Driving Organisational Change Under Pressure

Intense pressure often calls for knee-jerk reactions. While firm responses are needed from leaders, they should resist the temptation to centralise control and stifle frontline ownership.

It's the late-night phone call every CEO dreads: There has been a terrible accident, lives and livelihoods have been lost – and the firm is liable. If the situation is bad enough – like the Deepwater Horizon oil spill on 20 April 2010 – it could plunge the firm into crisis mode and place a lasting black mark on its reputation. Executives know well the painful steps that must follow: internal investigations, crisis management, and, of course, costly legal battles. These are necessary and inevitable consequences without which there can be no rebuilding of trust. Yet they deal mainly with determining ***how*** a terrible thing occurred, not the deeper reasons ***why***. To resolve the underlying issues, not just clear away symptoms, is a leadership challenge of the highest order.

BP's Calamity

To date, British Petroleum (BP) has paid more than US$12.5 billion in compensation and cleanup costs stemming from the Deepwater Horizon spill, which claimed 11 lives and has been deemed the worst offshore oil spill in U.S. history. In total, BP's spill-related costs may top US$40 billion, according to company estimates.

After months of investigation, a U.S. federal government task force concluded that the complex series of human and mechanical errors that triggered the spill was the result of, among other factors, "poor risk management" by well owner BP. We can assume that BP indulged a wildcatter spirit in its aggressive pursuit of market share, with safety standards almost certainly taking a backseat to innovation.

Why "almost certainly"? Because there is a very real, irresolvable contradiction between innovation and safety. The conditions best-suited to produce innovations – for example, variance, tolerance for failure, and experimentation – promote the relaxation of safety standards. Conversely, an iron-clad safety regime will naturally produce a high level of risk aversion and a less innovation-friendly environment. It is impossible to maximise both.

In cases like these, what's best for the balance sheet in the short-term opposes stakeholders' needs, and perhaps the long-term health of the organisation. The best response here is to face the conflict head-on and work through it, while resisting the temptation simply to take back authority and centralise it within the C-suite. Rather than disempowering front-line managers, leaders should work with them to establish sensible boundaries or "guardrails". Managers should be free to experiment with new ideas and risk failure, as long as those risks don't extend beyond the agreed-upon boundaries. The most effective guardrails are cultural rather than punitive. Managers “just know” where they cannot go without senior leaders having to tell them. The setup depends on the managers having a clear strategic mindset, which guides them in the everyday course of business, rather than having a rule book.

Irreconcilable Differences

We can see a similar irreconcilable conflict at work in today’s banking industry, where compliance standards (beefed up post-2008) are at variance with the sector’s inherent dependence on financial risk-taking. Compliance officers want bankers to avoid risk, but if that were to happen across the board, financial institutions couldn’t do business. Yet total freedom could wind up leading the firm to the wrong side of industry regulations and criminal laws. The only way to make it work is to change the business culture, inculcating strategic awareness of compliance at an institutional level.

Failure to implement cultural change may have been a factor in the predicament currently facing BNP Paribas, France’s largest bank, which has been slapped with a nearly US$9 billion fine for violating United States sanctions against Sudan, Cuba, and Iran. The bank’s chief executive reportedly ordered a halt to sanctions-skirting transactions in 2007; nevertheless, misconduct continued until 2010, when the investigation by U.S. authorities began in earnest. The inexplicable delay, some say, formed part of the rationale for the record fine imposed.

The China Paradox

Finally, consider the costs and benefits of China’s almost unbelievable economic growth over the past 30 years. On the one hand, rapid industralisation has lifted more than 500 million Chinese out of poverty; on the other, the resulting environmental degradation and pollution costs China’s economy the equivalent of 3.5 percent of GDP each year. And that’s only a microcosm of the sustainability challenge currently perplexing the global business community.

Many are hoping for a magic technology that will come along and resolve this dilemma for us, but that seems very unlikely. If environmental disaster is to be avoided, it will fall to leaders from the public and private sector to tackle the growth versus sustainability paradox by bringing all the important stakeholders into productive conversation. If they can’t resolve the conflicts, they can at least make all parties aware of their interdependence, thereby achieving a valuable cultural change. Even this may seem impossible, but the alternative – doing nothing and courting disaster – may over time bring about the unthinkable.

Henrik Bresman *is Associate Professor of Organisational Behaviour at INSEAD. This blog post draws on themes developed in a Public Lecture at the* ***HEAD Foundation****, June 19, 2014. You can follow him on Twitter at* ***@HenrikBresman****.*