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A CFO wonders how to turn around a struggling division.
by Francesca Gino

Should Noelle support the layoffs or advocate for culture change?
Expert commentary by Jeremy Andrus and Philipp Schramm

CASE STUDY

CAN YOU FIX A TOXIC CULTURE WITHOUT FIRING PEOPLE?

A CFO WONDERS HOW TO TURN AROUND A STRUGGLING DIVISION.

BY FRANCESCA GINO

The flight attendant had to ask her twice, “Anything to drink, ma’am?”

“Oh, sorry—water, no ice, please,” said Noelle Freeman, the CFO of Franklin Climate Systems. Watching the clouds out her window at 30,000 feet, she’d been deep in thought. She was on her way home from two days in Arkansas visiting her company’s largest facility. Franklin was in the business of designing, engineering, and manufacturing climate control systems for cars and SUVs. It was a division of FB Holdings, a manufacturing company based in Aurora, Illinois, and it had the unfortunate distinction of having been the group’s poorest-performing unit for nearly a decade.

As CFO, Noelle was, of course, concerned about the numbers. But after spending time in Little Rock, she worried they might be facing a bigger problem. She’d gone to Arkansas to review operational plans and financial projections for the rest of the year with the team on the ground. FB Holdings had made it through the financial crisis of 2008 without losing money—but the climate control systems divisions, a Tier 1 automotive

supplier, had not fared as well. Franklin had finally returned to profitability, but she and Cameron Koren, a turnaround specialist who’d been brought in as CEO five years earlier to right the ship, were still working hard to keep the business on track. She knew the Little Rock plant had been through years of belt-tightening and turnover, so she hadn’t expected a warm welcome, but the negative vibe she’d felt from the employees had been even worse than she’d expected. The word that kept popping into her mind was “toxic.”¹

Doug Lee, the company’s head of HR, had warned her and Cameron about the plant’s “bad mood,” as he called it. He’d been very vocal about his concerns that although Franklin was now on stable financial ground, a less quantifiable problem was still dampening performance: extremely low morale and widespread disengagement,² especially in Little Rock.

Noelle had listened to Doug’s concerns, but as a numbers person, she’d assumed that once the

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HBR’s fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study “Webasto Roof Systems Americas: Leadership Through Change” (case no. 917015-PDF-ENG), by Francesca Gino and Paul Green, which is available at HBR.org.

division was out of the red, the people problems would go away. As the plane descended into Aurora, Noelle wondered if she was wrong. *This may be a problem a spreadsheet just can't fix*, she thought.

TWO DAYS EARLIER

It was Noelle's third scheduled meeting to review financials, and again she was alone in a conference room waiting for people to show up.

When one of the plant supervisors popped his head into the room, she asked, "Are you joining?"

"I guess so," he said noncommittally and took a seat at the opposite end of the table.

Noelle leaned toward him, hoping to demonstrate her eagerness to engage.

He leaned back. "I don't even know if I'm supposed to be here," he said. "I got an invite, but it was forwarded to me by someone else."

Noelle had been hearing things like that all day. It was clear that people weren't communicating across departments or even with colleagues on their own teams. No one seemed interested in hearing a financial update—the few who had shown up in previous meetings were just short of hostile. When she'd walked into the building earlier that day, it had been dead silent. On the plant floor and in the offices people kept to themselves; when she walked by, no one even looked up. There was no bustle, no camaraderie.

"Can I ask you a favor, Marshall?" Noelle asked. "It is Marshall, right?"

He nodded.

"The feeling is that Aurora is focused on the bottom line. Everything that's been done over the past few years has been about the penny, not the people."

"It doesn't look like anyone else is coming to this meeting," she said, looking at the clock, which now read 11:20.

"Can you tell me what's going on here?"

Marshall sat quietly for a minute and then shrugged. "I guess I have nothing to lose at this point," he said. "This just isn't a good place to work anymore. I have people quitting or threatening to quit all the time.³ People don't like coming to work. They clock in and clock out. I've been here for 18 years, and it hasn't always been like this. We used to have fun at work, and we'd hang out together after. Now all I hear is 'I just want to do my job and get out of here.' There's no sense of community."

