

Chapter Ten

Strategic Inquiry in Learning Organizations

“Relentlessly questioning everything we do.”

There was a day during the Iraq war that may turn out to be somewhat like the day of JFK's assassination and the attacks on the Twin Towers here in New York City. You remember where you were and what you were doing.

My wife, Nancy, pointed to the television one Sunday morning and I heard Ambassador Paul Bremer III leaning in to the podium, resolute and ready to deliver the news many of us had been waiting for, “Ladies and gentlemen. We got him!”

He referred to the capture of Saddam Hussein. How many times all of us have seen the pictures of the hairless Army medic poking through his hair and beard and shining that red light into the far reaches of his molars.

Then we heard from Generals Ricardo Sanchez and Ray Odierno about how Operation Red Dawn assembled 600 military personnel for the raid on the farm house in the town of Ad Dawr where down in a little “spider hole” the dictator was hiding with his notebook, two AK-47s, a pistol and a green suitcase filled with \$750,000 in crisp one hundred dollar US bills. He crawled out bumping his head on the way out saying, “Don't shoot. I am Saddam Hussein, the President of the Republic of Iraq. I am willing to negotiate.” The GI who helped him out is reported to have said, “President Bush sends his regards.”

At a briefing later on Lieutenant General Ray Odierno. Commander of the Fourth Infantry Division and a rapidly promoted graduate of the 1976 class at West Point, answered many questions about the capture led by Raider Brigade commander Colonel Jim Hickey. To one question, General Odierno replied that he wouldn't know the answer "until we have completed our AARs."

[Photo or cartoons of Saddam's capture, of Odierno]

That phrase AAR immediately resonated with me because in doing research on learning organizations I had learned about the US Army's notable practice of conducting "After Action Reviews" following every major combat or training operation.

An AAR is a three step reflective process that provides any organization with a planning and reflection framework for all significant undertakings. It includes the following questions asked immediately following a planned operation:

1. "What was supposed to happen?
2. What did happen?
3. And what accounts for the difference?"¹

An AAR is designed to take place as an open forum of inquiry where the Army tolerates no sugar coating and strives to discover the truth about the operation. All leaders and participants must be able to respond to these questions without evasion and must recognize the hard facts of success and or failure.

This highly reflective and effective process was begun by the National Training Center in the Mojave Desert after the Vietnam War. Combat units come to the Desert,

¹ Michael Fullan, 2001 *Leading in a Culture of Change*. San Francisco: Jossey-Bass. P. 89.

plan to engage the enemy, role-played by US Forces, engage them and then debrief immediately following an intense simulated combat that commences at dawn and is usually over by 1100 hours. Visitors seldom “win,” and the AAR is designed to help them learn from their actions and mistakes.

This inquiry experience is designed to do what Kurt Lewin called “unfreeze” participants from previous assumptions, self-concepts and ways of thinking. It can be a jarring confrontation with the hard realities of combat. But here is where the idealism, innocence and lack of experience meet the realities of mud on the tank treads. Here we see what educators often call “teachable moments” in the center of a Review process that involves all decision makers.

In the case of Saddam Hussein, I imagine the AAR was very revealing of what contributed to the success of this mission. The commanders in the field had conducted eleven such raids in the past without success. We now know that the Iraqi (known as “The Source”) who ultimately pointed to Saddam’s “spider hole” was identified and captured after the dogged work of two intelligence analysts, Lt. Angela Santana and Cpl. Harold Engstrom, who compiled a large chart with over 300 names of family, tribal and financial links to the deposed dictator. One thing these two analysts learned was about the Iraqi tribal structure: “The extent and depth of how much the tribes were intertwined and integrated was beyond our expectation and frankly shocked us,” explained Cpl Engstrom.² Obviously, this discovery—of how intimately family, tribal

² Farnaz Fassihi 2003 “Two Novice Gumshoes Charted the Capture of Saddam Hussein. *The Wall Street Journal*, 18 December, p. A1.

relationships and financial dealings were intertwined—would be of immense value in helping to stabilize Iraq in the future.

During an AAR all participants listen and record in notebooks what they need to do differently next time. Says Brigadier General W. Scott Wallace, former commander of the NTC,

“The After Action Review has democratized the Army. *It has instilled a discipline of relentlessly questioning everything we do.* Above all, it has re-socialized many generations of officers to move away from a command-and-control style of leadership to one that takes advantage of distributed intelligence.”³ (emphasis added)

General Wallace has given us an amazing view of the contemporary Army where “relentlessly questioning everything we do” becomes the norm. Imagine life as a private in a combat zone raising questions about goals, strategies, tactics, resources, and validity of intelligence findings.

Everyone who needs to make a decision must have the big picture so he or she can take immediate action as necessary. Herein is the Army becoming more of a flat organization, withering away the classic pyramid of control where only the top brass make decisions. “Distributed intelligence” refers to ensuring that all those with responsibility have the necessary information to analyze, inquire, to act and reflect.

As a former military person (US Navy, eleven years) I look in relative awe at the AAR because of how different it is from my own training for sea duty in the Navy. Our training consisted of going through various drills during General Quarters—firing at simulated targets on land, sea and in the air, anti-submarine searches, rescues of man overboard, and seemingly endless damage control exercises. Never once did we on the

³ Richard Pascale, Mark Millemann and Linda Gioja, 2000. *Surfing the Edge of Chaos*. New York: Crown Business. P. 253.

ship engage in anything like an AAR. Your performance may have been critiqued by a senior petty officer, an officer of the line or the “Old Man” himself, on a one-to-one basis.

Once while serving as officer of the deck aboard USS *Glacier* in McMurdo Sound, Antarctica, from high above the bridge in our Loft Conning station I successfully and finally maneuvered the ship alongside the ice against a stiff off-the-bay ice breeze. As I backed and filled against the wind, the captain stood down on the starboard wing of the bridge pointing to the ice front as if that would magically teach me how to come alongside. Once alongside I came down to the bridge and my AAR consisted of “Well, it’s tough with that kind of wind.” On another occasion the captain offered a shipmate of mine (Don Epperson) a reward after a trial of being stranded on a remote Antarctic island, having his boat broadsided and not being able to return to the ship for 48 hours. His reward was not an AAR but a shot of whiskey and, maybe, the whole bottle.

One Captain did, however, conduct AARs. As skipper of the guided missile destroyer USS *Benfold* (DDG-64) Captain D. Michael Abrashoff followed the Army’s example on the bridge of his ship following various exercises and maneuvers, such as man-over-board, refueling and firing at targets. He noted that

the general rules for these sessions were that you checked your ego at the door and that there was no retribution for any comments. I encouraged people to challenge or criticize any one in the group. . .One seaman told me, “Captain, your ship handling stunk today and it made us do extra work.”⁴

⁴ D. Michael Abrashoff 2002 *It’s Your Ship*. New York: Warner Books. P. 60.

