Teaching Case

Journal of Applied Case Research
Sponsored by the Southwest Case Research Association

Rebuilt to Last: An Organizational Change Initiative

Thomas A. Clerkin
Indiana University-Purdue University Columbus

Accepted: May 2009

Corresponding author: Thomas A. Clerkin is assistant professor of management at the Indiana University Division of Business at Indiana University-Purdue University Columbus. He holds a Ph.D. in management from the IU Kelley School of Business in Bloomington.

REBUILT TO LAST:
AN ORGANIZATIONAL CHANGE INITIATIVE

This case details the efforts of a Midwestern small-cap manufacturing company, Arvin Industries, to create an organizational philosophy that would serve as the focus for a major organizational development change effort. However, the philosophy and subsequent change effort were not enough to prevent the company's ultimate demise.

HISTORICAL BACKGROUND

The Company's Founding and Growth

Arvin Industries, an original equipment components manufacturer and supplier in the light-vehicle automobile industry, was founded early in the twentieth century in the small Midwestern town of Columbus, Indiana. It grew from a partnership of three individuals with a single product, who financed the enterprise with their own funds, to a global concern with $3-plus billion in annual sales revenue with manufacturing, sales, and research centers in more than 60 locations on four continents and in more than 20 countries. Including the founding partner who served as its first Chairman and CEO, the company has had seven CEOs, all of whom have come from within the company. During its first 60 years of existence, the majority of the company's growth came from internal product development and growth with existing customers, and this growth was incremental in nature. The following period of growth occurred during the 1980s and 1990s, when the company nearly doubled in size both domestically and internationally, primarily through acquisitions. By the end of 1999, it employed more than 17,000 associates worldwide.

Measures of Success

During its history, Arvin was deemed successful when measured by its longevity and 74-year record of consecutive dividend payments to its shareholders. Arvin's reputation with its customers was equally solid, exemplified by its record of serving the major players in its industry, its dominant market share, and the longevity of its relationships; in 1999, its first customer remained and was the second-largest account. Over its history, the company enjoyed positive labor relations, with the exception of one protracted strike resulting from concessionary bargaining in the late 1980s. It also had very low historical employee turnover until a period of low unemployment in the 1990s. Company records reflected a pattern of long-term employment and significant numbers of employees who had worked only for the company for their entire careers.

Rebuilding the Company

In 1993 under the leadership of new CEO Byron Pond, the company undertook a massive effort to rebuild itself into a world-class competitor by focusing on the implementation of

---

The case reports the organizational change effort from an insider's view and by using primary and secondary sources. Quotes and data in this case are authentic and are derived from personal participation and observation from the executive management level during the change process as well as company documents and previously reported public sources before, during, and following the events.

an enterprise-wide Total Quality Management system initiative. All employees worldwide were trained in a systems process approach to quality, and efforts in formal employee involvement and continuous improvement programs were implemented. The company mandated that every employee participate in a minimum of 40 hours of training each year to provide the tools necessary to eliminate waste and to work "Faster Better," which became the company creed during this rebuilding process. Arvin emerged from this intense, internally focused period in 1997 a new company that had improved its operating performance significantly. Following Pond's ascension to CEO, results from continuous improvement and quality programs were reflected in the following statistics, reported by the company in 1997:

- Labor cost had declined 22 percent
- Total Cost of Quality had dropped 40 percent
- Worker productivity had increased 8 percent
- Selling, General & Administrative expense had been reduced 40 percent

The net results led to a reduction of almost 8 percent in Total Cost of Quality. During approximately this same period, specifically from 1992 through 1996, the company attained five-year averages of 10 percent revenue growth, 9.2 percent operating profit, and 21.4 percent net earnings.

A Change of Leaders – A Change of Focus

In the spring of 1997, a planned succession began. President-COO V. William (Bill) Hunt was appointed CEO, setting the stage for him to become Chairman-CEO in May of 1998. The incoming CEO had been with the organization for 20 years and had progressed from Labor Counsel to Vice President-Personnel, then Vice President-Administration and General Counsel, Executive Vice President, and finally President-COO before being named CEO. As a part of outlining his agenda for the company under his watch, he read an article by John Smock in the September 1997 issue of *Director's Monthly*, titled, "'The Vision Thing' - More Than a Buzzword." The article quoted several studies that showed that companies who have a clearly articulated vision statement perform better than those that do not. One of the studies, a four-year examination by Harvard Business School professors John Kotter and James Heskett, reported that companies with strong corporate culture and a shared vision outperformed those without. These companies' revenues grew more than four times faster, job creation was seven times higher, stock grew 12 times faster, and profit performance was 750 percent higher. A 1994 study by *BusinessWeek 1000* also reported that companies with strong statements of corporate philosophy or mission were found to have an average return on stockholder equity of 16.1 percent, while those without reported a 7.9 percent average return (Smock, 1997). Hunt underlined the following elements of the article that he felt had particular importance:

