Betty Sue Flowers, Editor
SoL The Society of Organizational Learning, Cambridge, Massachusetts

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Foreword

Peter M. Senge, author of **The Fifth Discipline** and **Presence**

Not long ago, an executive from one of the largest corporations in the world showed a group of us at a meeting the "corporate values" tee shirt he had recently acquired. On the back were the corporation's values: integrity, respect, communication, openness. On the front was the corporation's name: Enron.

The first question many people will have with regard to this book will probably be "Why should I read a book written by a CEO who retired ten years ago? . . . whom I have never heard of? . . . whose company I have never heard of? . . . an insurance company!"

All I can say in response is "What will keep your company from being the next Enron?"

What company today does not have a "values statement"? In how many would the CEO be fired because he or she violates those values? In how many would a front-line person be able to come forward and share with management violations of the company's values, without potentially putting his or her career at risk? How many companies have worked seriously to build the capacity to confront and learn from gaps between what is espoused and what is practiced? Yet that is exactly what any company serious about values must do. After all, none of us are saints. The real purpose of articulating corporate values is so that we can discover gaps between our values and our actions and learn from them. The fact that so few companies even take such capacity-building seriously suggests that they are more interested in espousing rather than living their values.

This is but one lesson I learned from Bill O'Brien, who over the past twenty years has been and continues to be one of my true mentors. I can honestly say that there is no businessperson from whom I have learned more.

Bill served as architect of one of the most dramatic, sustained corporate revivals I know of, first as Marketing Vice President and then as CEO. In 1970, Hanover Insurance was, for all intents and purposes, bankrupt. In 1990, an independent study by McKinsey of the U.S. property and liability insurance industry placed Hanover in the top quartile of the industry in profitability and growth for the decade of the 1980s. It was the only company that was so ranked which had not been in the top quartile in the 1970s. This dramatic turnaround was accomplished with no major acquisitions to fuel growth, and with what most in the industry would regard as a critical strategic liability, independent agents. In other words, Hanover found a way to generate growth internally and relied on people who were not its employees to sell its product—people who could also sell competitors' products.

Interestingly, Bill and his predecessor as CEO, Jack Adam, regarded independent agents as an asset rather than a liability. It seemed to them that people who were not your employees had freedom to do what they felt was best, rather than being compromised by what the boss wanted. If you created aims and a way of working that they truly valued, they would volunteer their support and commitment. If you gave them another story that smelled of "corporate BS," they would defect. Hanover's structure of independent agents, Adam and O'Brien reasoned, was the perfect setting to see if they could develop a set of guiding ideas and practices that truly treated customers and those who serve customers fairly. Voluntarism for people at the front lines, they believed, was the surest path toward integrity. So, way before people thought about "network organizations," "strategic alliances," and other voluntary affiliations to grow enterprises, O'Brien and Hanover were creating them.

Likewise, with innovations in many other areas, O'Brien and his Hanover colleagues ventured where few predecessors had gone. They worked to develop a "values-based, vision-driven" organization well before writing values and vision statements became a corporate fad. They identified knowledge generation and diffusion—organizational learning—as a core source of competitive advantage before anyone had written about "knowledge management." Along with a few other pioneers such as VISA, Hanover developed a radical, decentralized governance system, with divisions reporting to independent internal boards, before people ever talked about "decentering" large corporations.

In brief, the main reasons you may not have heard of Hanover is that it was so far ahead of its time that few knew about or understood what O'Brien and his cohorts were doing.

I knew about Hanover because, in 1980, Bill joined a group of CEOs that met regularly at MIT to talk about deep changes that were starting to play out in the business world. The group included Ray Stata, CEO of Analog Devices and founder of the Massachusetts High Technology Council, and Arie de Geus of Shell, from whom we all learned about organizational learning for the first time. This CEO group became a prime incubator for many of the ideas that eventually came to underpin work on organizational learning, and the collaboration among the companies established the pattern that evolved eventually into the SoL (Society for Organizational Learning) global network.

