

Rewriting the playbook: How Union Pacific is conducting business during the pandemic

The chairman and CEO of a railroad heavyweight reflects on what keeps him going, how past challenges have prepared him for today's, and how his leadership approach has changed during the pandemic.

The Union Pacific Railroad has been operating for more than 150 years—and, as CEO Lance Fritz puts it, railway people “are used to things going bump in the night.” Still, when the coronavirus crisis hit, Union Pacific threw its pandemic playbook out the door: “We pulled that thing off the shelf, and it was all but useless. We had to quickly adapt.” As volume fell by 25 percent, Fritz sought to maintain the health and morale of the more than 35,000 Union Pacific employees while simultaneously cutting the pay of the board and executives.

Fritz said that the pandemic ushered in some positive changes as well: Fritz is listening more closely, writing weekly to the board, and taking notes on the employees who are building teams in this challenging environment. As businesses reopen, he is resolved not to jump on any bandwagons, instead remaining independent and objective. He reflected on his “CEO moment” in a discussion with McKinsey senior partners Travis Fagan and Kurt Strovink.

The Quarterly: *Let's start with what we would call a human question. What does your organization need from you now?*

Lance Fritz: I personally think there is a spiritual aspect to leadership. When you think like that, the word “steward” really means something. I certainly feel that

in this environment because COVID has people very concerned, and appropriately so. They need to see that their leadership is vulnerable, empathetic, and making decisions in accordance with our values, which I'd better be the living proof of. Our people are expecting me to be transparent, to have a grip on the situation, and to be reasonable about what I do know, what I don't know, and what we're doing about it.

The Quarterly: *How do you demonstrate that you're looking out for people—that you have their well-being in mind?*

Lance Fritz: Our volume was down and is slowly recovering. I made the conscious decision to spread the impact across the whole organization, so that our frontline professionals—the transportation employees, mechanical employees, and engineering employees—wouldn't be the only ones feeling it.

Every manager is taking a one-week unpaid leave of absence every month from May through August. Every board member and executive has had their pay docked 25 percent for those four months. We don't need to do that for liquidity. We need it to demonstrate to the entire workforce that we're in this together. We're not riding the backs of our frontline team—or doing anything that would appear that way. We are keeping an open line of dialogue with our frontline team and doing our best to listen.



Lance Fritz is the chairman, president, and CEO of Union Pacific. Prior to joining the company, in 2000, Fritz worked for Fiskars, Cooper Industries, and General Electric. He is a member of the board of directors for the Association of American Railroads and chair of the Business Roundtable trade and international committee. Fritz is a graduate of Bucknell University and the Kellogg School of Management at Northwestern University.

The Quarterly: *Even before the pandemic, we were seeing a movement toward stakeholder capitalism. Some people think that COVID-19 is going to fuel that because it's laying bare all kinds of interdependencies. Others say that things are going to change when the bills come due. How do you see this playing out?*

Lance Fritz: As a member of the Business Roundtable, I'm a strong believer in stakeholder capitalism. Many of my peers are also strong believers; all but a dozen of our members signed the "Statement on the purpose of a corporation" in August of last year. I came into this period thinking we have to run the business for all stakeholders. You can argue over different stakeholders' roles and which should take precedence, but you'd better treat your employees well, because they're the ones who ultimately deliver the goods. You can make decisions consistent with what you say your values are—or not. When the chips are down, you're going to find out just how strong your values are.

The Quarterly: *Are you seeing any leadership pitfalls in this environment?*

Lance Fritz: I'm concerned about what happens when you don't approach this kind

of situation thoughtfully. In the fog of war, you shoot at anything that moves—and whenever there's panic, there's a race to the bottom. After the first company shuttered its office and said, "Everybody's working from home," if you didn't do that you were irresponsible. As offices begin to reopen, we're going to have to be very thoughtful and careful to make sure everybody's safe and healthy. The jury's out on how to do that. We have a plan, but we know we have to be agile and adaptive as circumstances change.

The Quarterly: *What kinds of changes have you made over the past few months? What are you doing differently?*

Lance Fritz: I think I'm doing a better job than I ever have of communicating with my board. I've gotten into the habit of shooting a note to them every seven to ten days, just bringing them up to speed: "Hey, this is what's going on; these are the big decisions that just got made; these are the ones I'm chewing on. If you have any questions or concerns, call me. Otherwise I'm going to be calling you, as you can help me."

We are getting much more on the same page in real time. It takes some work, but I think directors appreciate it. They're there for a

purpose; they want to be useful; and for them to be useful, they've got to know what's going on.

The Quarterly: *You've likely held a lot of virtual meetings lately. Have you noticed anything different? How does the dynamic change over video?*

Lance Fritz: Personally, I'm paying closer attention. I tried to multitask during one of the first 8:00 a.m. calls with my team, and I got lost in about ten seconds. It made me very uncomfortable; I felt like I wasn't bringing my best self to the conversation. That taught me that when I'm on a videoconference, I can't be multitasking. I need to be on point to keep up. I think we've all learned that. No one wants to look like the dope who wasn't paying attention.

I just had a series of investor calls. One or two people often dominate the conversation, but when we're doing it on Zoom, everybody's equal. We don't allow one person to dominate the call—or they don't allow themselves to do it, because it starts to become a little more obvious.

The same thing is happening on our team call. We're doing a really good job of being respectful; we're getting less groupthink and more thoughtful debate. At the same time, every team has some challenged relationships, and there's less opportunity to work out challenges in this environment.

The Quarterly: *Are you learning anything new about people?*

Lance Fritz: This environment offers some terrific empirical evidence. This is a great

environment if you're prone to saying, "Not in my sandbox." You can really shut others down. It's a challenging environment if you're prone to be inviting, but if you can do it in this environment, you're probably going to do it in the normal world, too. I'm seeing behaviors like that bubble up, and it's very informative.

The Quarterly: *What's keeping you going through all of this? Where do you find the energy to wake up every day and keep tackling problems?*

Lance Fritz: This honestly doesn't feel like a chore. There's not a moment of any day when I sat back and thought "Why me?" And that's not because I'm some kind of superhuman. It's because we as a railroad are used to things going bump in the night—and this is a really big bump in the night.

Crisis management is in our DNA. I have 20 years of experience dealing with events like an employee fatality, a major derailment, or an environmental spill. These events tend to be small from a global perspective; they tend to be as big as COVID from the perspective of those involved. So to a degree, I don't recognize the need to act differently during this period.

I will say that I've earned this tired look honestly! I'm not getting a lot of good sleep. But I'm absolutely blessed—I have my daughter at home. It's magical to have an adult daughter, with everything that's going on, to create a new relationship. We'll be fundamentally changed for the rest of our lives, which is so cool. It's very hard to explain that. Q

Lance Fritz is chairman, president, and CEO of Union Pacific. This interview was conducted by **Travis Fagan**, a senior partner in McKinsey's Dallas office, and **Kurt Strovink**, a senior partner in the New York office.

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