who politely but firmly reprimanded a two-star admiral for crossing a yellow safety line during a tour. "The culture change empowered people to take a stand, which empowered a habit change," he says.

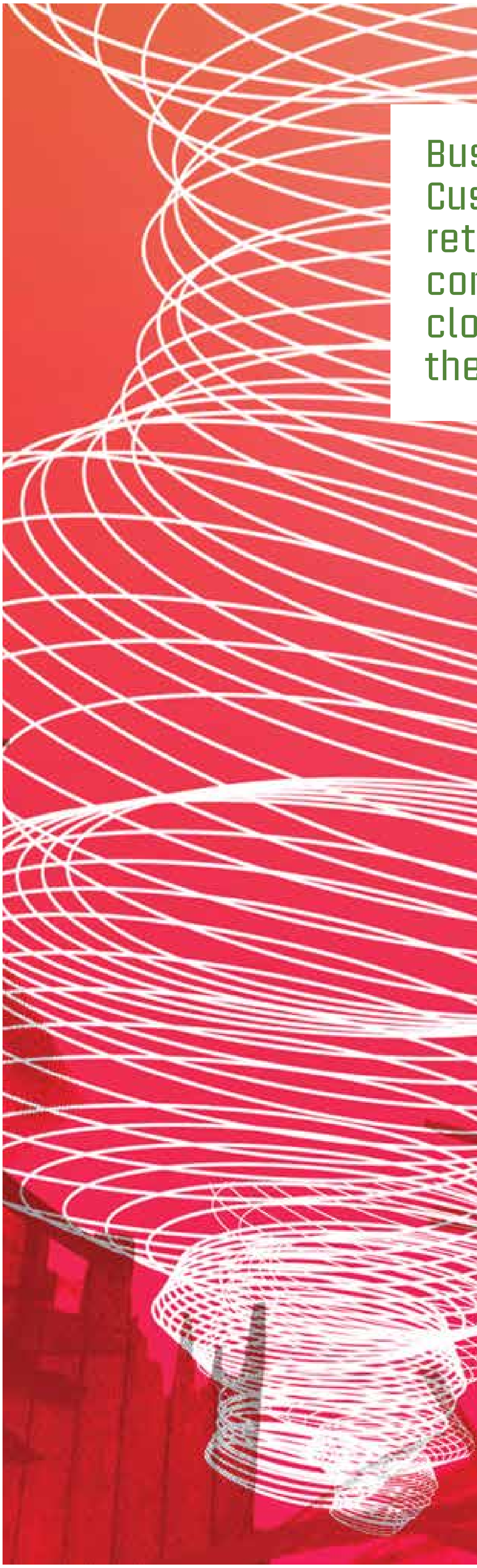
The push for culture change may have had its risks, but it paid off. By 1995, the company's F/A-18 computers had improved exponentially. Their MTBF rate rose to 2,500 hours. The U.S. Government Systems division went from problem child to star student, raking in profits and winning rave reviews from its government clients.

Mr. Fitzgerald ultimately understood a critical but sometimes counterintuitive rule of running a business during a crisis. When the going gets tough, successful companies resist the impulse to merely trim costs by cutting resources, talent and opportunities. Instead, they get to the root of the problem and invest in their core: people and culture.

The paradox is that while it is obviously easier to make these investments when revenues and profits are increasing, they are often most essential when the going gets tough. A great culture is the bedrock. It enables employees to do their best work. Without it, an organization will not be able to climb out of a crisis.

Take the Blinders Off

By committing to culture during a crisis, whether triggered by an economic downturn or internal missteps, an organization can boldly reject what we refer to as corporate myopia. During a crisis, business leaders can become easily distracted by cratering sales figures or falling stock prices, often believing that their only option out of the mess is to slash costs and services. But this reaction is short-sighted—and potentially fatal. It blinds them and their organization to long-term opportunities and future value.