"Because of the cuts?" she asked, knowing the answer before she even finished the question.

"Yes, exactly. Everyone knows that the company hit hard times. But all the 'belt-tightening'—he used air quotes here, and Noelle winced, realizing how stupid the euphemism sounded—"has taken a toll. The perks that used to bring teams together—on-site lunches and dinners, bonuses, even small ones—they meant a lot to our people. Now we don't do anything for them. And making \$15 an hour isn't cutting it for them."

"I appreciate your being candid with me," Noelle said. "I imagine it can't be easy."

"Like I said, nothing to lose." Marshall smiled ruefully. "But it's sad. I remember when it felt like the company noticed me, even cared about me. But now it's like nobody trusts anybody."

"Is there any way the company can regain your faith?"

"Honestly, I'm not sure. The feeling is that Aurora is focused on the bottom line. Everything that's been done over the past few years has been about the penny, not the people. The message has become 'Just be glad you have a job.' And I haven't seen any signs that things will be changing anytime soon."

BACK IN AURORA

The morning after Noelle returned from Little Rock, she found herself in another empty conference room, this time waiting for Cameron and Doug. A few minutes later, they walked in together.

"How was your trip?" Cam asked.

"Bleak," she said. She recounted her meeting with Marshall.

Cam shook his head impatiently.

"These are tough times for everyone. Our other sites have felt the pinch, but

CLASSROOM NOTES

1. When is calling a culture "toxic" appropriate? How bad do things need to be to earn that label?

2. This is not uncommon. Gallup's 2017 State of the Global Workplace report found that 67% of employees are "not engaged" and 18% are "actively disengaged" at work.

3. Downsizing a workforce by 1% leads to a 31% increase in voluntary turnover the next year, research shows.

4. Studies show that when employees feel valued by their companies, they are more committed and satisfied in their jobs and show fewer signs of stress and burnout.

none has turned as sour as Little Rock.” He paused. “You know we’re still under intense scrutiny from FB. Layoffs might be our best option to keep things moving in the right direction.”

Noelle exchanged a quick glance with Doug. She knew he was adamantly against more layoffs now that they were on better financial footing.

“I realize that personnel cuts are not necessary from a financial perspective. But culturally, it might be time for a purge,” Cam continued. “We can’t have people like Marshall—a supervisor—spreading doom and gloom across the entire facility. We need people who are positive about the company’s future, not holding on to an unattainable past.”

Doug spoke up. “Respectfully, I disagree with you, Cam.” He had never been one to tell the CEO only what he wanted to hear. “These employees have stuck with us through the worst of it, and with the right initiatives, we can bring them back around. Additional layoffs—especially now that we’re making money again—would just make things worse. And who wants to join a company that treats its people like that?⁴ How would we find enough people to replace the experienced—albeit disengaged—staff we’d be letting go? And remember the research I showed you: Companies that lay off large numbers of employees are twice as likely to file for bankruptcy as companies that don’t.”

“But your engagement surveys—not to mention the anecdotal stories like Noelle’s—show that things are just getting worse,” Cam responded. “So I’m

struggling to find a way to make this work. We’re still not where we need to be operationally and financially, and maybe that’s because we have too many people holding us back.⁵ It’s like we’re surgeons who have a patient bleeding out on the operating table. Do we join hands and sing ‘Kumbaya’? Or pull out our scalpels?”

Doug stood firm. “I think—and correct me if I’m wrong, Noelle—that the bleeding has stopped. So now it’s more like we have a patient in the ICU who needs help getting better.”

He and Cam sat back and looked at her, waiting for her response.

“You’re right that we’ve stabilized, Doug,” she said. “But given what I saw in Arkansas, the patient is definitely not out of the woods.”

HIT THE RESET BUTTON

The following Saturday, Noelle met her friend Joss at the reservoir near their houses. The two women had gone to business school together and had both ended up in Aurora, so they often turned to each other for work advice. Having executed a successful turnaround as COO of a construction company, Joss had been especially helpful to Noelle during her time at Franklin.