How much I would have learned had we all sat around the captain's chair on the bridge conducting an AAR: What did you want to do? What happened? What explains our results? And what would you do differently next time under similar conditions?

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Here are some questions we might ask ourselves and our colleagues at work:

Where in your organization, family, or at school do we engage in AARs?
 When would it have been good to conduct an AAR? Explain.
 When in the future will it be appropriate to conduct an AAR? Why?
 What impedes and facilitates conducting the Army's kind of three-question Review?
 What can we do to improve upon existing conditions?

Questions like these can form the basis of informal brown bag lunches with members of the workforce. It would, of course, be much more beneficial to include a supervisor, especially if that supervisor is open to alternative ways of thinking about how to manage work.

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But it's not only the Army that conducts AARs.

In the immediate aftermath of the terrible shootings at Virginia Tech in April, 2007 law enforcement officials deferred many reporters' questions until "after we've completed our AARs."

As an educator I look at what the Army does and realize that this is what we in schools have attempted, that is, to engage students in reflecting on their behavior by asking them to pose these same questions of themselves: "What is my plan? How will I accomplish it?" and afterwards "How well did I do and what might I do differently?" The latter question is one we should add to the AAR triad: "What will we do differently next time?"

This is the essence of reflective thought and a key ingredient to any success in learning new and challenging tasks whether at sea or in school. In fact, what we learn from the Army is that these questions are useful no matter what our tasks may be.

Imagine if we in all educational settings used these three reflective questions after attempting a minor or major innovation or change in materials, strategies or organizational structure! Never in almost four decades of service in schools, public and university level, did I ever participate in or observe the kind of After Action Review that would challenge and modify performance.

Some educators—and perhaps people in other professions and businesses—seem averse to this kind of thinking. Far too often this is the scenario: Identify a program, policy or strategy to meet some need (personal, instructional or other); implement; observe results; and either accept results or go on to another approach—all without reflective review. And far too often the program or strategy is not an alternative selected to solve a specific and clearly delineated instructional problem. Problem solving as a change strategy is not always perceived as the most logical approach to instructional nor institutional change.⁵ It's time consuming and some organizations perceive their having precious little time for such processes.

⁵ Far too often change comes about in educational organizations as the result of a number of different approaches: 1. Someone's pet idea; 2. Savvy marketing by book and program sellers; 3. Looking at what the other guy is doing and copying it; 4. Frustration with status quo.

The last approach might lead to what is a more effective approach: Clearly identifying a problem, outlining its specifics, generating alternatives that can deal with the concrete reality, thinking critically about each, deciding which meets our criteria, taking action and assessing results. See Michael Fullan's work for good analyses of why so much change in educational settings makes no difference where "the tire tracks meet the road," in the classroom.

Noted researcher of educational change Michael Fullan of the Ontario Institute for Studies in Education, has made this immensely important observation:

It is one of life's great ironies: schools are in the business of teaching and learning, *yet they are terrible at learning from each other*. If they ever discover how to do this, their future is assured. (emphasis added, p. 92)

The increasing demands on educators militates against reflection, except for the kind of AAR we all engage in the moment a lesson has been completed; we walk out of the classroom and the building wondering if we accomplished what we set out to do. This kind of self-reflection comes with teaching. But a collective sit down analysis—a reflective huddle—is too seldom undertaken to figure out both why an innovation is working so well or why it has failed to meet its objectives.

We wrongly assume that when something works well that it will hum along serenely being successful far into the future. This is not the case. We ought to conduct AARs whenever a program, innovation or teaching performance is deemed successful. Why? Because we need to identify those factors and elements that contributed to its success. Unless we know what these factors are, we will be unable to design and manage future situations by manipulating these variables.

What the US Army has demonstrated in its AARs is the immense potential of learning on the job from “teachable moments.” What drives this learning is reflective inquiry. As General Scott Wallace noted the driving force behind the AARs is “*relentlessly questioning everything we do.*” The Armed Forces are in the business of defending Americans and our interests at home and abroad and, therefore, they are in a grim life and death business.

This relentless questioning leads business leaders to become the dynamic energizers of broad change, rebels against the status quo, defiant visionaries who excel at problem identification and resolution. Inquisitiveness is the foundation of solid business planning.

Shell Oil and GE

What is significant about the Army's AARs is the intensely inquisitive spirit that pervades the process. General Odierno and his colleagues want to know what happened, why and, I imagine, what they need to do to improve upon their performance in the future.

One of the results of this questioning of important people is the democratization of the organization, sometimes called a "flattening" of the usual hierarchies where one boss at the top makes all the command and control decisions, leading to the kind of freezing of strategic or personal inquiry as we noted in Chapter Three. What leaders have been discovering over many years is that top down change isn't always the best way to bring about meaningful and lasting change within any organization. What we need in order to stream-line organizations, make them more responsive to customers and, therefore, improve their productivity is to find ways to break down bureaucratic barriers, open communications and liberate the creativity within all employees (and students).

Here are two companies that have done just this.

Shell Oil's Strategic Inquiry at the "Coal Face"

In the mid-1990s Shell Oil Company was facing financial crises. “. . .The chemicals business was losing money and seemed stuck in an eternal trough. The worldwide oil products business. . . was confronting the gravest competitive threats in its history. . .(Pascale, 181). Hypermarkets like Wal-Mart were underselling items derived from fuel oil and cutting into the bottom line.

One young executive, Steven Miller, had a good idea—to unleash the creative potential of the employees at the “coal face,” the name given to the field activities where the corporation work gets done. Miller’s solution was put management in direct communications with those people who worked at the grass roots, who solved problems in the field of operations.

In addition to publicizing Shell’s financial difficulties for all to see and instituting a model for identifying specific customer needs and tracking strategies to meet them, Miller instituted something called the “Fishbowl.” This is a standard approach educators use on many occasions. Participants who are posing and solving a problem sit in the center of the room and all around them are arrayed the observers—co-workers-- who note their approaches without comment. Once the group in the center has completed its task, the observers are free to comment on how the problem-solving proceeded.

Miller noted that it might not seem “revolutionary” to put management in direct contact with those who usually carried out the orders, but it was. One result of using the Fishbowl was the creation of “complete transparency between people at the coal face and me and my top management team.”:

Reflecting on why the Fishbowl strategy worked, Miller further noted once you change how decisions are made within the organization you've changed the entire environment. Leaders become "context setters," just as teachers in a classroom do. This is what Miller was doing—ensuring that workers at the "coal face" were becoming involved in problem solving, thereby eradicating the old "command and control" model that had prevailed at Shell (and in many schools) for generations.

Once the folks at the grassroots realize they own the problem, they also discover that they can help create and own the answer—and they get after it very quickly, very aggressively, and very creatively, with a lot more ideas than the old style strategic direction could ever have prescribed from headquarters. It worked because the people at the coal face usually know what's going on.