From the outset, it was clear that Bill was a distinctive contributor among this group of leaders. His remarkable gifts for simply articulating complex issues and seeing to the bottom of things became deeply appreciated, as did his resolute unwillingness to swim with the tide of management fad and fashion.

For example, early in our meetings, he spoke of the importance of developing a "home-grown philosophy" in an organization. This had nothing to do with being closed to outside influences and developments in the larger world. Indeed, O'Brien was famous within Hanover for continually rocking the boat of organization tradition by bringing in people and ideas from outside. But he was equally adamant that no real change could start to occur unless new ideas were internalized and eventually became a transparent part of the organization's own way of doing things. In this way, he was able to help the organization achieve balance between change and continuity, to keep experimenting without getting caught up in the "flavor of the month" programitis that afflicts so many corporations. "You must be truthful to the roots of the company," Bill says— "transplants will be rejected." The only way Bill believed a company could "sustain continual radical innovation yet not chase fads is to have theory and practice rooted in your soul."

Theory is a word you rarely hear from managers. For O'Brien it was crucial. "One day," he says, "I was reading a twenty-year-old memo. What it said was exactly what people were saying all around me at that very time. Every six to ten years, the insurance industry cycle shifts. When this happens, there are predictable patterns. When business gets hard, people withdraw authority from the field, cut the bottom ten to twenty percent of their agents, and publish new rules for more stringent underwriting and cost containment. Six to ten years later, when business booms, all of this is reversed. The essence of the type of manager we wanted to develop was someone who could confront current problems with an appreciation of history, someone who would not accept solutions with negative long-term consequences. When you do that, you not only jeopardize your business, you demoralize your people."

Bill's interest in theory extended from the theory of the business to the theory of building a values-based organization. In the 1970s, Adam and O'Brien jointly developed three guiding values: localness (make no decision at a higher or more central level that could be competently made more locally), openness (encourage people at all levels to challenge the assumptions underlying their and others' decisions), and merit (the ultimate criterion for all decisions is the health of the enterprise as a whole). Clarifying these three values took an entire decade—it took that long to discover what values were really needed to guide decisions, and to develop shared understanding of what these values meant in practice. Gradually, Hanover's board of directors started to understand the importance of these values as well, but they were puzzled by O'Brien's approach to building commitment. He began to get pressure from the board to put these values into the performance review process, as many companies were starting to do. "Only if you make people's promotions and pay depend on living according to our values can you show people in the organization that you are really serious," board members would say. "Thank God, we never caved in to this pressure," says O'Brien. What the board members had to come to understand, O'Brien says, "is that a value is only a value when it is voluntarily chosen."

Incisiveness like this gradually led to Bill's being recognized among many peers as a "philosopher-CEO" extraordinaire. After he retired, he became a personal advisor to several CEOs attempting to bring about similar transformations in corporate culture. When he would make one of his rare visits to one of these companies, it was quite an occasion. "People value Bill's counsel so much," commented one executive. "He has become a genuine elder in the SoL community."

In 1998, we were launching a new SoL research initiative on the challenges of assessing business performance in ways that deepen and extend innovation rather than intimidating people and reinforcing fear and internal competition. Bill opened this session with a presentation that was vintage O'Brien, on "my nine frustrations as a CEO":

1. *Fog in seeing real business results.*
It is very difficult to see how a business is performing in fewer than five to ten years, given the inherent ebbs and flows in any business.

2. *We don't understand gestation periods.*
It is difficult to judge the effectiveness of basic innovations in culture, processes, and capabilities, given inherent time delays.

3. *War between the short term and the long term.*
People at the front lines often know that disinvestment is occurring in a business, but this can be covered up for many years.

4. *Self score-keeping: Is it more temptation than management can handle?*
Pressures to make short-term results look good are especially pernicious, given that companies are basically their own scorekeepers.