Now, as they started out on their five-mile loop, Noelle described the situation in Little Rock and Cameron and Doug’s most recent debate. “We talked a lot about ‘excising the bad seeds,’ and as you know, we’ve already laid off a lot of people. But the crazy thing is that even once the worst offenders were gone, morale stayed just as low.”

“It’s not the people who are toxic,” Joss said, “it’s the culture.⁶ So even though it’s hard, you have to fix that first. I gave you the name of the consultants we worked with, right?”

“Yes, Doug and I even had an exploratory call with them. But whenever we’ve floated the idea of working with them to Cameron, he has shot it down, saying we can’t afford it right now. And he’s right. Our bottom line will look better if we keep reducing overhead⁷ rather than spending more money to try to fix the problem.”

“For our company, it was the best money we ever spent,” Joss said. “Arduous, yes. Time-consuming, yes. Most of the time it felt like I was living in a *Dilbert* parody. But employees’ attitudes have really improved, and so have the numbers.”

“I’ve got more than enough to do with the financials—I don’t know why I’m even getting involved.⁸ But I hate feeling that the executive team is letting our people down—and using my numbers to justify it.”

“Bringing the company back to a high level of operational performance will take the focus and energy of hundreds of employees,” Joss said. “Cameron is kidding himself if he thinks he can rely on a few good people who somehow—miraculously—manage to stay engaged through another round of cuts.”

“I just keep looking around for the reset button,” Noelle said.

“Unfortunately, when it comes to culture, no such thing exists.”

5. In the U.S. layoffs are straightforward from a legal standpoint. In other countries they are highly regulated, and in some regions companies are required to justify the reductions to authorities.

6. Is Joss right in saying that getting rid of toxic people won’t change the culture?

7. Is this viewpoint too narrow? In a 2012 review of 20 studies of companies that had conducted layoffs, Deepak Datta of the University of Texas at Arlington found that staff reductions had a neutral to negative effect on stock prices in the days after the announcement and that most of the companies eventually suffered declines in profitability.

8. Should a CFO be getting involved in HR issues?

SHOULD NOELLE SUPPORT THE LAYOFFS OR ADVOCATE FOR CULTURE CHANGE? THE EXPERTS RESPOND

FRANKLIN WILL PROBABLY need to let more people go at some point, and Noelle and Cameron will want to focus those layoffs on employees who don't embrace their values or believe in the future of the company. But I think the leadership team has a lot more work to do before making a decision.

Noelle can't fix these problems by herself; as the CFO, she has only so much power. It's Cameron, the CEO, who needs to take the lead. In fact, I was surprised to hear that he hadn't visited the Little Rock facility himself to get a better sense of what's happening on the ground. He seems disconnected from the people running this business, and that's dangerous. A CEO should never delegate culture.

When I took over Traeger Grills, in 2014, the mood at the company felt a lot like what's described here: There was no collaboration. People wanted to come in, be left alone, and do the minimum amount of work to get their paycheck every other Friday. Everyone—including me, if I'm honest—hated going to work then.

Since my earlier experience had been at a start-up, I'd thought that we could strategize and operationalize our way out of the situation. But I was wrong. Business success doesn't lead to a positive culture. It's the other way around.

When I started to listen to people, I heard stories that shocked me. A salesperson told me that he'd taken a client out to dinner—one of the key ways salespeople build connections with customers—and been slapped on the wrist for not getting approval first. Another deserving employee told me that the only bonus he'd ever received

from the company before I came was a \$36 check meant to be spent on a turkey. The mood was so bad that when we decided to make some supply chain changes and closed down a warehouse, disgruntled employees set a semitruck on fire in the parking lot.

It became clear to me that the company needed a fresh start, and that was a big part of why we relocated. Of the 140 people employed with us at the time, we invited only about 25 to move with us. We wanted people who believed in our company's values, not ones entrenched in the toxic culture.