Notice Miller's shift of the locus of problem solving from management at the top to those persons required to carry it out. Some of us first heard about this kind of shift in decision-making control from advocates of Japanese "Quality Circles." Here the workers in the field, on the production line, are brought into the problem-solving process. One of the underlying principles of management and leadership here is that people charged with implementing a change need to have a "buy in," a stake in the outcome. Too many change efforts founder because those of us responsible for bringing about the change know very little about its rationale, or how it supposed to operate.

[Illustration of "Fishbowl"—cartoon, drawing of participants in circle surrounded by observers; also illustration of workers and managers wrestling with practical problems and asking tough questions]

Miller noted that as a result of sharing decision making with men and women that in less than two years "we've seen astonishing progress in our retail business in some twenty-five countries."

One must wonder why the old command and control hierarchies have lingered for so long in the business world. The same could be said for similar approaches in the nation's classrooms: stand and deliver. But notice that Miller has identified exactly what a teacher's role should be—***“The leader becomes a context setter, the designer of a learning experience—not an authority figure with solutions.”*** Teachers and leaders in this context change behaviors by creating enriched environments wherein people can think creatively and solve problems. Teachers in any educational setting—formal or informal—are responsible for setting the context and creating a learning experience, not for standing and delivering what students or employees need to know. There are, of course, occasions when this directive, didactic approach is appropriate--in emergencies, when we need to present information efficiently, and with students who might require a more structured approach).

As Miller noted, however, there are risks. One is that you are very exposed to comment and criticism in ways you were not before. “The scariest part,” he said, “is letting go.” Letting go of the traditional style of leadership, sharing power and control with employees.

This requires that we the leaders realize that we do not necessarily have all the best nor the right answers.

Here Miller has put his finger on the major problem with what he calls “strategic inquiry” of this kind—our desire to be in control of all decisions. We explored this disposition of leadership earlier in Chapter Three—people in positions of authority, be they teachers or corporate leaders, feeling the need and/or desire to make all major decisions themselves. This need to control is the major stumbling block to inquiry in

business and in the nation's classrooms. For years I've worked with educators on just this issue—learning how to let go, how to share some control of decision making with students.

This is the essence of meaningful change – empowering those with whom we work to take more control of their own education, their own work product, their own professional lives. We never relinquish total control, because then we would be neither educators nor leaders.

Disequilibrium at GE

When Jack Welch came to the leadership of GE in 1981, he realized things had to change. GE's businesses were profitable but, “they lacked a competitive edge.” He promptly announced that all sectors or businesses must be number one or two in their field or they would be terminated. He preached this message incessantly: “Being No. 1 or No. 2 wasn't merely an objective. It was a requirement.” He had to “permeate every mind in this company with an attitude, with an atmosphere that allows people—in fact, encourages people—to see things as they are, to deal with the way it is, not the way they wished it would be.” (Welch and Byrne, 2001, p. 106)

One of his most widely observed innovations was something he called “Workout,” a process similar to Miller's at Shell. “Work-Out meant just what the words implied: taking unnecessary work out of the system. Toward this end, we expected every business to hold hundreds of Work-Outs. This was going to be a massive program.” (p. 182)

What helped Work-Out was the same openness the Steve Miller created with Fishbowl. Employees were asked to identify problems, debate solutions and be prepared

to sell these when the boss [who wasn't present during the debate] returned. Employees, like soldiers in the AARs, worked with facilitators “who made the exchanges between the employees and the manager go a lot easier,” when the latter returned and had to make decisions on the spot.

One employee wrote Welch, “*For 25 years you’ve paid for my hands when you could have had my brain as well—for nothing.*” What a testament for the people closest to the work being involved problem identification and resolution.

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Jack Welch developed Work-Out at the GE training facility at Crotonville, New York. After leaving one powerful session he commented:

One afternoon in September, 1988, I left Crotonville frustrated as hell. I had just about had it. That day had produced a particularly good session. The people in class poured out their frustrations about trying to change their businesses. I knew we had to get the candor and passion out of the classroom and back into the workplace. ‘We have to re-create the Crotonville Pit all over the company.’

To do this Welch decided to bring in trained facilitators to help employees think through their problems. “Without the boss present and with a facilitator to grease the discussions, employees were asked to list problems, debate solutions, and be prepared to sell their ideas when the boss returned. The neutral outside facilitator. . . made the exchanges between the employees and the manager go a lot easier. (p. 182)

Question: How can we use a format like Work-Out within our organization? Under what circumstances can we create this open, free exchange of questions that help identify problems and their solutions with participants free to express frustrations, needs and aspirations?

[Image/artist’s rendering of a Workout session]
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Welch’s next brainstorm was to conceive of GE as a company without boundaries--“boundaryless” he called it. “The boundaryless company I saw would

remove all the barriers among the functions: engineering, manufacturing, marketing, and the rest. . .[it] would knock down external walls, making suppliers and customers part of a single process. It would eliminate the less visible walls of race and gender. It would put the team ahead of individual ego.” (p. 186)

By working hard with concrete visions of becoming more competitive, and while earning the title of “Neutron Jack” for his aggressiveness, Welch developed concepts of Work-Out and the boundaryless organization from the day-to-day struggle to make his company more responsive to customers. Work-Out and boundarylessness created more open environments where all people were given opportunities to pitch in and help solve problems while at the same time eliminating useless bureaucratic practices that made no sense. These concepts made managers more accountable, but it also unleashed tremendous creative powers of all within the organization.

Imagine paying people to work and not tapping in to all of their imaginative, innovative potential! We can say the same about educators in all settings, formal and informal. Imagine the powers of creativity and problem resolution we have in all our students and employees regardless of age.

The human potential of Theory Y

It was while teaching in a New York City that I suddenly realized that here I was all of 28 years old and I had 30 sixteen year old students from East New York in Brooklyn sitting in front of me. One day I said to them “I’m all of 28 and you have collectively 480 years of experience to help us solve this problem.”

Underlying these practical approaches to strategic inquiry are the basic principles of management laid down years ago by Donald McGregor (see Chapter Three). His Theory X and Theory Y explain the essence of “WorkOut” and the AAR. McGregor saw two different management styles derived from these principles:

If you are a manager who believes in Theory X, you believe that workers need high structure, need to be told what to do and will only work for significant rewards.

If you are a manager who believes in Theory Y, you design an organization that allows workers to express their deepest needs—to be creative, to exercise some control over their own environments, to assume ever increasing degrees of responsibility for decision making and quality production.

In short, Theory X underpins the old command and control way of getting things done—tell people what to do and ensure, through rewards and punishments, that they do it. It especially applies to young, inexperienced and immature workers whereas Theory Y can apply to more mature, experienced employees.

Theory Y seems to be the philosophy of the Army, Jack Welch, and Steve Miller—these managers believe that their productivity and corporate growth will derive from allowing workers and middle managers time, space and opportunity to become *the key participants* in the problem solving processes, thereby tapping into their great reservoirs of creativity, inventiveness and intellectual power.