> Vision is a critical element of strategic planning, strategic management, and strategic implementation....A company's vision plays a role in strategic planning similar to what yeast does in the baking of bread….A vision without a specific plan to achieve it is an empty combination of

> uplifting words….The vision process takes not only information development, but sufficient intellectual stimulation of an entire team…such as scenario development and focus groups….The vision statement should be uplifting. A company should not be afraid to "reach" with its vision (Smock, 1997).

The final element of Smock's article was a reference to the book *Built to Last* by James Collins and Jerry Porras (1994). The book, drawing on a six-year research project at the Stanford University Graduate School of Business, compared the cumulative stock returns of "visionary companies" contrasted to "good" companies in the same industries. The book reported that a $1 investment in the general market in 1926 would have returned $415 by 1990. The same $1 investment in the study's "good" companies would have returned $995. The same investment in the "visionary companies" would have returned $6,356! Hunt got a copy of the book and read it over the Labor Day weekend of 1997.

THE PROCESS

The First Steps Toward a Vision

Hunt's first steps towards pursuing a process of developing an organizational philosophy involved distributing a copy of the book *Built to Last* to each of the members of his executive staff. The group consisted of the presidents of the major operating companies and their functional vice presidents for such areas as legal, human resources, finance, public affairs, and research and development. Among them were 13 white men, 1 Latino man, and 1 white woman. Their time of company service ranged from less than six months to over 30 years. By memo, each was instructed to read the book, assigned a chapter to teach to the group, and asked to set aside three full days for an offsite meeting to explore how this book, and its application to the company, could be useful in providing a framework for developing an organizational philosophy. In addition to teaching an assigned chapter from the book, each executive was asked to lead an open discussion related to the chapter's relevance or potential application to the company. The book included many thought-provoking chapter titles, such as "Clock Building, Not Time Telling," "Cult-Like Cultures," "Try a Lot of Stuff and Keep What Works," and "Home-Grown Management" (Collins & Porras, 1994).

Setting the Stage

The CEO opened the offsite retreat with a personal and introspective presentation that recounted the many leadership opportunities he had been blessed to have in his life, from school-boy athletics to fraternities, community service, and professional roles. Hunt confessed that as he assessed his performance in each of them he found that he had always done the "safe thing;" that which was normal or expected. As he looked at the challenge of becoming CEO of a major industrial concern, it was apparent to him that if he was to lead the company to achieve its fullest potential, he and the team he assembled would need to do things differently. They would need to be willing to take risks and be prepared to work outside of what was comfortable and safe. He characterized the task of attempting to build a truly visionary company – one built to last – as a dramatic departure from the corporation's recent past focus. He credited his predecessor with positioning the company to compete at world-class levels and preparing it to pursue excellence. He told the group that the next three days would be the start of this new journey for him, and he asked the group to join him.

The first activity of the meeting was for each participant to list the three attributes they liked least about the company. This icebreaker was planned to signal to all participants that the session was to be completely open and freewheeling. It was designed to encourage frank and critical dialogue. Hunt himself opened with items such as, “not in charge of our own destiny,” and “not enough pride taken in what we are doing.” Items volunteered by participants satisfied the desired openness, including things such as “lack of diversity,” “willingness to take risks,” “lack of image,” “treatment of employees” and “a lot of bureaucracy with more emphasis on form than content.”

After an hour of this activity, the next item on the agenda was chapter presentations by the participants. For the next day and a half, the executive staff of the company performed the role of teacher, taking the group through the major issues and concepts of their assigned chapters, utilizing overheads slides and citing company-specific examples and issues. The discussions were lively and, at times, heated. Given the professional level of the participants and the significant educational and professional experience in attendance, the no-holds-barred ground rules thoroughly tested and analyzed both the book and the company. The presentations were predominately used to set the stage for the primary agenda item, which was to be an interactive exploration of the company’s core purpose and the values that could then be articulated into a company mission or vision statement.