Noelle or Cameron might eventually decide that's the right path for Franklin too. But before they fire anybody else, they need to really understand the situation in Little Rock. This is clearly a group of people who have been beaten down. Why do they feel so disengaged? Why have they stayed? What would make them feel invested in the company and their work? They also have to articulate the

**BUSINESS SUCCESS DOESN'T
LEAD TO A POSITIVE CULTURE.
IT'S THE OTHER WAY AROUND.**

kind of culture they want to build. Then they can make hiring and firing decisions accordingly.

Leaders create strong cultures when they are transparent with their teams about where the company has been and their aspirations for where it should go. Once Franklin's leaders do this, they might find that many employees can't or won't join them on the journey. But those losses will be for the greater good. Only the right people can help the company thrive.

*Jeremy Andrus is the
CEO of Traeger Grills.*



Philipp Schramm is the chief financial officer and vice president of human resources of Webasto Roof Systems.



NOELLE SHOULD ADVOCATE to keep people on board, not get rid of them. Franklin needs an “all hands on deck” mentality, where everyone understands the ongoing struggles and feels invested in making the division succeed. That’s the only way it will be able to tackle the challenges it’s facing—both financial and cultural.

The first step is for leaders in the organization to set a vision. Where should the division be in a year? In five years? How can employees help make that happen? Franklin’s managers should then be transparent with employees about exactly where the company stands financially and engage them in the new vision. This gives people something to rally around.

As a next step, management should foster in employees a sense that they are all vital to Franklin’s success. Few people in Little Rock feel that their work matters, and that has to change. Of course, convincing disengaged employees to take ownership over their work isn’t easy. I’d start by gathering more data on the underlying issues (using employee surveys, for example) or just simply listening to people’s hopes and fears.

Franklin should then identify employees who are eager to help change the status quo (using network analysis, for example) and empower them to serve as role models and unofficial leaders of the charge. It’s vital to do all this with the support of the parent company.

This case is loosely based on my experience back in 2013 at Webasto Roof Systems, which is part of the Webasto Group, a leading supplier to

the automotive industry. To find our change agents, we asked colleagues who wanted to be actively involved in transforming the culture to apply. We had around 180 applications for 18 spots—a good sign. We selected the change agents and met as a group to define our goals for our culture and lay out the employee behaviors that would get us there. Then we rolled out programs to improve interaction and communication and to encourage people to take responsibility for the division’s performance. Our parent company supported all these activities, even though they represented a short-term deviation from groupwide norms.

We did all this without an external consultant, and that was critical to our success. In my experience, bringing in outsiders to reshape your culture can be counterproductive. This work has to

NO MATTER WHAT INDUSTRY YOU’RE IN, IT’S A PEOPLE BUSINESS.

feel authentic and come from people who understand the organization.

I’d be lying if I said our culture is now 100% positive, but we’ve significantly improved on all the criteria we measure, including financial ones.

CFOs are often tempted to focus only on the numbers. But I’ve learned that no matter what industry you’re in, it’s a people business. Franklin needs to tend to its culture now, not take actions that could further destroy it. 🗣️

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Reprint Commentary only R1806Z



COMMENTS FROM THE HBR.ORG COMMUNITY

Target the Saboteurs

A purge will not resolve the culture issue; however, targeted removal of toxic employees may be necessary. Few employees are true saboteurs; most want to do good work. But anyone who is a saboteur has got to go.

Kelly Smith Johnston, owner, Clarity Consulting Partners

Change from the Bottom Up

Cameron should assemble a team in Arkansas to take responsibility for pushing change. But its membership has to reflect the attitudes of the workers, not company leadership. Culture change should come from the bottom up, and for that you need to empower people who are motivated to change things, even if they disagree with you.

Jen Reid-Schram, manager, FlightGlobal

Think Global or Act Local

Cameron needs to find out if the problems are confined to the Little Rock plant. If so, it may be the result of toxic leadership that should be replaced. If they are widespread, then Franklin needs to focus on improving culture companywide.

Ravi Nemalikanti, senior director, Thomson Reuters