Theory Y managers and leaders think their people want to be part of the change process. Theory X managers believe that their workers must be managed, controlled and led by superior intelligence.

AARs, Fishbowl, Workout and Boundarylessness all depend for their success upon leaders arriving at a stage in their organization's history and development where they realize things must change. There will come a time when a problem becomes so important that we must step back and ask, "What is the problem and how are we going to solve it?" This leads to consideration of more open ways of communicating with employees, experimenting with newer ways of identifying and resolving problems.

It is safe to assume that many of the problems identified within a Fishbowl and within Workout are ones management hadn't recognized heretofore. It is also safe to assume that many of the solutions generated were ones they hadn't considered.

All of these strategies are ways of re-structuring the organization. How problems are identified and how solutions are made reflect the very nature of the organization—is it a traditional command and control one with most decisions emanating from the apex of the pyramid of power? Or is it a flatter organization with ideas bubbling up at all levels?

The transition from hierarchical to flatter organization is dependent upon our willingness, our openness, our daring to ask the AAR question, to allow employees and foot soldiers to ask us the tough questions. If we are not open to that, then we might have an Enron on our hands.

Enron and the Culture of 'Why not?'

In Chapter One I brought up the case of the largest energy trading company of the 1990's, Enron. This company had been dubbed by *Fortune* Magazine to be one of the leaders of corporate America, one of the most innovative companies for many years running.

Their stock just seemed to keep rising. Enron was the darling of Wall Street. Analysts kept touting their growth and telling everybody to “Buy! Buy!” When I checked in to see if a purchase was warranted, their stock was at about \$65 dollars or so.

What got me interested in Enron was a flurry of television advertisements that featured the images of men, women and children intoning the word “WHY?” in different languages, amid pictures of large cities, Abraham Lincoln, Einstein, sprinters breaking the tape, Leonardo da Vinci drawings, urban rebellions and busy pedestrian and commercial thoroughfares with this script underneath:

“Why? Why? Why?

It is a small word—“why?” “Por que?”—a mere 3 letters on a Scrabble Board. . .

It is the chosen word of the non-conformist, defiant, the visionary. . .

It allows you to explore new possibilities

It challenges what’s thought to be impossible, allowing us to be limited by our own ideas and not someone else’s

If you’re not afraid to ask Why? you can change whatever it is you want

It can bring years of conventional assumptions to a jarring halt. . .”

Another ad featured a young man in steel armor walking around London looking very stiff and uncomfortable:

“. . .Keep asking Why?

It’s just the most critical question there is. . .

That's one of the basic words that exists in any language, so short and used so frequently. . .

[A small boy's voice] Children start with innate curiosity—the more you learn, the more inquisitive you become. . .

When we get tired of questions, we accept day-to day life. . .

People who have really creative ideas are people who keep asking why or why not?

We inherit from early investigators ideas that are unnecessary—we must *jettison* that excess baggage to make progress. . .

You can't live without questioning why. . ." (Enron, 2000)

[Image from Enron video tape: children asking “Why?” Leonardo breaking new ground in art or other representative images from these tapes.]

The message was that we needed to challenge the status quo, underlying assumptions and break through what Richard Dawkins, author of *Unweaving the Rainbow*, called “the anaesthetic of familiarity.” (1998, p. 15)

I was intrigued and called their corporate headquarters in Houston and spoke to their director of internal communications, Mary Clark, and public relations officers who told me how exciting it was to work for Enron. Here was a company where a young executive could propose a new idea and shortly thereafter receive a few million dollars to start up a project to see if it could work, if it could succeed to make money.

One such idea was controlling the weather. You may have seen the ads where a corporate executive is standing in front of a men's room mirror rehearsing his speech:

“We all know you can’t do anything about the weather. . .” he intones over and over again and then, finally, we see him executing these lines before angry shareholders.

Then the Enron message—You can do something about the weather if you buy into Enron’s program of managed weather futures. This idea stemmed from a young executive who thought you could plan for variations in weather and offer to ski resorts, for example, to buy insurance against those days when snow melted, it rained or ice covered the sides of their mountains. Enron called this risk management. Here was the essence of the ‘Why not?’ culture—“Why *not* do something about the weather?”

Another campaign ad focused upon bandwidth. Enron’s original question was why pay for bandwidth—that medium through which all of our Internet communications travel—when you’re not using it?

The script for this campaign included the following:

“From 7 pm to 7 am We’re paying for bandwidth we are not using?

Why?

Why are we accepting things the way they are?

If we have a problem, others do too.

There’s our market.

Why can’t we sell the bandwidth to other companies? Make it a commodity—a pork belly?

Why? Why? Why?”

The public relations personnel spoke glowingly of how Jeffrey Skilling had really transformed the work environment. According to Sherron Watkins, a high ranking accountant who ultimately wrote a whistle-blowing memo to CEO Ken Lay, Skilling

wanted all the walls of the executive offices torn down to eliminate barriers to communications. Skilling wanted an open space where “people will talk and throw things at each other and get all excited and creative.” (Schwartz, 2002, p. C1-2)

Andy Fastow, Chief Financial Officer and a favorite of Skilling, wanted people to “think outside the box.” One of my communicants said there were white boards all over the place and you could scribble down a neat idea for all to think about at any time.

Corporate values stressed

Respect: “We treat others as we would like to be treated ourselves.”

Communication: “Here we take the time to talk with one another. . . and to listen.”

Integrity: “We work with customers and prospects openly, honestly, and sincerely.”

And **Excellence:** “We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.”⁶

All this sounded to me just like what we have found in the companies earlier—Shell and GE—work places that believed in McGregor’s Theory Y—everybody is very creative, and our job as managers is to create environments that encourage employees to accept as much responsibility as they can handle and to allow their inventiveness to flourish.

⁶ (from enron.com, accessed July 1, 2000)

One e-mail from Mary Clark [pseudonym, Jennifer Bradley] in May, 2000

explained that

Some of the best ideas have come from the rank and file employees. We have created internal communications tools, most of which are web-based, that facilitate this free flow of ideas across the company. Everything that we've been successful at today has come from employees who had a great idea: our wholesale energy services business in gas, power and a host of energy and energy-related commodities, retail business, weather derivatives, pulp and paper, electric peaker plants, and our broadband services business and so much more. It's hard to put Enron in a box and explain what we are and how we do what we do.

How prescient was this e-mail in terms of explaining how Enron conducted its business—it's hard to "put Enron in a box." Bradley described the essence of Welch's boundaryless organization, one that thrived upon employees asking "Why can't we do something about the weather?"

Bradley continued to exalt the results: "One measure is our stock price, which has had a total return to our shareholders of 1,259 percent between Jan. 1, 1990 and March 31, 2000. Our employees are shareholders and as stakeholders realize what their efforts mean to Enron's success—and ultimately their success." Another prescient, if sadly ironic prediction!

