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You Can't Order Change

Lessons From Jim McNerney's Turnaround at Boeing

THE SUMMARY IN BRIEF

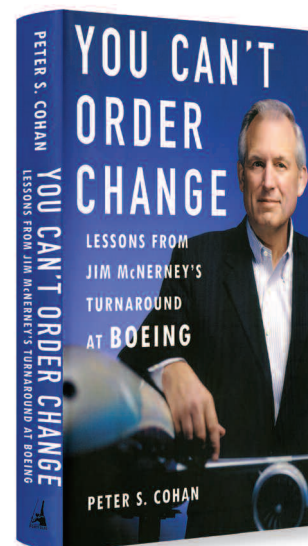
Boeing, the legendary aerospace giant, was on the fast track to doom, facing investigations into suspicious business practices. Meanwhile, sex scandals had led to embarrassing headlines, revenue was down, the stock was tanking, the workplace had grown toxic and key staffers were jumping ship.

Jim McNerney, head of 3M, and formerly one of Jack Welch's top protégés at General Electric, was asked to pull off a seemingly impossible turnaround. The fate of more than 150,000 employees rested on his leadership skills and business acumen.

You Can't Order Change is the story of how McNerney became Boeing's CEO and met the challenge with his consensus-driven leadership style. McNerney is smart about motivating people; crafting business strategies that spark profitable growth; and making operations more productive, efficient and effective. But most important, he is a genius at creating harmony within communities. *You Can't Order Change* reveals McNerney's approach to accountability, growth, cost cutting, leadership development, customer focus, new technology and other universal challenges.

IN THIS SUMMARY, YOU WILL LEARN:

- How to unlock individual achievement in each employee, and identify and develop leaders.
- How to set goals and implement strategies that help groups work together for the greater corporate good.
- Why you should link pay to profit and process rather than stock price.
- How to engage engineers so they are motivated to meet the needs of customers.
- Why organic growth is better than growth by acquisition.
- How to create a culture of ethics and compliance.



by Peter S. Cohan

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THE COMPLETE SUMMARY: YOU CAN'T ORDER CHANGE

by Peter S. Cohan

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Introduction

Jim McNerney, current CEO of Boeing Co., spent much of his career as a rising star and major player at General Electric, where he was one of the three finalists to replace Jack Welch. When Welch gave that job to Jeff Immelt in 2000, McNerney was recruited by 3M's board, and he quickly set about revitalizing the tired old industrial giant. At Boeing, he has cleaned up a mass of legal problems, tackled the cultural issues that allowed them to arise, rebuilt the brand, and invested in new programs that promise a long, profitable future for the company.

At each of the companies that he's led, McNerney has managed its people as the key source of new product ideas that boost the top line *and* the essential ingredient for making operations more efficient. He does that not by frightening them into performing but by tapping into their innate desire to improve and by removing barriers that inhibit their growth.

Who Is Jim McNerney?

Jim McNerney is a leader who gets results by motivating others.

What makes McNerney the right leader at the right time for Boeing is his understanding that its future rests on making the right investments. These investments are bets on new products that he anticipates will meet the needs of its customers more effectively than do competitors'. And decisions about people are a critical leading indicator of whether those investments will pay off for shareholders. How so? Because Boeing's bets can succeed only if the right people with the right skills manage those bets.

So what is the source of McNerney's ability? McNerney embodies a core Midwestern value writ large:

Don't break your arm patting yourself on the back. It's not that McNerney is not competitive and doesn't like to win. It's just that he prefers to let the organization's results speak for themselves rather than drawing all the attention to himself. ●

Help Your People Get 15 Percent Better

McNerney has set a goal to make Boeing's people 15 percent better every year. By this he means improving both the effectiveness of individuals and how all the people in the whole organization work together. The number may sound arbitrary, but McNerney uses it to let people know that he's measuring what they do.

Jim McNerney focuses on people's growth because he believes that if the company's people grow, then the company will grow. To encourage people to grow, McNerney sets goals that stretch people beyond their comfort zones, and he urges managers from the top down to be role models.

McNerney thinks about how he can help others improve. He tries to figure out how to unlock the creativity that he feels is often trapped inside people in a stifling, bureaucratic environment. McNerney's emphasis on enhancing people's productivity is relevant for both individual contributors and those who manage them.