Hunt initiated a discussion from the book that focused on the importance of articulating a core ideology as a part of building a visionary organization. In Chapter 3, “More than Profits,” Collins and Porras define a company’s core ideology as the combination of its core values and its purpose. They define core values as “the organization’s essential and enduring tenets – a small set of general guiding principles; not to be confused with specific cultural or operating practices; not to be compromised for financial gain or short term expediency.” They define purpose as “the organization’s fundamental reason for existence beyond just making money – a perpetual guiding star on the horizon; not to be confused with specific goals or business strategies” (p. 73).

Core Values

Before attempting to list core values of the company, the group discussed the conceptual issue of where to look for core values. Are they to be found in the company history only, or are they from many sources and simply rearticulated now as the company’s core values? If from history, what is the starting point: the company founding, the “new” company resulting from the 1993 rebuilding process, or today? Utilizing a flip chart, the group first proceeded to list 24 words and phrases that collectively could be considered core company values. The list included items such as “honesty,” “integrity,” “credibility,” “quality,” “respect for the individual,” “technology,” and “customer oriented.” Each item was debated, argued, and tested against company practices and potential business scenarios to determine if the company had lived by or could live by the value. The list was narrowed to less than 20, and set aside for further thought and refinement.

Core Purpose

The same process was used to explore the company's core purpose. The primary task was to explain why the company exists; or, as restated by the CEO, what would be the impact on the company's stakeholders (investors, employees, customers, suppliers, and communities) if the company ceased to exist? The first list consisted of the following five statements:

- Being the <u>best</u> at all we do
- <u>Continuous Improvement</u>
- Bettering our customers, shareholders, employees, suppliers, and communities through their relationship with the company
- Providing a <u>better quality of life</u> for all those associated with the company
- Being the best at solving customers' problems, drawing on the excellence of the company's people

The statements were again reality-tested and rewritten into the modified "golden rule" format as follows:

- Do unto our stakeholders as we would have them do unto us
- Treat our stakeholders as we would have them treat us
- Do the right things and do things right for our stakeholders
- Be the best for our customers, shareholders, employees, suppliers, and communities

As with the core values, these statements were set aside for further reflection.

"Big Hairy Audacious Goals"

A central tenant of *Built to Last* is the concept that to build an enduring organization, management must simultaneously pursue a strategy of preserving the core while stimulating progress (Collins & Porras, 1994). The authors used the Chinese yin-yang symbol throughout the book to illustrate the point that it is possible to pursue the "Genius of the 'And'" instead of the "Tyranny of the 'Or.'" In this context, the organization can maintain its core values and purpose while stimulating change by establishing "Big Hairy Audacious Goals," referred to as BHAGs. Per the authors, a BHAG must fall well outside the comfort zone, must be so bold in and of itself that it would continue even if the leader disappeared, must have follow-up BHAGs to avoid stall, and must be consistent with the company's core ideology (p. 91). Utilizing this concept, the final major activity of the three-day retreat was to formulate a list of potential BHAGs that the company could use to drive organizational change.

The process resulted in a list of approximately 40 items that were then categorized into financial, competitive, human resources, operational, growth, technology and reputation BHAGs. They ranged from doubling the size of the company and tripling net earnings by

2002 to zero lost-time accidents and voluntary turnover; from becoming the most admired company in every community in which the company operated to zero hires above entry level; from recognition of the company as the leader in its industry to receiving an unsolicited offer by a substantial company to sell itself to the organization.

The retreat ended with an understanding that the CEO would work to shape the results of the collective efforts into a draft for a vision statement that he would share with the participants for further input. The goal was to road test the vision at the Worldwide Management Meeting scheduled for May 1998.

The Road Test

The company convened a meeting of its key mangers from around the world twice a year for training, planning, team building, and camaraderie. The meetings alternated between U.S. and European locations. In May 1998, the group met at a Midwestern university with approximately 75 managers in attendance. In addition to the United States, managers came from Canada, Italy, Spain, Germany, Brazil, Mexico, England, France, Thailand, the Netherlands, South Africa, and Japan. The five-day agenda included leadership training, production best-practices reports, a business group break-out session, and corporate staff reports. On the third morning of the session, the CEO delivered an hour-long presentation of the Company Vision and Company Values.

