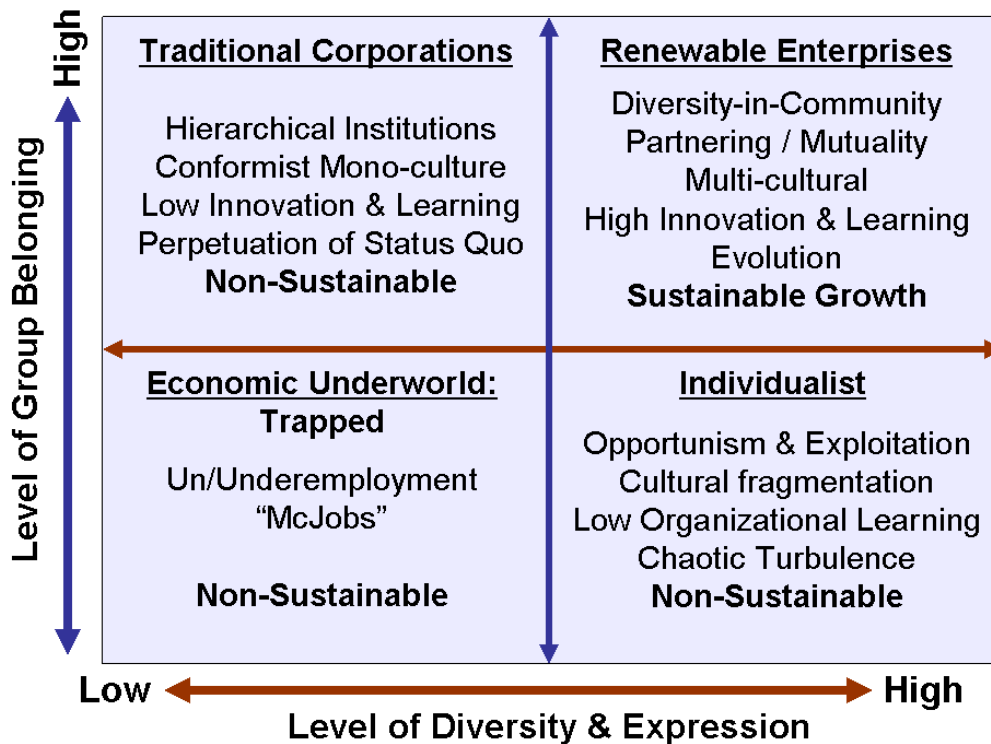




**Building Self-Renewing Enterprises:
Lessons from AT&T and Enron
By Dean Robb, Ph.D.**

More than ever before, sustaining success in today’s marketplace demands that every company build capability for disciplined innovation and entrepreneurship – in short, ongoing corporate self-renewal. Yet this capability seems to be extremely elusive. Why? When studied from the right perspective, some real lessons can be gained from looking into the failures of AT&T and Enron. Enron saw itself as an entrepreneurial enterprise, but it collapsed. AT&T is a very old, bureaucratic company that has been *struggling* – with little success – to become more entrepreneurial ever since divestiture of its local operating companies in 1984.

Each company illustrates a very different kind of problem. However, both failures can be understood using a simple ‘model’ of societies and organizations developed by anthropologists and sociologists (shown below). The model also provides some critical insights into how to create *sustainable* capability for corporate renewal.



The model is based on: 1) the degree to which members of a society or organization have a sense of group belonging and are interconnected; and 2) the degree of diversity, individuality and expression that’s acceptable in that society.

The upper-left zone describes societies and organizations with a high level of group belonging, but with a low tolerance for internal diversity, individuality or expressive freedom. Such groups *always* form into hierarchies with centralized power and control, for the purpose of perpetuating an embedded tradition and protecting the status quo. This is the zone of the traditional corporation, as we currently know it. In such organizations, every action and expression must be considered carefully – they must be “in synch” with prevailing expectations and the culture. There is little room for independent action or spontaneous expression. This is the zone of “keeping up appearances” and the “stiff upper lip.”

Such traditional corporations operate well in stable or slowly-changing environments, but operate poorly in dynamically changing environments. And, it is in their very *nature* to stifle the spirit of innovation and entrepreneurship – they can’t help themselves! Innovation and entrepreneurship require freedom to explore, experiment and openly express. They require a high level of internal diversity as a source of learning, innovation and growth. And they require ongoing questioning of traditions, strategies, values and everything else. All of these *go deeply against the grain* of traditional corporations!

This zone describes AT&T to a tee. When divestiture (and the seeds of deregulation) began in 1984, AT&T had a very long history, a deeply-embedded tradition, a steeply hierarchical, bureaucratic organization, and a rigid mono-culture. Overcoming this legacy would have required a revolutionary, charismatic and powerful CEO with a genuinely new vision and the power to carry it out – someone like Jack Welch. Instead, AT&T chose Bob Allen, a caretaker/manager type – a true son of the tradition – who lacked real leadership skills, a compelling vision or any sense of innovation. Allen led AT&T down the wrong path for quite a long time, and eventually into a real no-win situation, structurally. The once-largest and proudest corporation on earth was purchased by its child SBC!

Enron’s story is different because it fits more into the lower-right zone – the complete opposite of AT&T. In fact, our entire economy fits into this zone right now. In this zone, societies and organizations are characterized by exaggerated individualism, low social cohesion, unpredictable changes in markets, and constant organizational restructuring, downsizing and closings. The rules change constantly. Since there is low group belonging, people are thrown back on their own individual wits and resources. Operating in this environment is somewhat like living in a chaotic jungle or swimming in a pack of sharks.