McNerney does five things that help the people in his organizations perform more effectively:

1. He defines clear leadership attributes. McNerney defines clear leadership attributes because he knows that what gets measured gets done. While the leadership attributes aren't surprising, they're valuable because they motivate and direct the behavior of people with leadership



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ambitions. McNerney promotes those whose behavior stands out as being most consistent with the leadership attributes. And he sidelines those who cling to the old ways.

2. He interacts with people so they jointly own the leadership attributes. McNerney's investment in ensuring that he and his people co-own the leadership attributes suggests three leadership lessons:

- Leadership attributes are the foundation of changing a company's culture.
- A CEO seeking to make fundamental changes must listen and broadcast over a long period of time to create a shared sense of ownership of the change.
- To change behavior, leaders must link the attributes to performance evaluation, pay and promotion.

3. He encourages communication from the bottom up. McNerney's efforts to encourage the flow of information from the bottom up frame four leadership lessons:

- Bureaucracies can create informal norms that stifle enthusiasm, creativity and the flow of information up and down the line.
- A CEO needs to take action to strip away the vestiges of bureaucracy and unleash people's growth potential.
- One reason for the CEO to encourage the flow of information from the bottom up is to identify individuals with the potential to grow.
- CEOs must identify the right balance between empowering and trusting their leaders. One way to do this is by creating channels to tap into information from lower levels of the organization.

4. He gets rid of players who block others.

McNerney recognizes that his skill at managing Boeing's talent pool is critical to what actually happens inside Boeing as well as to the analysts' perceptions. McNerney does not pretend to be a visionary who can accurately predict the future of the aircraft industry and position Boeing accordingly. So he relies on having a smart, effective team in place. And this means that there is no room for people who sabotage subordinates in order to burnish their own reputations. By subtly punishing people who push out their more team-oriented peers and rewarding people whose talents will encourage and motivate others, McNerney is building up Boeing's talent pool.

5. He invests in developing leaders. McNerney invests heavily in leadership development by spending a large amount of his own time developing leaders. He considers leadership development so important that he is willing to

put relatively untested potential leaders in charge of major projects that could affect Boeing's future. The chance that those projects might fail can be thought of as a tuition payment by Boeing shareholders for developing Boeing's future leaders on the job.

McNerney's investment in leadership development suggests four lessons:

- Spending time on leadership development gives the CEO the attention of key leaders and helps the CEO shape the way key leaders think about their jobs.
- Leadership development enables the CEO to create a shared sense of ownership about which behaviors result in rewards and which lead to being sidelined.
- Picking and empowering leaders prepares the company to prosper far into the future.
- The CEO must balance the desire to give leaders the freedom to succeed or fail against the need to protect shareholders from the cost of a failed project.

McNerney makes Boeing better by engaging its people in a purpose that captures their passion. He spends time working with people at the top and middle levels of the organization to identify what needs to be changed, and getting people to buy into a set of shared leadership attributes. He then uses those attributes as a context in which to set goals and promote or sideline people based on their performance. ●

Lead Groups to Higher Ground

In large organizations, there are many groups that share common bonds but also compete for resources and rewards. In order to boost Boeing's performance, McNerney needs to do more than simply motivate the individuals in these groups. He must also motivate these groups to cooperate with each other in pursuit of Boeing's corporate aims. The interests of these individual groups may sometimes be at odds with some of Boeing's overall corporate goals. McNerney must overcome the groups' natural desire to put their own interests above Boeing's.

McNerney does this, first of all, by pursuing corporate goals that make most groups better off. How does he accomplish this?

- He identifies the key players and understands their different needs.
- He focuses on getting agreement on critical issues and doesn't waste time on the trivial.
- He generates solutions that make key players better off.

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- He overcomes obstacles to realize solutions.

McNerney's ability to lead groups to higher ground marks him as an exceptional leader. He praises the company and helps people see that their future may be brighter thanks to his leadership. By creating this openness, McNerney learns what most urgently needs to be done and unites different groups around those critical goals. From this unity, he crafts workable strategies to achieve the goals. ●

Link Pay to Profit and Process, Not Stock Price

Because managers can't control the price of their companies' stock, McNerney believes it is inappropriate to pay them based on stock price performance alone.