I asked how the ad campaign began. Where did they get the idea for these commercials? The public relations people replied that they had hired an advertising firm to visit Houston and sit in on their planning meetings. The feedback the firm gave Enron was that in these meetings they kept hearing these words: "Why not? What if we were to . . . ? Why can't we do this? Why, Why Why?" Hence the "Why?" campaign. Clark told

me that the purpose of the ad campaign was to highlight “our restless dissatisfaction with the status quo and our ability to quickly grasp how most things can always be improved.”

Who are these ads intended for? Who is the intended audience?

Corporate leaders Enron said. We want to change their thinking about the energy business. “The ads also are intended to reach elected and appointed officials who set policy and regulations that might affect our business worldwide.”

And change a lot of people’s thinking they did. CEO Ken Lay, President Jeff Skilling, CFO Andy Fastow all led a kind of revolution in the energy trading industry. In their heyday of the 1990s these leaders engineered the spectacular growth of Enron. Nearly every quarter saw them meeting or exceeding their earnings projections. A stock price rise of 1,259 percent made Wall Street analysts at Merrill Lynch, Goldman Sachs and other brokerages take notice. Enron stock became the darling of these analysts as the company succeeded in meeting and exceeding its earnings projections quarter after quarter.

The Flame Out

I was indeed surprised, therefore, when I heard on 14 August 2001 that Skilling had resigned. What did this foretell of the future of Enron? What was happening?

Shortly thereafter, in December of that year, 2001, Enron filed for bankruptcy.

What had happened?

How could you explain the demise of this company?

The meteoric rise of the company is told in a red stock price graphic from *BusinessWeek* with the headline “The Fall of Enron: How former CEO Jeff Skilling’s strategy backfired”:

“December 31, 1996 Stock Price = \$21.50

August 17, 2000 Stock Price = \$90.

But then the bottom fell out.

December 5, 2001 Stock Price = \$1.01”

What happened to this company that had all the corporate values of companies that were and are practicing “strategic inquiry,” that are basing their production surges on the creative decision-making of its employees?

Into the folder marked “Enron” with the e-mail messages from the director of internal communications I had dumped all the articles that I found in *The New York Times*, *The Wall Street Journal*, *Fortune* and other periodicals. I also read the detailed account by Mimi Swartz with help from the insider and whistle blower, Sherron Watkins who, the day after Jeff Skilling resigned (August 14, 2001) sat down to write Chairman of the Board Ken Lay the memo that asked if Enron had become “a risky place to work” and warned that “we will implode in a wave of accounting scandals.” (Swartz and Watkins, 2003, p. 361)

In reviewing this great mass of data I have come to the conclusion that what did Enron in were values directly contrary to those expressed in the corporate philosophy and in the television ads quoted above:

The Arrogance of Power—“me first” attitude of executives

Personal Greed

Extensive Secrecy and Deception at the highest levels

Intolerance of dissent/disagreement/questioning

Fraudulent accounting practices

And Lack of strategic or reflective inquiry

I am not an accountant and it might not be surprising that I've had a challenging experience trying to understand what Skilling and Fastow and others created to help Enron grow so quickly. But there were major deficiencies in Enron's accounting procedures.

What seems evident at the end of the line is that Enron had gargantuan amounts of debt hidden from investors . When forced to acknowledge this debt, their credit rating plummeted. "Enron's bankruptcy filings show \$13.1 billion in debt for the parent company and an additional \$18.1 billion for affiliates. But that doesn't include at least \$20 billion more estimated to exist off the balance sheet." (Zellner, 2001, p. 30)

What were these "affiliates"? They were off-the-books partnerships with names like Raptor, Jedi, LJM1 and LJM2 and Chewco, all created by Fastow. What these entities allowed Enron to do was to play accounting shell games with mounting debt that was continuously approved by their auditors Arthur Andersen. These partnerships "bought" assets from Enron and hid billions of dollars in debt" according to a *Wall Street Journal* editorial of December 12, 2001. Enron "was in fact a huge hedge fund masquerading as a trading firm. Without telling its shareholders, Enron seems to have evolved into a high risk investment firm operating with a huge pool of debt"—debt investors were not aware of.

Enron, or perhaps more specifically, Andy Fastow, was hiding millions and ultimately billions in losses from their high flying world-wide energy trading transactions. When Sherron Watkins discovered the truth about the Raptors, she immediately started looking for another job.

When a special committee of the Enron Board of Directors looked into the collapse of their firm they found that these off the books partnerships had allowed Enron “to conceal from the market very large losses resulting from Enron’s merchant investments by creating an appearance that those investments were hedged—that is, that a third party was obligated to pay Enron the amount of those losses—when in fact that third party was simply an entity in which only Enron had a substantial economic stake.” (“Excerpts” February 3, 2002) Such shenanigans allowed Enron to report higher and higher earnings when, in fact, they were sinking ever deeper into the swamp of massive debt. Enron was, in fact, a huge hedge fund pretending that there were other companies responsible for debt, not Enron itself.

The special committee report ends by claiming that Enron executives were engaged in personal “self-enrichment” without “adequately designed controls.” Greed without reflection is a recipe for economic disaster that we still see sporadically on Wall Street today.

That company executives made millions from these partnerships only added salt to the wounds of those thousands of loyal Enron employees, like my correspondents, who lost their jobs and their pensions. Fastow himself reaped millions of dollars. An investment of \$3.9 million in LJM2 had returned to him the tidy sum of \$22 million and he was reported to have garnered over \$50 million in total.

[Illustration of failure to raise questions about Enron; muzzled analysts or overly exuberant brokers; the fallen “E” in front of Houston office]

“Hard to be a skeptic of Enron”

One of the earliest skeptics about Enron’s meteoric rise to fame, power and ever-growing earnings was Bethany McLean. In a March 5, 2001 article in *Fortune Magazine*, she asked the question, “How exactly does Enron make its money?” The answer, she admitted, was hard to come by:

. . . for all the attention that’s lavished on Enron, the company remains largely impenetrable to outsiders. . . ***How exactly does Enron make its money?*** Details are hard to come by because Enron keeps many of the specifics confidential for what it terms “competitive reasons.” And the numbers that Enron does present are often extremely complicated. Even quantitatively minded Wall Streeters who scrutinize the company for a living think so. “If you figure it out, let me know,” laughs credit analyst Todd Shipman at S & P. . . To skeptics, the lack of clarity raises a red flag about Enron’s pricey stock. (emphasis added) (2001, p. 1)

To others Enron was a “black box,” impenetrable in the relation between bottom line and financial structures. Her outsider’s perspective matched Mary Clark’s insider’s point of view—that it was very difficult to understand how Enron operated and kept meeting its monthly earnings projections.

Many on Wall Street decided that it was best just to play alongside the black box, continuing to advise clients to “buy,” even when they didn’t understand how Enron made its money. One skeptic who spoke out was Daniel Scotto, a bond analyst for BNP Paribas. Two weeks after Jeffrey Skilling resigned in August, 2001 Scotto told his clients that Enron securities “should be sold at all costs and sold now.” (Smith, 2002, p. C1).