In what Hunt characterized as his first opportunity to stand before the company's management group, it is significant to note that he chose to set "vision and values" as the tone of his tenure as CEO; statements of the company vision and values had not previously been emphasized, and in recent past, not expressly articulated. He began his address by reviewing company accomplishments, crediting the major efforts exerted to improve operational performance, customer satisfaction, new business growth, and technology improvements. He rated the company as good, but indicated the challenge was not, "How do we remain good?" Rather, it was "How do we become great?" He indicated that the first step was establishing a vision and supporting objectives; i.e., "…to become a company which is great in the eyes of its customers, communities, employees and shareholders." Hunt then continued with his remarks, explaining to the management team why building a company that would last was important to him. He indicated that it proved there could be meaning to our business life beyond profits and salaries; that we can be builders, not users or destroyers; that we can add value to our lives beyond value to our shareholders, and that this value – this meaning – is essential to self-esteem, self-fulfillment, and life itself. He indicated his belief that there is nothing more meaningful in the human experience than building something, building it well, and building it to *last*.

He then went on to teach from *Built to Last*, giving examples of how concepts and chapters were applicable to the company, and then reviewed the work of the Executive Staff Retreat. He indicated that the development of the company's values took years and many months would be necessary to crystallize them into a statement of core values and core purposes easily and effectively communicated to employees and other stakeholders. He listed many of the core values developed at the retreat, and indicated that not surprisingly, they were not unique or unusual for any company to express. The trick, of course, was to live by and hold true to these values no matter how difficult the operating environment became.

Taking from the book's "Interlude," he indicated that the greatest "tyranny of the 'or'" he could imagine was that a company could not maximize shareholder value and achieve the highest core values at the same time. He concluded his remarks, indicating that the process would be one of making an affirmative statement of "what we stand for, what we aspire to become, what it will take from each of us and, finally, our commitment to achieving this shared goal."

Initial Results

The success of Arvin's efforts to drive organizational change through the use of an organizational philosophy approach rested on its ability to develop, communicate, and live by the core values and purposes it established for itself. The ultimate test would be if it was indeed successful at building a company that lasted. The first page of the company's five-year strategic plan document for the next planning horizon was dedicated to a statement of its vision and core ideology, and drafts of an organizational wide implementation strategy were under review. Hunt had been CEO for just over a year, and all company focus was on becoming a company "built to last."

MORE CHANGE IN STORE

A Chance Meeting

In the fall of 1999, informal conversations took place at a trade association meeting between Hunt and Larry Yost, CEO of Meritor, a somewhat larger original equipment components manufacturing supplier to the heavy-vehicle industry. The topic of the day was the global consolidation trend in their industry, which was putting pressure on the supply base to do the same. The original equipment manufacturers were reducing their number of suppliers as they moved from the purchase of parts to the purchase of systems. Tier one and tier two suppliers were being forced to grow through partnering arrangements and acquisitions or mergers, or risk elimination as a supplier to the industry. Both CEOs had been actively looking for opportunities to scale their firms, but they were frustrated with their inability to find suitable partners with whom they might make an arrangement.

As fortune would have it, the topic of the Smock article concerning *Built to Last* entered the conversation. To their mutual surprise, both were in the process of using the same organizational culture change methodology to ensure that the companies they led would be enduring and successful. While Arvin had used the process discussed in this case, Meritor had actually retained Collins and Porras to serve as consultants to provide training and workshops for senior management. As the two CEOs discussed their readings and understandings of the materials, the seeds were sown for a merger.

A Merger of Equals

Soon, more formal discussions took place regarding the possibility of merging the two organizations that, on the surface, seemed culturally in sync. Early on as the process became more substantive, they arrived at two critical understandings: First, the consolidation would be considered a merger of equals with no partner having a dominant position; Second, *Built to Last* would be the bible that would be used to guide the merger. All communication externally and internally was keyed on this concept of a merger of equals. Although there had been previous attempts by large-scale corporations to affect this type of arrangement, and although these were subsequently acknowledged as failures in terms of this concept of equals (e.g. Daimler-Chrysler, Alcatel-Lucent, Chase-Citibank), the CEOs were consistent in their message that this merger would be successful in preserving the essence of both partners' core values and purposes. They proclaimed that the organizational culture change approach from *Built to Last* would ensure that this merger would truly be one of equals. The result, they assured, would be a company that would last. By 2000, the merger was complete and the two companies became one.