So rather than compensate executives for things they can't control, McNerney ties compensation to what managers can control. He pays them to focus their efforts on the financial performance that's under their control and in the company's long-term interests. To accomplish this, McNerney does the following things:

- **He bases pay on factors that leaders can control.**

McNerney uses a measure called economic profit as the gauge of executive performance. Specifically, McNerney believes that leaders should be able to control two variables in their businesses: how much profit they earn and how much capital they use to achieve those profits. His notion is that the best business leaders make efficient use of the company's capital. McNerney also concentrates on these two factors because he believes that over the long run, investors will pay a premium for a company's shares if its business units consistently achieve high return on capital.

- **He weighs both profit and process.** While achieving economic profit and other business unit goals is clearly important to McNerney, he believes how people achieve those goals is equally important.

- **He makes shareholder value a by-product.** McNerney encourages people not to focus too much attention on a company's stock price. If executives meet their economic profit targets while adhering to corporate values, they receive bonuses regardless of stock price performance.

McNerney's approach to paying leaders seeks to get them to do the right things in the right way. Focusing managers on what they can control means they spend less time squabbling about matters that do not benefit shareholders and customers. Compensating leaders for achieving corporate and individual goals will pay off for shareholders. ●

The Skills of a Politician

McNerney has a politician's ability to identify which constituents he needs to satisfy in order to help an organization move forward. In each situation, these constituents might be different, so it is important to figure out quickly who the important players are and how to relate to them in order to gain their support.

By maintaining a modest demeanor and not harshly condemning the status quo, McNerney puts himself in a good position to establish an initial rapport with these constituents. McNerney also listens carefully to their views, understands their goals and appreciates the challenges they face in achieving those goals. With the input of these key groups, he forms a vision for action that enables him to pick goals that, if achieved, leave them all better off.

McNerney's shrewdness about leading people was evident as he stepped into Boeing as its CEO. McNerney had the experience from GE and 3M to realize that when a CEO joins an organization, he needs to gain the trust of the people in the organization. He inherits the history of conflicts among different groups and the frustration of those who thought they deserved his job. To keep these emotions from overwhelming his effectiveness, McNerney avoided charging into Boeing with lots of new ideas about how to fix everything that was wrong. Instead, he stepped into the new job quietly, praising Boeing's strengths and trying to get off on the right foot with its key constituents.

McNerney's actions reveal important lessons about how a leader should identify the key players in an organization and build relationships with them. Helpful tactics in this endeavor include the following:

- Start off by praising the company, its people and its accomplishments.
- Avoid making major proclamations about how everything needs to change.
- Don't immediately replace the people who report to you.
- Listen to key players before drawing conclusions about what needs to change.

Build Strategy on Customer Focus

During his career at GE, 3M and Boeing, McNerney, who is not an engineer, has learned that while technology is valuable, alone it is not enough to sustain the growth of a successful technology company. The company must use the technology to do things that customers want.

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When it comes to managing technology, McNerney pleases the customers instead of pleasing the engineers. He encourages cross-functional teams to spend time with customers so they can understand what products they need to offer to close future sales.

McNerney's winning approach is to build strategy on customer focus, which he does in the following ways:

- 1. He forms teams from different functions and across corporate boundaries.**
- 2. He satisfies the needs of customers, not engineers.**
- 3. He harnesses technologies that will make customers better off.**
- 4. He shifts resources to projects with the highest profit potential.**

McNerney cites five *myths of innovation* that need to be overcome by individuals "as they seek to contribute creatively in the modern corporate environment." These five harmful myths include:

- Innovation is a crusade.
- Innovation is technology alone.
- All innovation is radical.
- Innovation is lucky.
- Innovation must be undisciplined.

McNerney contrasts these five myths with five *innovation realities*:

- Innovation requires teaming.
- Innovation is shared.
- Innovation is broad.
- Innovation can be incremental.
- Innovation must combine creativity and discipline.