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In reality, business is cyclical. Customers usually return, and when they do, companies that cut too close to the bone in reaction to a momentary emergency will find themselves flat-footed. Those that failed to invest in their people and culture during the lean times will be completely out of position when the good times return. Engaged and empowered employees always better serve your customers in the long run. By making workers feel more valued and secure, business leaders can much more easily make up for lost ground when the crisis is over.

Aircraft manufacturing executive Bill Boisture knows what it is like to make a counterintuitive decision. When he stepped into Hawker Beechcraft's chairman and CEO role in 2009, the economic crash had hit the corporate jet business particularly hard. Business customers looking to tighten belts quickly backed away from plans to purchase new jets. And after a few prominent auto executives famously took their own personal jets to Washington, D.C., to ask for bailout money, the private aircraft became the moment's maligned symbol of excess. Suddenly, Hawker Beechcraft's market had shrunk an estimated 40%, leaving the highly leveraged company facing a crushing debt load.

At the time, it felt like the world was ending for Hawker Beechcraft. The company was forced to make difficult decisions, including laying off thousands of employees, shutting down unproductive product lines and declaring Chapter 11 bankruptcy. The company's leadership made the strategic decision to focus on the strong turboprop line, abandoning efforts to develop and manufacture jets. But Mr. Boisture also took the initiative to strengthen the culture of the company prior to and during the bankruptcy.

He knew that the senior managers and skilled workers who remained at the company—already stressed by recent events—needed to be engaged. It would be the only way that Hawker Beechcraft could meet the needs of new and existing customers. Having made it through some very tough years together, Mr. Boisture worked to build a culture of trust through transparency. He ran a combination of large and small meetings with employees to keep them updated on the company's progress. The initial meetings included key leaders because, as Mr. Boisture said, "we wanted them to buy in first, then talk to the people in their groups."

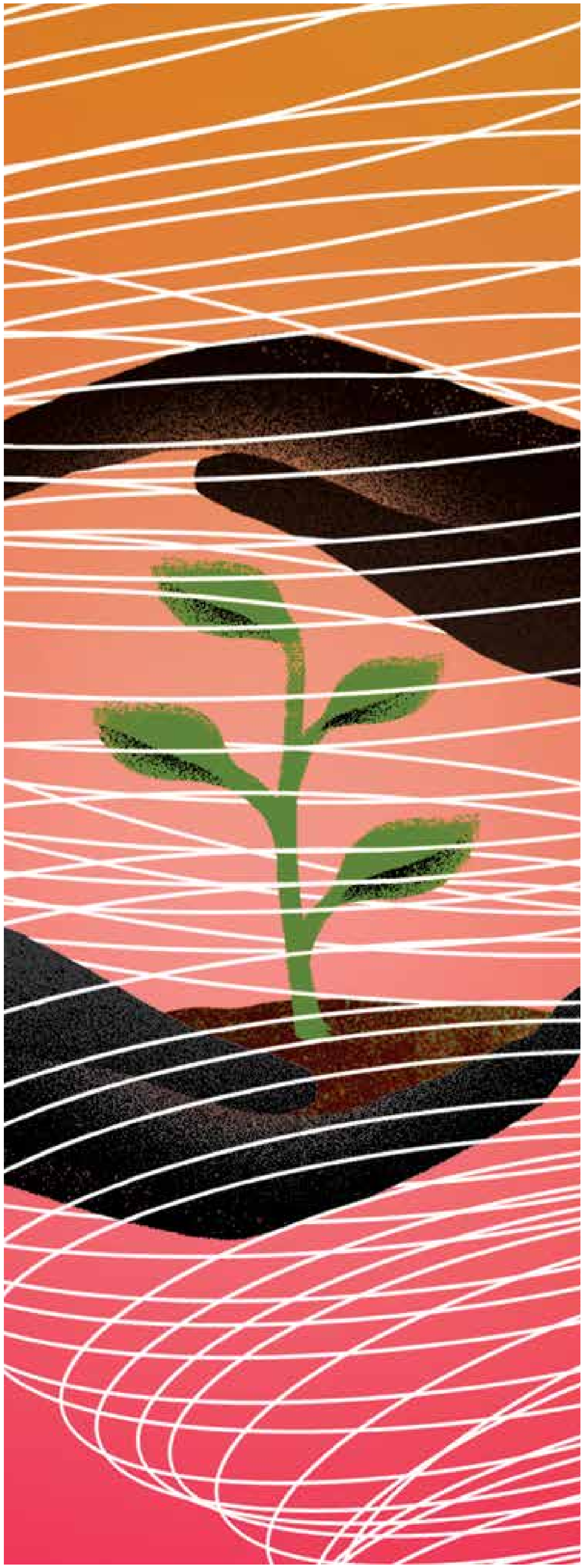
By helping employees regain confidence that the business would survive the prolonged downturn, Mr. Boisture led Beechcraft through a successful reorganization. In early 2014, Textron, the parent company of Cessna, bought Beechcraft for $1.4 billion. Mr. Boisture attributes the strong sale price largely to the emphasis on culture that took place during the recession's darkest days.

