I. INTRODUCTION

As I thought about Blair's request to talk with you about "Managing Cultural Change," I found I was having trouble as to how to approach the subject. In fact, I had a mental block. That was both strange and surprising to me because I have been deeply involved in cultural change for the past two years.

Finally, I realized that the problem was the word "manage." The dictionary uses these verbs to define manage: direct, control, make submissive, discipline, administer, contrive, arrange and supervise.

And what is culture? At its root, culture rests on a set of values, beliefs and mores. These values result in a mode of operation, or behavior, made explicit in and governed by policies, procedures, and organization -- both formal and informal.
To change organization culture, then, means not just changing organization structure or policy, but rather changing the underlying beliefs and values of the people who make up an organization. If you use the verbs used to define "manage" in that context you get nonsense.

"Control" beliefs?

"Direct" values?

"Administer" mores?

You cannot dictate, or manage, culture.

The task, instead, is to "shape" or mold" culture -- to lead people and gain their concurrence in changed values, their acceptance of new beliefs. To blend cultures or shape a new culture by imposition from "outside" or "above" is to say the least difficult -- as a glance at history rapidly reveals. For example:

*Greece/Turkey* Ottomans established direct rule in Greece by mid-1400. They ruled Greece for nearly 400 years. The result was a lot of mingling of blood and very little else.
War of Greek Independence 1821-32.
So if you think intimate relationships are sufficient, think again.

Based on my own experience, I've found change by evolution to be the only practical approach, which is not to say it is easy.

II. CONTROL DATA—DECEMBER 1985

The cultural evolution that's now taking place at Control Data began more or less formally in January 1986 when I became Chairman and Chief Executive Officer.

A month earlier, December 1985, someone had given me a bumper sticker that read: "It's been Monday all year." [Bumper Sticker]

I kept that bumper sticker on my desk throughout 1986 to remind myself that 1985 was an experience the people of Control Data did not ever want to repeat.

Control Data had a history of ups and downs but never was it any lower than it was at the end of 1985.
You received copies of the 1985 annual report so I won't go into all of the grisly details here. Things got so bad that Control Data's U.S. lenders refused to advance additional funds, forcing the Company into default on its domestic debt.

As you might imagine, media coverage of Control Data's problems wasn't very flattering. We headed the list of worst managed companies. One newspaper headline even asked: "Does Control Data have a future?" This was a harsh question that we asked ourselves in that winter of '85 -'86. We knew that the Company had great underlying strengths. But we also knew that the organizational restructuring started in 1985 was only the beginning. We had to shape a new corporate culture if, indeed, Control Data was to have a future.

III. ANALYSIS OF THE PROBLEM

There were two major problems evident in the company -- overdiversification and overcentralization. What was not so evident was which aspects of the company's culture had given rise to the problems in the first place. The problems themselves could be attacked fairly expeditiously, but the underlying causes likewise had to be fixed if we were to have permanent change and improvement.
Let's take overdiversification first. Ironically, overdiversification had its roots in success. The company under Bill Norris' leadership was founded on a shoestring — $600K. It was able to produce the best advanced scientific computers when the landscape was littered with the failures of IBM, Univac, Burroughs and others. In the earliest days of the industry, Bill Norris foresaw the evolution of computer services and in less than 20 years built a billion dollar computer service company alongside the mainframe business. The well-publicized IBM lawsuit succeeded when all reasonable observers predicted failure.

The result of doing so many hard things was that the top management lost perspective — it became enraptured with doing things, projects — and the more seemingly impossible, the better. And believe me there was an ever flowing fountain of innovative (and difficult) business ideas at the top. So, we overdiversified. We put more on our plate than we could manage properly. Management -- especially top management -- was occupied with many things. In key older business segments such as computer systems and data storage products, new technologies made possible new competition and different market structures. The pace of change accelerated. Lower demand and competitive circumstances in the disk drive market in 1985 precipitated a collapse in profits in that part of the business.
Overcentralization was a more subtle problem. Sure, it was evident in the overly large corporate staff and central services organization and, like overdiversification, that could be pretty easily fixed. But that wasn't really the problem. The particular form of "looking to the center" that evolved in Control Data was causing us to develop managers and executives who were weak problem solvers. "In many parts of the company," I once remarked, "we have the best 'problem definers' in the world." They could lay out the problem beautifully -- and then people sat back and waited for the boss' answer.