McNerney has introduced winning products that have contributed significantly to corporate revenues. He helped to push through the GE90, which generated \$25 billion in revenue potential for GE. He contributed to the introduction of the 787 at Boeing, which has generated more than 900 customer orders. At the core of these successes is McNerney's ability to listen to the needs of customers. But McNerney also recognizes that despite the uncertain nature of innovation, he can make product development more disciplined by shifting capital and people from weak or irrelevant projects to ones with strong potential. ●

Invest in Your Strengths

To win customers, the company's product or service must satisfy customer requirements better than competitors'. To attract and retain the best employees and managers, a human resources strategy must create a more compelling work environment than competitors'. And to

attract equity capital, the firm must exceed investors' expectations by a greater proportion and more reliably than competitors'. The CEO must formulate strategy and then manage the organization so that strategy gets translated into specific actions that lead to superior performance.

During his tenures at GE, 3M and Boeing, McNerney has demonstrated the ability to create and execute such strategies. How does McNerney achieve this?

- He focuses on big, growing markets.
- He invests in existing strengths and tackles weaknesses.
- He analyzes and exploits competitor weaknesses.

Before he became Boeing's CEO, McNerney was a Boeing director, and in that role he helped develop the strategy that allowed Boeing to make the right bet on which group of customers would be most profitable. Boeing focused on the midsize planes needed by the point-to-point airline segment, while Airbus targeted the larger planes used by the long-range, hub segment. As it turned out, Boeing made the smarter bet.

How did McNerney know that Boeing should bet on the midsize market? He took a clear-eyed look at the potential customers and what they wanted. Unlike Airbus, which may have fallen victim to confirmation bias — the tendency to see only data that reinforces a pre-existing expectation — McNerney relied strongly on Boeing's Strategic Analysis Department (SAD). As an independent unit, SAD gathers data, analyzes it and comes to a conclusion about the size of a market without pressure to slant the results to satisfy the demands of Boeing executives.

Boeing proposed to Airbus that the two companies conduct a joint study to assess the market potential for a replacement version of the 747. At the end of the joint study, Boeing concluded that the superjumbo market would be far smaller than Airbus did. Like Airbus, Boeing believed that size matters, but it wasn't the size of the plane that Boeing wanted to maximize. It was the size of the market and Boeing's potential share of it that mattered. At McNerney's urging, Boeing remained focused on the market for intermediate-sized jets, which proved to be the better bet.

McNerney has built on Boeing's strengths to help it win a substantial amount of business. Despite problems delivering the 787, Boeing has cleverly exploited Airbus' weaknesses. It targeted the midrange market while Airbus was distracted by its focus on the smaller jumbo segment. This strategy turned an \$8 billion investment in a midrange, fuel-efficient aircraft into 896 orders. By building on its strengths, Boeing has prevailed over Airbus. ●

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Grow Through People, Not Deals

Basically, a CEO can get growth from two sources: new products that the company develops itself or acquisition of companies. At both 3M and Boeing, McNerney has made it clear that he prefers the internal growth model.

One reason McNerney resists growth through acquisitions is that it's hard to merge the cultures and operations of acquired companies. Another reason McNerney says he is reluctant to make acquisitions is that they relieve a company of the obligation to chart its own destiny.

McNerney's choice of strategy for organic growth depends on the company and the industry it is in. For example, at 3M the challenge was to focus thousands of research projects and increase the odds that they would lead to new products that consumers would buy. By contrast, at Boeing, each individual new product could cost billions of dollars — an investment that is hardly guaranteed to earn back its cost. So while at 3M McNerney needed to develop multiple smaller products, at Boeing the challenge remains to succeed with fewer bet-the-company investments per decade.

To generate organic growth, McNerney does the following:

- He holds people accountable for growth.
- He applies current strengths to new markets.
- He makes acquisitions that complement organic growth.

While Jim McNerney used acquisitions in both 3M and Boeing, they complemented existing lines of business and more than paid for themselves through the higher profits they generated. ●

Tackle Challenging Situations Quickly and Effectively

McNerney's training prepared him well for parachuting into challenging situations, getting the lay of the land, figuring out the most important things to get done first and working with people to get the needed results.

McNerney has used these skills well at 3M and Boeing. At 3M, he focused research spending on health care products and plastic films for display screens. This was in stark contrast to 3M's prior CEOs, who had let its research and development employees work on whatever innovations they wanted without focusing on the revenues they might generate for 3M. McNerney shifted the culture to say, "Give me your three best ideas." And he almost immediately started getting results.