Don't Skimp on the Soft Stuff

"The soft stuff is the hard stuff," former GE CEO Jack Welch once said. We agree: So-called soft areas like leadership capabilities and corporate culture are extremely difficult to build. They must be carefully cultivated—and then zealously protected from myopic cost-cutting efforts when the next crisis arrives.

Most importantly, investing in leadership development does not mean sending employees to a few feel-good half-day seminars. Effective change only comes through focused conversations about the skills teams need to master to drive real results—and then holding people accountable for building those competencies quickly. This is especially true when a company is not faring well. Investing in people must become a key strategic effort.

Satya Nadella understands the power of culture. When he took over as CEO of Microsoft in 2014, the company was



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struggling in Apple's shadow. It had a long-standing culture of competition, which created divisions across the org chart and prevented employees from thinking creatively and taking risks. Mr. Nadella realized he had to fix Microsoft's culture if he had any hope of boosting its bottom line. So he set to work giving the company a new north star, declaring in mid-2014 that Microsoft existed to "empower every person and every organization on the planet to achieve more."

Where Bill Gates famously wanted to put "a computer on every desk," Mr. Nadella wanted to turn what was once the world's preeminent product company into a people company. To make this shift a reality, he had to develop a growth mindset in the workforce—the idea that the true mark of success is the ability to learn, rather than fixed traits like intelligence and talent. Mr. Nadella championed a collaborative culture dedicated to learning and reinvention. Suddenly, inspirational quotes about welcoming new ideas and fostering curiosity started popping up in the company's Redmond, Washington headquarters.

"We went from a culture of know-it-alls to a culture of learn-it-alls," Chris Capossela, Microsoft's chief marketing officer, said in a Quartz article published in February. "Everything we do now is rooted in a growth mindset." Today, the company that led the PC revolution has become a cloud-based enterprise software company. Microsoft's share price has tripled since Mr. Nadella's arrival, and the company's market cap is neck-and-neck with that of Apple.

Microsoft's transformation was the same significant shift in culture that fueled Control Data's transformation decades earlier. It was not the bottom line that engineered this major performance turnaround—it was a change in culture.

A culture change can produce such significant results because it unhooks an organization and its employees from the very assumptions, habits and behaviors that have been weighing it down all along. This corporate gravity conscribes people and companies to antiquated ideas and well-trodden paths. At the root often sits a vestigial culture from a company's earlier days before current challenges and strategic imperatives emerged.

We recognize that making strategic commitments to build a certain culture, and investing time and money to support them, can feel superfluous when an organization is struggling. But think of it this way: You're searching for any advantage to help your company claw its way back. Your biggest point of differentiation is your people—they're not "nice-to-haves," they're absolutely necessary. Your attention to culture during times of trouble is too. **IQ**

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