AFTERWORD

Over the following eight years, the Midwestern city where Arvin's world headquarters once stood watched on. As part of the merger, all of the executive staff members of the company were compensated to accept early retirement, with the exception of Hunt, who would become the President-COO of newly formed larger company. Within 18 months, Hunt had left. After three years, the merged company closed one nearby plant and sold another. Over the following two years, two more plants were sold. In 2005, emotions in the community ran high as the building that served as the company's headquarters was sold. Two more sections of the company were subsequently sold in 2007 and by 2008 only one piece of the original company remained in this "merger of equals." Then the final axe fell, and on May 15, 2008, a story by Boris Ladwig ran in *The Republic*, the Columbus, Indiana newspaper, declaring that the merger was being dissolved:

> "Auto parts supplier to become 2 entities within year's time"
> DETROIT — ArvinMeritor is unmerging.
>
> The Troy, Mich.-based auto parts supplier, formed in 2000 by the combining Columbus-based Arvin Inc. and Troy-based Meritor Automotive Inc., will split.
>
> ArvinMeritor will retain its commercial vehicle systems business, but will spin off its Light Vehicle Systems to shareholders as a new company called Arvin Innovations. The company expects to complete the division within a year, depending on regulatory approvals.
>
> ArvinMeritor Chief Executive Officer Chip McClure said the changes in global markets and within the company prompted the divorce.
>
> In 2000, the companies were merged partially to apply Arvin's emissions expertise to Meritor's heavy-duty truck parts and to sell products to each other's customers.

Some industry analysts had their doubts about the merger's wisdom, saying the merger would create challenges and that a light- and a heavy-vehicle supplier would struggle to sell to each other's customers.

In 2000, Arvin Inc. Chairman, President and CEO Bill Hunt said Arvin could not survive without the merger.

He said as late as 2006, after he had left the company, that without the merger, Arvin might have faced bankruptcy.

Since the merger, however, the company has undergone significant restructuring. Many plants, including five sites in Columbus and one in Franklin, were sold or closed.

Local officials early last year said the merger worked neither for the companies, nor for the Columbus community.

The division is "a sad chapter in a book that never should have been written," said Brooke E. Tuttle, who was president of Columbus Economic Development Board at the time of the merger.

What looked like a win-win proposition at the time resulted in a loss for Arvin, a loss for the employees and a loss for the community, he said.

Although most local plants still are operating, albeit under different owners, the city lost company leaders and a world headquarters.

"That is a large impact," Tuttle said.

The company announced last year it would close 13 plants in North America and Europe and cut 2,800 jobs globally as part of a restructuring plan expected to cost $325 million. So far, McClure said, the company has identified seven of the plants.

Different situation

McClure told investors in a May 6 conference call that the merger made sense in 2000 — but not anymore.

In 2000, Meritor depended heavily on the North American heavy-duty truck market, and Arvin's fortunes were aligned closely with the Big 3, so both companies were looking for a partner that would protect them from their business' cyclicality.

"That made a lot of sense at the time," McClure said.

Today, however, both businesses have expanded their customer base and removed their dependence on their traditional markets.

“At the end of the day … if I fast forward to today, I think the big difference is the market conditions have changed, but more importantly ArvinMeritor has changed,” McClure said.

ArvinMeritor shares rose 5 percent on the day the company announced the split.

Analysts Lehman Brothers wrote, “Although its timing came as a surprise, we believe the proposed transaction makes sound strategic sense, as we have long argued that there were few synergies between the light vehicle and heavy vehicle business.”

And analyst Bear Stearns wrote that “the businesses appear to be divisible.

“There’s little overlap in the end-markets, distribution and R&D … Perhaps the only synergies lost might be the combined entity’s steel buy (less of an advantage today in a global market,)” Bear Stearns wrote.

ArvinMeritor shareholders will own all of the common stock of Arvin Innovation, the company said.

When the companies merged, ArvinMeritor’s shares sold for $14. Since then, they’ve fluctuated between about $8 and $28, staying below $20 for most of the eight years. Wednesday, shares closed at $16.42, down 2.52 percent.

ENDNOTES

Collins, J. E., & Porras, J. I. (1994). *Built to Last: Successful Habits of Visionary Companies*. New York: HarperCollins Publishers, Inc.

Ladwig, Boris (May 15, 2008), "Auto parts supplier to become 2 entities within year's time," *The Republic*, Columbus, Indiana.

Smock, J. S. (1997, September). "The vision thing – More than a buzzword." *Directors Monthly*, 13-14.

Unpublished subject company records, files, speeches, notes, and conversations, 1998-1999.