McNerney's focus on a critical few fixes at Boeing

helped boost Boeing's revenues and profits significantly. As he did at 3M, McNerney has channeled Boeing's spending into areas where it's likely to get the biggest returns.

McNerney's accomplishments at both 3M and Boeing testify to his ability to tackle challenging situations via three methods:

- He diagnoses problems quickly and effectively. McNerney has built on his consulting experience and his subsequent management roles to hone his ability to tackle things quickly. He doesn't shy away from challenges. He doesn't put things off. He doesn't waste time.
- He pushes multipronged solutions and avoids simple answers. McNerney resists the one-size-fits-all approach to management problems. He understands the complex causes of problems and finds solutions to address them.
- He uses a hardheaded, soft-hearted approach to people. To accomplish change, McNerney does two things: He first sets very specific goals — the hard-headed part — and then he helps people achieve the goals — applying his soft-hearted side. He also recognizes that not all employees will succeed, and he is honest when letting go employees who aren't working out. ●

Tighten Operations With Process-Improvement Tools

As assiduously as McNerney pursues growth, he also seeks productivity. Increasing efficiency is a theme that runs through all his management and operational programs. He sees it as all connected: If you want profitable growth, you need to work on both the cost part and the growth part.

There are many ways to boost operational efficiency, and McNerney is not married to any one of them. He examines the company's challenges, determines where there are opportunities to boost its efficiency and judges which techniques will be most appropriate for achieving the goal. The primary technique he has used at Boeing is one called Lean. At 3M, he instituted Six Sigma, which he had seen work well at GE.

Once he decides which technique fits the company best, he starts to educate people so they share a common language for process improvement. He helps select the process-improvement projects, gives teams the resources they need to succeed, eliminates obstacles and rewards those who get results.

Lean is a quality-management process that Toyota developed and refined. Lean evolved from the Toyota Production System (TPS), which strives to mass-produce

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goods more efficiently. Lean reduces waste, human effort, manufacturing space, investment in tools and engineering time to develop a new product. ●

Partner With Global Suppliers to Reduce Risk and Accelerate Time to Market

The bold notion of transforming global suppliers into global partners required a radical loosening of Boeing's control over the suppliers. Instead of specifying in great detail exactly what each supplier would manufacture, Boeing would describe only what the component should do and let the supplier decide how to design and build it. Boeing has outsourced 70 percent of the design and manufacturing work, much of it to firms abroad. This has meant that for Boeing to meet its production targets, all those highly complex parts need to come together correctly and on time. This has presented significant management challenges, one of which was getting dozens of partners around the world working productively on the same design software, linked to the same database with one set of drawings.

Boeing's first attempts at the hands-off approach turned out to be a bit too hands-off. When suppliers had problems, Boeing was too slow to see them and get them resolved. But when the anticipated delivery date had to be postponed several times because of supplier problems, McNerney replaced the person in charge, Mike Bair, and became more involved himself.

Despite the problems, he remains convinced that global partnering is a key to substantial profits, and to capture those profits McNerney has taken the following steps:

- He works closely with suppliers and their subcontractors during design and manufacturing.
- He builds trust up and down the line and with partners.
- He monitors performance relative to schedule and adjusts accordingly.

McNerney's efforts to globalize product development at Boeing are likely to pay off in the long run. McNerney's objects were ambitious, and in seeking to achieve them he ran into problems. He has learned that he can prevent these problems from recurring by restoring trust up and down the line and with Boeing's suppliers. And he has shifted from a delegate-and-trust approach to a trust-but-verify one. ●

Leadership Lessons From Tackling Challenging Situations

Jim McNerney does a great job of diagnosing business problems. His success suggests these lessons for leaders:

- Develop networking skills to help assess people quickly.
- Diagnose critical business problems early.
- Question and learn from your direct reports and find out what business indicators matter most in each function.
- Track changes in those business indicators over time.
- Analyze why they are changing.

McNerney's use of a multipronged approach to solving problems suggests these lessons for leaders when taking over a new leadership challenge:

- View the organization from the perspective of all its constituents.
- Avoid imposing solutions just because they worked in the past. Tailor an approach to fit the unique problems of the organization.
- Recognize that boosting financial results is crucial to gaining the confidence of constituents.
- Engage constituents in the short-term and longer-term efforts to boost performance.
- Use intellectual humility to tackle challenges, because it builds credibility with constituents and yields better solutions.