This zone breeds charismatic personalities, hucksters – and *companies* – that play opportunistic, short-term business games with the environment. These individuals and companies manipulate and exploit emerging, short-term structural or market discontinuities to their own advantage. The model is one of “thriving on chaos” or “day trading” on a huge scale. Enron is a case in point. Enron played this game, and played it well, for awhile.

But Enron collapsed. Its business practices practically guaranteed it. Continuously finding and successfully exploiting short-term discontinuities and opportunities is extraordinarily difficult to sustain over any significant period of time. This “business model” is fertile ground for the growth of unethical financial and accounting games necessary to paper over the inevitable misreading of constantly changing environmental “rules.” If a company manages to gain a series of big wins, hubris can easily take root and get out of control, like a gambler who begins to think that he or she can’t lose. Inevitably they *do* lose, however, and if they bet the farm, they go down the tubes. Enron is a quintessential example of this phenomenon.

“Thriving on chaos” is a myth. Can it be done for a short time? Yes, absolutely. Can it yield *sustainable business growth over the long-term*? The odds are extremely poor.

In changing times, the most effective strategy for *sustainable* profitable growth is to move into the upper-right corner of the model by building enterprises that are highly inclusive, and embrace high levels of diversity, individuality and expression. This zone is “primed” for high levels of organizational experimentation, learning, creativity, innovation, change and growth. This zone breeds highly innovative, entrepreneurial organizations and enterprises that can grow relatively rapidly but, because of their high degree of internal cohesion, *not chaotically*. Such enterprises are capable of creating, and recreating, internal order within a turbulent external environment. It is a zone of rapid evolution, not revolution or chaos.

Here are two reasons why: embracing internal diversity and individuality overcomes the conformity and perpetuation of the status quo endemic to traditional bureaucracies. The other reason is more subtle: one of Enron’s key problems is that its INTERNAL, social environment mirrored the “pool of sharks” dynamic of the EXTERNAL environment. Just like the external market, Enron’s internal world was one of individualistic opportunism and exploitation. This is a huge mistake. When the external environment is fragmented, the internal social world of a self-renewing enterprise should be coordinated and act with an organic, focused unity. That requires a high sense of internal belonging, interconnectedness and coherence.

Our ingrained belief is that it’s impossible or unrealistic to build organizations with BOTH high belonging AND high diversity. This belief system devastates many possibilities for creating sustainable growth in turbulent times. It’s also a defense mechanism. The truth is that it *is* possible to build highly inclusive/diverse workplaces. If we are honest with ourselves, we will recognize that the real problem is our reluctance to make the transformational changes needed to do it. We want to hang on to our old ways, but get new results. If we can get past our resistance, the model provides insight into the path forward.

Enterprises in the “Renewable Zone” have low differentials in power and status between the “top” and the “bottom” of the organization. In other words, they are relatively flat. And, traditional command-and-control practices are replaced by an emerging “partnership” model based on adult-to-adult (peer) relationships.

Traditionally, organizational alignment has been gained through subtle (or not-so-subtle), coercive cultural pressures, and through extrinsic, social rewards like power and status. The goal is behavioral compliance. These methods fit firmly into the “AT&T zone” – and don’t work anymore. In renewable enterprises, alignment is gained by building individual-level, authentic *commitment*. Each enterprise member is managed *uniquely* by tapping into individual, *intrinsic* motivations and strengths, and leveraging those for maximum enterprise advantage. As opposed to the bureaucratic “cog in the machine” model, employees feel – and act – like valued enterprise members.

Innovation and the entrepreneurial spirit are “activated” by constructively harnessing internal variety and differences as the raw fuel for continuous experimentation, innovation, learning and growth. We instinctively resist this because allowing internal differences to surface can initially seem like a descent into chaos. However, while repressing differences might *feel* comfortable and “safe”, it is actually a dangerous

strategy in a changing world. It yields only stagnation, loss of innovation, and potential extinction.

On the other side of perceived chaos is a vibrant, dynamic and diverse community of employees, each of whom is valued as a unique individual and encouraged to contribute and create. To get there, new leadership and management practices are required that foster safety, trust, honesty, integrity, accountability, mutuality and partnering.

This calls for a more sophisticated level of leadership and management competency, wisdom and maturity. This might be a core reason why creating diverse, inclusive enterprises is resisted. It's hard work, and it falls outside of the traditional business leadership "comfort zone." It calls upon our leaders to significantly "ratchet up" their level of interpersonal, relational maturity. Knowing the "business side" alone is insufficient to build sustainable capability for corporate renewal. The key to a future of sustainable growth lies in *combining* business acumen with community-building skills.

About Dean Robb, Ph.D.

Dr. Dean Robb is Founder and Executive Director of the Center for Corporate Renewal (www.ctrforcorporaterenewal.com). Since 1994, he has helped numerous domestic and foreign business leaders build high-performing, innovative, entrepreneurial enterprises. His expertise combines 26 years of practical, real-world experience in corporate America with in-depth research in human and organizational systems.

The Center for Corporate Renewal helps senior executives build the capability to:

- Strategic Focus: Make sense of a changing environment and gain focus on the next right strategic move
- Disciplined Execution: Align and mobilize the entire organization behind this new strategic focus
- Creative Renewal: Renew the entrepreneurial spirit by repeating these two actions over and over again.

For information on how Dr. Dean Robb can work with your organization to instill a spirit and ethic of renewable corporate entrepreneurship, email him at drobb@ctrforcorporaterenewal.com or call him at 908-757-4721,

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