A few days later he was demoted, put on family leave for 120 days and told to “cool off.” On December 5 Paribas terminated Daniel Scotto. As was often the case the company released him for reasons, they claimed, that had nothing to do with his evaluation of Enron!

Mr. Scotto said that his company “didn’t want him to say negative things about Enron because the securities firm had an investment-banking relationship with the energy trader.” On Wall Street financial analysts had become sellers of various companies they researched. They had lost their objectivity; research and marketing had become intertwined.

Mr. Scotto says companies like Enron wouldn’t tolerate negativity or dissent.

“You couldn’t ask hard questions, because it was viewed as offensive.”

He concluded with what he thought ought to be the motto for Wall Street: “Don’t ask, don’t tell.”

Too few analysts asking too few tough questions.

Gradually the company moved from the core values of Communications, Integrity, Excellence and Respect to ones that brooked no dissent. “Many former employees and executives say the atmosphere became so intensely competitive that people often did not feel secure enough in their jobs to question irregularities, if they were aware of them at all. . . **Dissent was tolerated less and less over the years.**” (emphasis added, Schwartz, p. C2) When executives suspected something was amiss, they questioned their own judgment rather than posing tough questions of the company as Sherron Watkins finally did.

Enron imploded, in part, due to the lack of critical scrutiny on the part of all concerned. Jeff Skilling presented his ideas “with a certainty that bordered on arrogance and brooked no dissent.” The only skeptic in the organization, Rich Kinder, departed in 1996.

“He was also the one person at the top of Enron who looked skeptically at things, consistently asking, *‘Are we smoking our own dope? Are we*

drinking our own whiskey? (McLean and Elkind, emphasis added, p. 28)

After Kinder left, this theory goes, the inmates were running the asylum.” No internal skeptical self-monitoring person, nor division could control the off the books deals and other transactions that booked profits as soon as the ink was dry on the contract (called “mark to market” accounting).

Rich Kinder may have been the last Enroner who could have played the role of Devil’s Advocate and there is no assurance that he could have succeeded with the egos of Skilling and Fastow holding the reins of power.

It also collapsed because its whole culture lost a vision of the truly reflective organization. Lay, Skilling and Fastow did not create a culture of strategic inquiry as did Odierno, Miller and Welch. There were no AARs at Enron. Had the leaders possessed the courage of their advertising campaign—asking Why?—had they the kinds of men who wanted to know how they succeeded and failed, they would have been more open to dissent.

But these were not men like Odierno, Miller and Welch.

These were greedy, unreflective power brokers looking for their own wealth and personal success.

Conclusion—“Why not?”

The US Army (and other “coalition forces”) at this writing continues to wage a war against Iraqi insurgents (former loyalists to/ soldiers of Saddam Hussein, Baathists and infiltrating bad guys [members of Al Qaeda] as well as Sunni and Shia. I

presume that Generals Petraeus and Odierno and others continue their After Action Reviews following major operations related to the “surge,” as President Bush called it.

Some like Senator Hagel deemed the “surge” one of the worst military blunders of any presidency. Others firmly believe to leave is to admit defeat, to surrender to Al Qaeda and the “bad guys” killing thousands of Iraqis with suicide bombs and the like.

Perhaps we are teaching the Iraqi Army how to conduct reflective AARs as part of their process of taking command of their own war against terror, as part of their “standing up” to their own defense. Maybe at this point that is too complex and operation.

Welch, Miller, and hundreds of other business leaders thrive on the core of business success: a restless curiosity about problem identification and resolution. These are the leaders who continually ask “Why not?” They press their employees to ask “Why can’t we do it this way?”

In his most recent book *Winning* (2005), Jack Welch lists several characteristics required for winning as a leader. Here is number 6:

Leaders probe and push with a curiosity that borders on skepticism, making sure their questions are answered with action. When you are an individual contributor, you try to have all the answers. When you are a leader, your job is to have all the questions. You have to be incredibly comfortable looking like the dumbest person in the room. Every conversation you have about a decision, a proposal, or a piece of market information has to be filled with you saying, “*What if?*” and “*Why not?*” And “*How come?*” (Welch and Welch, 2005, p. 47)

Questioning, then, leads to taking direct, immediate action in order to affect results.

Enron had it right in the beginning: Respect, Communications, Excellence and Integrity. All they needed to do was follow these core values as IBM, GE and Shell have done and they might still be in business.

Their lack of inquisitiveness about their own business cost Ken Lay his life and Skilling and Fastow their freedom. (The latter were jailed—along with others like Rich Causey--and Ken Lay died of a heart attack just before sentencing)

Mssrs. Lay, Skilling and Fastow should have followed the advice of one of sports' most successful managers, Phil Jackson of the Chicago Bulls during the Michael Jordan era. Jackson wove the lessons of certain native American tribes, for example, the Lacota, into the coaching philosophy he brought to his team. He always taught his players to surrender the “me” for the “we.” This meant winning was a matter of team work, always looking for the open man. This was Jackson's struggle—how to get men who initially work for their own individual glory to work for the best interests of the team. (Jackson, 1995).

By putting the “we” before the egocentric, power controlling “me” Phil Jackson helped win an NBA championship for the New York Knicks as a player and as a coach he has won six championships in Chicago and three in Los Angeles for a winning percentage of .727.

[Illustration of Jackson-like teamwork in sports, business and other areas of life.]

Perhaps the essence of strategic inquiry is found in the Hopi words Jackson used to help his team learn selfless teamwork:

“One finger can't lift a pebble.”

The lesson Jackson imbued with Jordan, Pippin, Shaq and all the other champions in Chicago and Los Angeles was that we had to surrender the egoism of the “me” to the power of the collective “we.” Unfortunately, Lay, Skilling and Fastow were not in on that team huddle. But Miller, Odierno, and Welch were as are all leaders who value the collective inquiry within their management and employee teams.

Practical Applications

Self-Reflection Inventory for the Leaders and Managers

1. How often do I sit down with other managers to conduct AARs as performed in the US Army? Where do we employ the three basic questions of the AAR: What did we intend? What happened? And How do we explain the difference between the intended outcomes and reality? Add a fourth follow-up question: What do we intend to do about the discrepancy between ideal and real results?
2. On what occasions in the past would it have been a good idea to have reviewed why we succeeded and/or failed in a mission or after a major innovation?
3. How would I characterize my beliefs about those who work with me? More in line with McGregor’s Theory Y or Theory X or a combination thereof? More like Andy Fastow or Phil Jackson?
4. When in the future should we all examine our performance, philosophy and standard operating procedures?
5. Which of the leaders mentioned in this chapter do I admire and Why? Which company’s businesses practices do you admire? Why?
6. If I do believe in Theory Y how do I go about unleashing the creative energies of those who work with and for me?
7. How often are meetings we conduct focused upon imminent problems with stake-holders present as well as others who can ask difficult questions that challenge standard operating procedures and make suggestions for improvement?
8. Under what circumstances would I employ a variation of Jack Welch’s “Workout” in my organization? How does “boundaryless” fit in? Explain.
9. How do I teach employees to practice Phil Jackson’s essence of a winning sports team—emphasizing the “we” as opposed to the “me”?
10. How have I avoided the pitfalls of Enron’s leadership? In terms of uses of power, communications strategies, integrity and corporate reflection on strategies and results?