This was exacerbated by a mode of operation I call transactional control. In other words, control was accomplished by approving individual transactions as opposed to control by measuring adherence to -- and aggressive auditing of -- standards and policy.

Ironically, this was not because Bill Norris insisted on absolute central control. It was the opposite. He encouraged people to be innovative, and over the years staff people, as well as product designers, were indeed creative. So, without willful design a large structure of policy and practice was built to support this creativity. More crucially, over the years people naturally -- whatever the policy said -- "looked to the center" for guidance in things both large and small.
Ironically, then, under one of the great entrepreneurs of history there grew up an organization that was absolutely bureaucratic.

On the other hand, the Company had many strengths.

For example, the innovation and creativity had created assets far exceeding financial obligations. There were businesses such as government systems, maintenance and other technical support services, and various computer services that were profitable and highly competitive. There was also that core of people who could build the best advanced large scale scientific computers. The Company had a solid, loyal customer base and was generously blessed with highly capable and dedicated employees who had always been galvanized by adversity.

This last strength—Control Data's people—faced greater uncertainty than the Company had ever known. Restructuring in 1985 alone reduced the work force by approximately 10,000 and more restructuring loomed ahead. The very natural human tendencies of fear, confusion and cynicism that accompany periods of severe change became formidable barriers.

Employees were torn by their commitment to the Company and their own job security concerns. A survey of employees in the fourth quarter of 1985 revealed that 98 percent felt a personal
responsibility to help Control Data be successful. And, yet, only 65 percent expected to be with Control Data five years later. When it came to providing job security, nearly one of four employees rated Control Data unfavorably.

IV. THE TASKS

In this atmosphere of gloom and doom, the management tasks were clear.

The short-term challenge was to save the Company.

The long-term challenge was to shape a new corporate culture. That culture was to be built on three core values concerning People, Quality and Marketing.

Let me speak briefly to the "People" value, for it is integral to the other two. At its core we want to build a company built on empowerment -- enabling individuals to achieve their full potential and, at the same time, accept accountability. I have put this to Control Data people in these simple words: Each person can truly say to themselves -- "What I think and do matters."
Empowerment and enablement is at the core of everything we're doing in shaping a new culture. It's at the root of quality. It's the heart of a market/customer oriented business strategy. It's the soul of the Company's human resource management principles.

But there would be no new corporate culture -- no empowerment -- unless we succeeded at the short-term task of saving the Company.

V. THE APPROACH

So let me first make a few remarks on that task.

Clearly, the No. 1 objective in trying to save the Company was straightening out the balance sheet disarray.

Put every simply, by analyzing and prioritizing the businesses that we had as to their investment needs and strategic fit, and by selling, spinning off, consolidation and closing, we were able to provide an economically sound financial foundation for the Company. At the same time, we narrowed Control Data's business focus and improved the opportunity for the remaining businesses to be successful.
Thirteen businesses or product lines were sold or closed down. A public offering of approximately 81% of a subsidiary, Commercial Credit Company, produced another $530 million. The offering was the third largest initial public offering in the history of Wall Street at the time. More recently we realized another $320M from the sale of the remaining 19 percent.

In addition, we received a one-time $200 million dividend from Commercial Credit. And we replaced essentially all of our bank debt with the sale of $400 million of public debt. Altogether, the restructuring has produced approximately $1.6 billion in cash.

The primary goal in restructuring was, as I said earlier, was not just to fix the balance sheet, but to move away from a position of overdiversification to one of doing fewer things more profitably. The impact on profits was almost immediate.