McNerney's record of tackling challenging situations quickly and effectively suggests three leadership lessons:

- **Take a fresh look at the challenges facing a company.** Such an opportunity yields practical insights about what can be done to improve the company's results quickly.
- **Devise effective solutions to the company's problems.** McNerney believes that a top-down approach is less effective because it fails to exploit the creative talent of the entire organization.
- **Boost results quickly — thus building enthusiasm for ongoing change.** If the CEO sets high expectations, then the odds are good that results will improve. The pressure for improvement ratchets up as the organization begins to believe it can meet those higher expectations.

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Make Ethics and Compliance a Clear Competitive Advantage

McNerney's predecessors had shredded Boeing's reputation, and the company had a culture that appeared to put more value on winning contracts and making money than on ethical behavior. McNerney's first assignment at Boeing was to resolve the legal problems resulting from the procurement and document scandals and to make sure that in the future no such problems would recur.

In order to repair the damage from these scandals, McNerney acted on three fronts:

- 1. Settlement.** McNerney settled a series of lawsuits against Boeing. According to *The New York Times*, "The \$615 million settlement ended a three-year investigation and allowed Boeing to avoid criminal charges ..."
- 2. No tax deduction.** McNerney forced Boeing shareholders to pay a short-term price for restoring public trust in Boeing when, in July 2006, the company announced that it would not seek a tax deduction for the \$615 million it had paid to the government — a decision that McNerney said would cost \$200 million.
- 3. Congressional testimony.** And the next month, McNerney found himself in front of Congress trying to draw a line in the sand between his tenure and that of his predecessors. During August 2006 testimony, McNerney said, "I hope to discuss why, going forward, the Congress and the taxpayers of this country can place their trust in Boeing. Companies doing business with the U.S. government are expected to adhere to the highest legal and ethical standards. I acknowledge that Boeing did not live up to those expectations."

McNerney brought an ethical compass to Boeing to transform its culture into one with a focus on ethics. Here are six steps McNerney is taking to accomplish the transformation:

- He directly addresses the sources of ethical problems in company culture.
- He adds ethical conduct to explicit values.
- He requires leaders to model ethical behavior.
- He opens channels to discuss ethical and business problems.
- He links promotion and pay to ethical conduct.
- He looks for ethics problems rather than waiting for them to surface. ●

Cut Your Company's Environmental Footprint

In the case of Boeing, there are fundamental reasons why reducing its environmental footprint makes business sense. Unlike leaders in the United States, European leaders take global warming and noise pollution seriously. This matters to Boeing for at least two reasons. First, Boeing sells to airlines based in Europe, and those airlines are increasingly interested in buying aircraft that produce lower carbon emissions. Second, if Boeing wants to continue to sell in Europe, it must take an especially cautious approach because all things being equal, European customers would prefer to buy from Airbus than from an American company.

McNerney does many things to cut Boeing's environmental footprint:

- He pushes Boeing to reduce carbon and noise levels.
- He builds products with smaller environmental footprints.
- He wins customers who value such products.
- He works with governments to encourage more stringent environmental regulation.
- He boosts the role of Boeing's environmental strategy department.

Boeing's ability to knock competitor Airbus out of the running for an aircraft order from Virgin Airlines indicates that this principle has a tangible payoff. Moreover, the emphasis McNerney has placed on this principle — by elevating Boeing's Environmental Strategy unit, investing in R&D to reduce the environmental footprint of its products and working with Boeing's constituents to reduce its footprint — attests to the business wisdom of cutting a firm's environmental footprint. ●

RECOMMENDED READING LIST

If you liked *You Can't Order Change*, you'll also like:

- 1. *Winning* by Jack Welch.** Welch addresses his own management techniques honed during his tenure as CEO of General Electric Co.
- 2. *The Toyota Way* by Jeffrey K. Liker, Ph.D.** Liker explains how creating a Toyota-style culture of quality can help any business.
- 3. *Judgment* by Noel M. Tichy and Warren G. Bennis.** Leaders are remembered for their best and worst judgment calls. This book helps leaders to sharpen their skills.