Establishing AAR, Fishbowl, Work-Out and Matrix in our Organizations

What are the practical steps we might take in any organization, presumably one that is more hierarchical than flat, to create opportunities of AARs, Fishbowl, and Work-Out? How might you restructure the organization?

The answers depend upon the kind of organization in which you work.

Schools

Within any school, the principal is the head teacher, the one responsible for learning, good order and discipline and virtually everything that affects morale. I have worked for principals who saw themselves as innovative, for ones who were more laissez-faire and for ones who needed to control all decision making themselves. Regardless of the leadership style of the principal it is important to consider ourselves as actors responsible for creating the kind of school we want and need.

Depending upon the leadership style of your leader, you might try a number of different approaches:

1. Within department or grade level meetings you can engage in AARs whenever you have an innovation that is underway or about to be phased out. Asking these questions will teach you a lot about planning, implementation and evaluation of the program. When there are Professional Development days for the entire district you can conduct these kinds of reviews with all participant players plus those who will have a different perspective on the problem. This will require convincing the Superintendent or her associates that the district would benefit from conducting AARs or Work-Outs during these periods of time.
2. Within faculty meetings you might be able to convince a principal that what was needed was a variation on AAR or Work-Out. Present the actual results of programs/experiments/new strategies. Then ask the AAR questions to assess outcomes and suggest alternatives to improve the situation.
3. Within any classroom we can experiment with an AAR or Fishbowl kind of experience. It will be an excellent learning model for children and adolescents, especially when it involves a project for which they have made some decisions—or a classroom management problem. When they are stake-holders their participation in an AAR will be very involved and meaningful.
4. Within your own class you can empower students to conduct a Work-Out they way Jack Welch did it: The leader, you, presents a problem to the class; leaves students to generate ideas and solutions on their own. If you can find a friend who could act as a facilitator, or an older student, that would help the process. I used to conduct a variation of this during the middle of a semester at the university level. I would ask my students to list pros and cons of the course; leave and allow them to discuss their lists under the leadership of two graduate student leaders—experienced teachers—and then return to hear their suggestions. I thought its value came more in the area of being a

change model than in re-shaping my own course, but it worked in that aspect as well.

Businesses

In any business we need a leader with the commitment of a Miller, Welch or Odierno to institute any one of these problem solving processes within the entire organization.

1. But within any division we should be able to conduct **AARs** on our own; establish a **Fishbowl** or **Work-Out** session amongst our own team members. If management rebuffs our efforts, we need to seek support from a variety of sources: try to include immediate supervisors by telling them we need to consider alternative courses of action; as mentioned above, use these on your own, measure results and then advise management of the improvements. I was often told in education, take action and ask forgiveness later.
2. Another strategy much written about is playing **Devil's Advocate** relating to a proposed action or project. As with elevating someone to sainthood in the Roman Catholic Church, the Devil's Advocate raises all questions pertaining to the subject at hand: examining underlying assumptions, current data, projected and possible unintended consequences. (Kreitner and Kinicki, 2001 and personal communications, 2005)
3. To foster the culture of inquisitiveness we can take these concrete steps:
 - a. Model inquisitiveness by asking Jack Welch's questions: "What if?" "Why not?" and "How come?" These questions will challenge underlying assumptions, the conventional wisdom about who does what, when and how we perform our various jobs.
 - b. Create a vision of a learning organization. Do this with all key leaders and representatives of the workforce.
 - c. Design symbols of the learning/inquisitive organization: on stationery, posters.. .
 - d. Walk the walk by sitting down with management and employees to examine their primary concerns about the job, asking questions about process and performance, asking "Why not do it this way?" These sessions must not turn into mere gripe experiences as sometimes can occur. There must be rules: identify a clear problem, ask questions, seek alternatives, make a decision, implement.
 - e. Leading meetings by considering **Key/Essential Questions** related to production, performance, personnel management. Allow some of these questions to be generated by employees.
4. **Engage in Problem-Based Management.** During supervisory visits on the floor play Jack Welch asking numerous questions, but also challenging employees and middle managers to **pose their own questions**. Begin such sessions with a problematic situation:
 - a. Here's the mess we're in.

- b. What do you **Observe**? Identify the facts, carefully identifying impressions, assumptions and the like.
- c. What does it make you **Think** of? Relate to similar experiences.
- d. What **Questions** do we need to ask? Seek to uncover assumptions that are in force, causal and consequential factors.
- e. **How** will we go about finding answers? What **Actions** can we take?
- f. How will we know when we've succeeded? What will be the **Indicators of Success**?

As Phil Jackson said about being members of a team, one of the most important values to develop is trusting each other. Within an open environment without fear of reprisals, we would hope that team members begin to listen to each other, begin to trust their judgment and commitment to the organization's goals.

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How do we foster inquisitiveness within large organizations? How do we create what is called a “learning organization,” one characterized by managers and employees who pose significant questions about philosophy, priorities and performance and, thereby, dramatically improve productivity and employee satisfaction? The US Army, GE, Shell Oil and IBM have developed organizational structures and processes that share more power and control of decision making with key stake holders. Had Enron created such a culture of inquisitiveness many people would now still be working there.

“Who Says Elephants Can’t Dance?”—Lou Gerstner at IBM

Elephants don’t dance—unless they’re in a circus. Elephants as corporations usually can’t dance because they are so large, so encumbered with the weight of layers of management, multiple divisions with thousands of employees.

But Louis V. Gerstner took over IBM in 1993 when it was facing a \$16 billion dollar loss due to the very rapid change in the computer and information technology industry. Led by its founder James Watson, IBM had built its reputation on the main frame computer, but the 1990s were, as we all know, the decade when we all bought our first desk top computers. Could IBM transform itself from a manufacturer of the largest computers for business to a competitor in the fast changing world of personal computers?

Gerstner accepted the challenge and described the results in his book *Who Says Elephants Can’t Dance –Inside IBM’s Historic Turnaround*(2002). We will see here many of the elements observed in the US Army, Shell Oil and GE.