The loss from operations in Control Data's computer business, before all extraordinary and one-time restructuring charges, steadily diminished from $53 million in fourth-quarter 1985 to the fourth-quarter 1986, when we recorded a $5.4 million operating pre-tax profit.
As to the long-term task -- to put in place a new culture, an operating environment for sustained success -- we did not wait for the first to be completed. We started at the same time. The basic steps to this were the same as for most management tasks: a clear view of the job to be done, a cold appraisal, a willingness to take risks, and no looking back.

A clear view ... in other words, Who is the customer? What is the objective?

Well, the customer in this case, is Control Data people. The objective was to empower these people--get them to believe that their ideas, decisions and actions all count. And they are accountable for the results.

The next step in changing the corporate culture was a cold appraisal of strengths and weaknesses. Some outside perspective almost always helps this process. So, we had an outside consultant help us take stock of ourselves.

This analysis reinforced the need to decentralize the organization.

The third step -- a willingness to take risks.
You know as well as I that change always involves risk. It means new processes and new structures. It means new perspectives. New approaches. And new people.

New people in top management are essential to cultural change. That's why half of Control Data's top 10 line and staff officers were new to their positions in 1986. And, four have been with the Company less than three years.

And finally, No looking back ... no "if only's," or "might have been's" or "used to be's." Just intense concentration on implementation.

Implementation, first and foremost starts with an unequivocal statement of the goals and values of the new culture.

This is what the "Who We Are" document that you received is all about. I wrote that in December '85 when I knew that in January I would become chairman. I reviewed this document with my management team. After considerable discussion, and some debate, we adopted it as our own constitution, so to speak.

You'll note that the values of Quality, Marketing and People are mentioned frequently in the document.
The fourth principle of management, for example, says: "Quality results from process and people. Process and people dedicated to ever improving quality is a result of a management dedicated to that purpose." At Control Data, we're establishing a culture of quality through what we call Total Quality Management Process, or TQMP. It represents empowerment at its most fundamental — employees taking personal responsibility for solving quality problems.

The sixth principle addresses Marketing: "In each market we serve we plan to distinguish ourselves by providing high quality, high value-added product and services and high levels of customer support. We will achieve this by thoroughly understanding our markets, customer needs and competitors and by developing and executing sound market, product, operational and financial strategies."

My conviction that most people will respond to the opportunity to learn, to grow and accept responsibility is summed up in the 15th principle that lists my five basic beliefs about being a manager. The first sentence captures the essence of these beliefs: "The true reward of management is accomplishing complex tasks through the success of others."
Unquestionably, the task of changing the beliefs underlying the Control Data culture listed in the "Who We Are" document is complex.

We've conducted an extensive communications program to convey to employees, our customers, shareholders, the media and financial community that we recognize "who we are" and know precisely "who we want to be."

In assessing our success in this area for the board of directors last December, I observed: "Cultural change is hard, subtle and long-term."

A few other comments from that assessment should also be noted: "Best progress is in TQMP. The crisis environment has provided favorable circumstances in which to begin. Decentralization is particularly hard in Control Data. The culture of being told what to do from above and of not truly being held accountable is deep rooted. The tendency interestingly has been for people to switch 180 degrees and adopt a 'do my own thing,' anarchistic attitude."

I ended my assessment by writing: "Good start...4-5 year program in all. Major change by 1990."
CONCLUSION

What can be concluded about corporate culture and from our experiences the past two years at Control Data? Well, I think there are several possibilities. We'll talk about those when you return.

End.
FOR THE DISCUSSION PERIOD

Conclusions:
- Culture of 50's, 60's anachronism
- Responsiveness requires decentralization, empowerment.
- Culture change is molded, shaped -- comes from leadership.
- Culture is more easily changed in periods of trauma.
- New perspective is essential. Hard for an organization, as a person, to see itself.
- Changing basic beliefs is nearly impossible but they can be modified toward desirable objectives.
- Technological change provides business opportunity. It threatens mature companies the most.
- Strategy change will normally require culture change
- Culture change is risky -- how much old culture to preserve? Too much means no change, no progress. Too little means discontinuity and chaos.