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Working with human nature to change CN

Railway giant focuses on new tools, behaviours to boost engagement

Change has many enemies. Prime among them is success, especially when paired with complacency. Why change, the standard thinking goes, when you're successful? The problem is success is often fleeting and tied to context. When that context shifts, continued success requires continued change.

In 2001, when I joined CN as senior vice-president of HR, the company was a considerable success story. Lean and profitable, it had the best operating ratio in the industry at 72, compared with the industry average of 80, and the lower the better. Competitors copied its moves and savvy investors snapped up the stock.

On the face of it, there was little reason to undergo much further change. There had been plenty of dramatic change since CN's initial public offering (IPO) in 1995. Up until that point, the company had been a government agency, which lost a dismal amount of money. After the IPO, under the leadership of CEO Paul Tellier, the mandate had to change. The goal became simple, clear and urgent: Build value.

This new focus included aggressive attempts to capture a bigger market share. To attract and keep customers, operations had to become more efficient and streamlined. Managers had to actively manage the business while the workforce was shrunk by one-third. The company shed assets that were not part of the core mission of the new CN. Acquisitions and mergers broadened the reach of the railroad.

After all that change and turmoil, it was a new world for CN — it had gone



■ GUEST COMMENTARY

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from worst in the industry to the best. It was not, however, a time for CN to rest on its laurels. The executive leadership was determined success was not going to get in the way of progress.

CN ignored complacency and committed to continued improvement. It was not a small commitment — it meant a search for new tools to make that change and a focus on different leadership behaviours. The goal was to achieve a profitable enterprise by building a culture that fully engaged every employee and encouraged them to give their best.

Opportunity beckons

What kept fuelling change at CN was a sentiment among senior leadership there were still opportunities for the company — for new markets, more efficiencies and better service levels in operations. Deeper value could be reached through a mix of tactical and strategic moves. The drive for achievement remained strong.

There were still pockets in the organization that worked much the way things had been done when CN was a government agency. Management had

a long-standing behaviour of putting a higher premium on keeping the peace than enforcing the rules. Management had abdicated its authority for so many years that employees had developed feelings of entitlement. Resistance to change was deeply rooted.

The drive for achievement among the leadership team made a real difference for CN. To capitalize on opportunities to improve the business, the nature of the company's leadership had to change, too. The leadership weren't just going to be the sponsors of change — they were going to be part of it. Leaders had to see themselves differently, think in new ways and take the risk of acting in a radically changed way. It was a challenge the team was ready to accept.

For whom the bell tolls

Another enemy of change is short-term thinking. Customers, suppliers and technology change constantly, competitors re-imagine themselves and markets shift. Social, economic and political trends take off in new directions.

Fortunately, in a company where most of the energy is expended on daily operations — the goal of a railroad, after all, is to keep the trains running — CN had some long-term thinkers in the executive ranks and on the board. They could see changes that were coming at the company. Just as important, they understood change would take time.

For instance, there was a strong possibility in 2001 that changing de-

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mographics were going to be a nightmare for CN. With fewer people in the generations behind the baby boomers, a shortage of employees at all levels was predicted.

This meant leadership turnover, heightening the need for succession planning, which hadn't received much attention during the upheaval of privatization. Another issue was how to replace skilled workers in the unionized ranks. Training at this level, when it had occurred, had been sporadic at best.

We couldn't run a company without skilled, knowledgeable workers at all levels. Nor could CN advance without people who would be job-ready when promoted. On-the-job learning is an expensive option and there were going to be thousands of replacements across management and unionized employee ranks.

The law of unintended consequences

The previous change at CN during privatization had produced some very good outcomes. The company led the industry in every major metric, shed legacy assets no longer needed and leaders were more focused on the business. But the changes also created some less desirable outcomes. The time had come to deal with them.

An employee survey done shortly before I arrived revealed much of the unionized workforce had low levels of job satisfaction. Rather than being engaged actively in the company's success, employees felt they were sitting on the sidelines.

To have a committed, engaged workforce, management was going to have to change. There were very few managers who thought coaching and shaping the behaviour of employees were parts of their job. They had some vague idea HR could do coaching while management's job was to get people jumping to their orders and bringing in results.

Under the circumstances, it was hardly surprising relations with the unions were strained. A lack of trust

was the outcome of all the rapid change in the previous years. Productivity gains would prove elusive if the relationships were not repaired. The company has 12 unions and more than 100 collective agreements. Managing the union portfolio at CN is complicated but it would be a necessary ingredient in achieving change to keep the company at the top of its industry.

Culture change

In taking a close look at what needed to be done, it was obvious just tackling issues on a piecemeal basis was not the best method. The past showed as one issue was fixed, another would pop up — which would create an endless to-do list. At that point, we didn't need a list, we needed a plan.

The start was making sure everyone understood the vision for the company. When Hunter Harrison succeeded Paul Tellier as CEO in January 2003, he introduced five guiding principles. His message was simple and direct: Focus on service, cost control, asset utilization, safety and people. CN would not only continue to outpace other railroads, it would lap the competition. The guiding principles gave all employees a shared focus, a way to think and talk about the business, and a common reference point in making decisions. Tremendous effort went into communicating the principles, all the way down to the front-line.

With the goal of changing the culture to one of a committed, engaged workforce, it was necessary to identify the right issues to tackle. Any change initiatives had to have a business case, but would also have to contribute to broad organizational culture change. Only by changing the culture was CN going to achieve the greater success desired.

We needed the right tools to make change happen, faster and better. We found those tools in applied behavioural science — the science of why people do what they do and how to motivate them to higher levels of sustained performance through proper reinforcement. The idea could not have been simpler: To make change, work

with human nature, not against it.

On a practical basis, we had to apply the right mechanics of change. We needed managers and employees who would serve as sponsors for change. The reasons for change had to be articulated clearly and strike a compelling chord with people. Having a way to measure outcomes from change was critical, as was communicating the results. If people were going to change, they had to see there was a tangible payoff for their efforts.

We also had to understand the journey was not going to be easy. People were comfortable with what they knew. Getting them to listen to change messages at odds with that comfort level would be difficult. Fear, apathy, indolence and political self-interest, as well as other enemies of change, were all going to be in play.

Nor was culture change going to happen quickly. In a company as big as CN, it would be a mammoth undertaking. While we needed quick hits to sustain the drive along the way, it was going to take years to ensure a new way of doing things was embedded in the culture. And, while corporate would seed the beginning of the change initiative, the divisions were going to have to pay for most of it. For them to open their wallets, they had to see results. What we did had to work, or change efforts would die quickly.

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