Having worked at the consulting firm of McKinsey and at American Express Gerstner brought to IBM a sensitivity about strategic inquiry:

Early on I discovered, to my dismay, that the open exchange of ideas—in a sense the free-for-all of problem solving in the absence of hierarchy that I had learned at McKinsey—doesn’t work so easily in a large, hierarchical-based organization. I well remember stumbling in my

first months when I reached out to people whom I considered knowledgeable on a subject regardless of whether they were two or three levels down from me in the organization. My team went into semi-revolt! Thus began a lifelong process of trying to build organizations that allow for hierarchy but at the same time bring people together for problem solving, regardless of where they are positioned within the organization. (p. 3)

Here is the essence of the learning organization—communications across divisions and departments to solve real problems.

When he arrived at IBM the prevailing wisdom was that this giant corporation needed to be divided into its multiple parts. Gerstner quickly dispelled that assumption and announced that IBM would continue as one company but with sharpened focus. He laid down several principles early on among which were:

- I look for people who work to solve problems and help colleagues. I sack politicians.
- Don't hide bad information—I hate surprises. Don't try to blow things by me. Solve problems laterally; don't keep bringing them up the lines.
- Hierarchy means very little to me. Let's put together in meetings the people who can help solve a problem, regardless of position.
- Reduce committees and meetings to a minimum. No committee decision making. Let's have lots of candid, straightforward communications. (p. 24)

Realizing he was up against the likes of Bill Gates (of Microsoft) , Steve Jobs (at Apple) and others, Gerstner knew that “the whole Silicon Valley ethos—lightning speed to market with just-good-enough products—wasn’t simply foreign to IBM, it was an entirely new game.” He needed to change IBM—“reinventing an encrusted culture from its DNA out.” (p. 105)

This was no easy task. One IBMer observed that “Reengineering is like starting a fire on your head and putting it out with a hammer.” (p. 64)

Gerstner instituted no widely publicized policy like AARs or Workout. Instead he focused upon many different strategies to ensure that IBM became more nimble in the face of the nimbleness of companies like Apple, Dell, Gateway and Microsoft. One of these policies was to strengthen communications through what he called a matrix, an antidote to the rigidities of hierarchical, top-down structures:

Now, there’s no doubt a matrixed environment makes our jobs as managers and leaders much more challenging. It also makes them more important. . . a well-managed matrix is highly fluid and adaptable. Roles change often. Teams form and disband. Decisions about which business unit will lead in any particular situation are not codified. This puts a premium on the judgment of leaders at every level. You decide which opportunities offer the highest potential return. You decide where to deploy our people, capital, and time. . .(p. 314)

The primary attitude within a matrix environment is this: “My job is to ensure that all the capability of this company is channeled to the person at the point of contact with the customer. I’m here to help them win business.” Leaders within this structure must be open to changing their roles in problem solving. Managers are not in business to promote their own limited interests alone. “They say, `You’ve got the ball this time. What can I do to help you win?’” (p. 316)

I recall a graduate student who worked at a large tele-communications corporation once telling the class that at his company they had a saying: “I didn’t create this problem, but it’s my responsibility to do something about it.” No finger pointing among colleagues and divisions. If something is broken, then we all have a responsibility to pitch in. Imagine children in elementary school growing up with this idea—then we’d have fewer instances of spilt milk in the cafeteria and everyone screaming “It’s not mine!”

Notice how different this attitude is from the kind of cultural insularity that existed, *by law* (the so-called “Wall”) between our intelligence gathering forces prior to 9/11. FBI and CIA and probably other intelligence gathering organizations were forbidden to speak to one another as noted in Chapter One. There was no sharing of vital intelligence information across boundaries. Officers within both organizations, we were told post 9/11 couldn’t stand to be in the same room with each other. There was no such attitude as “We’re all here to find the bad guys. Let’s work together as we did in finding Saddam Hussein.”

In Chapter 8 we learned from cosmologist Janna Levin about the “edgeless” universe, compact and finite. Jack Welch spoke of a “boundaryless” GE. What’s important here is the idea that titles and lines of authority don’t matter as much as knowledge. As Tom Friedman says (2005) “the world is flat,” meaning we are accessing expertise wherever it may be found. Boundaries, roles, responsibilities are all fluid and responsive to immediate needs and not bound by rigid hierarchies that stifle inquisitiveness, imaginativeness and inventiveness.

The tragic consequences of the related-party transactions and accounting errors were the result of failures at many levels and by many

people: a flawed idea, self-enrichment by employees, inadequately designed controls, poor implementation, inattentive oversight [by Arthur Andersen], simple (and not-so-simple) accounting mistakes, and overreaching in a culture that appears to have encouraged pushing the limits. Our review indicates that many of those consequences could and should have been avoided. (“Excerpts”)

“The job of the auditors is to ask tough questions and not to just blithely rely on what they hear from the executives,” said Joel Seligman, dean of the Washington University School of Law.” (Eichenwald, 2002, p. 27)

All that said, where was Arthur Andersen? Soon after the collapse of Enron we read and heard that all of the Raptor and other off-the-books partnerships that hid money had been overseen and approved by this accounting firm. But that was part of the problem—a lack of strategic, accounting inquiry on their part. Andersen accepted what they were told without much questioning at all.

This would become one of the major defenses launched by company executives: Everything we planned and executed was approved by Arthur Andersen. Why should we question our accountants?

Andersen was in bed with Enron. It regularly received very large fees, sometimes in the neighborhood of 5 million for its services to Enron, a conflict of interest between the auditing and consulting functions widely discussed after the collapse. And it seems as if Andersen not only accepted the word of various executives on the nature of these partnerships, they also shredded important documents soon after their audits were completed.

In its defense Andersen said, “You didn’t tell us everything. How could we raise questions about what we didn’t know?”

How did this lack of strategic inquiry come to pass? Professor John C. Coffee of Columbia Law School noted that during the 1990s “*securities analysts lost their skepticism, one of the most important values they bring to the market.* In 1990 they issued six ‘buy’ recommendations for every ‘sell.’ By 2000 the ration was nearly 100 to 1.”⁷

One explanation for the lack of strategic inquiry was that accounting firms came to see the act of selling consulting services to their auditing clients as a very lucrative business. Andersen and Enron were financial partners out to make large amounts of money. The auditor had lost its objectivity.

Another explanation Coffee offers is the psychology of bubbles. “The scandals at Enron, Andersen and Merrill Lynch can be seen as a consequence of the classic bubble that overtook the market in the later 1990’s. *Bubbles produce a euphoria in which skeptical gate keepers become temporarily irrelevant.* When the market is insane, sanity is not a profitable investment strategy.” (emphasis added)

What we had was an example of the propaganda tactic I learned back in high school known as “bandwagon.” Everybody’s doing it; hop on the bandwagon. The train is leaving the station and you want to be on it. A total lack of inquisitive skepticism was at work during what some called the “Internet bubble. . the technology bubble.” There was a whole psychology of acceptance without question.

⁷ John C. Coffee 2002 “Guarding the Gatekeepers.” *The New York Times*, p. A17.

Wall Street analysts and the media had lost the critical skepticism of the scientist,
of journalists like Woodward and Bernstein.