5. *Is the basic problem lack of knowledge or lack of virtue?*

6. *How do we embed "leanness" as a basic virtue, starting at the top? The temptation is to get "fat" in good times, which leads to large-scale layoffs.*
I worry about companies that can lay off one thousand people but not one person in a position of authority who fails to command people's respect.
7. *Much damage is done trying to quantify what should not be quantified.*
8. *Much improvement is possible by simply avoiding dumb things that everyone says you must do.*
9. *What does it take to develop a "legacy mentality" in corporations?*
A core leadership dilemma today arises because those at the top want to "put their stamp" on the organization, thereby leading to superficial versus significant changes, which require longer time-horizons than "one CEO's watch."

It is impossible to read this list today and not be struck by O'Brien's remarkable prescience. For example, his fourth, fifth, and sixth points capture succinctly the essence of the current hand-wringing about corporate accounting practices. I remember Bill speaking that evening about the inevitable dilemmas that develop within large accounting firms: on the one hand, auditors are responsible for conducting impartial audits of client companies, and on the other hand, they are under enormous internal pressures to "not lose a key client."

As O'Brien pointed out then, the core problem is a system of self score-keeping, rather than the failings of any one individual firm, in an environment that gives little attention to cultivating virtue. As he told his board many years ago, this is not something that can be done by fiat or by rules from the top. It is a matter of creating an environment for genuine maturation, starting with the model set by those in positions of power. If people in the most senior and visible positions do not cultivate virtue, no set of rules will ever compensate.

Which brings us to this book.

In a sense, this is an old-fashioned book. In many ways, the connection between leadership and wisdom represents the oldest thread of leadership theory. Plato developed this theme in his dialogues with Glaucon on the "philosopher king," as have countless religious traditions around the world. The core imperative was stated eloquently 2,700 years ago, in the Guanzi, which laid many of the foundations for Confucian social philosophy: "When a person's virtue is not equal to his position, all will suffer."

The real question for today is do we have an appetite for a renewed exploration of "doing well through doing good"? The answer to that question will determine whether or not anything is learned from the Enron scandal, far more than will a public witch hunt or legislative changes.

Of all the lessons I have learned from Bill O'Brien, none stands out quite so much as his resolute belief that "business success depends, over the long run, on practicing the timeless human virtues." It seems to me that in the complex world of mounting social and environmental stresses—when more and more large corporations are starting to realize that their financial bottom line is too limited a concept to assure long-term survival and vitality—the timeless wisdom of a leader like Bill O'Brien could not be more timely.

Peter M. Senge
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1.The Soul of an Organization

The crisis inside the American corporation runs deep. It shows up when office politics dilute an organization's sense of mission, or when euphemistic language masks honestly held viewpoints, or when managers adopt a game-playing veneer that stunts their authenticity. Operating matters consume daily agendas. We have meetings to attend, reports to prepare, people to see, e-mail to read, calls to return, and deadlines to meet. Often we push aside the very values that normally steer our lives and instead simply give in to the pressure to perform.

In the race for the rational, the scientific, and the measurable, we have lost sight of something more important—an ecology in which work serves people, not only as a means for earning a living, but also as a platform on which we can develop our talents and express our best selves. The soul of an organization concerns more than matters of the bottom line.

The Principle-Centered Organization

In a workplace shaped by a values-based, vision-driven leadership, the goals and values of the organization are in alignment with those of the people who work there. Most important, the atmosphere stimulates people to express their highest attributes—their desire to help others, their eagerness to contribute to something larger than themselves, and their courage to stand up for what's right.

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Where to Begin—A Shift of Mind

The antidote to the dispiriting impact of the command-and-control, authoritarian institution is to cultivate deep respect for each individual worker, recognizing that all work has dignity and understanding that managerial humility is an important virtue for long-term success. To do this requires a shift of mind.

Transformational cultural achievements require the replacement of a higher value for an inferior one, such as substituting merit-based decision making in place of political decisions, or individual responsibility in place of bureaucracy, or openness in place of unjustified secrecy. This shift of mind results in a superior mental model replacing a less effective one.

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The Character of Management

The idea that a manager can serve his employees as well as lead was proposed long ago by the ancient Chinese sage Lao Tzu. And Robert K. Greenleaf, in his excellent book Servant Leadership, develops the subject in a modern context, saying: "We are not wanting for knowledge of how to do things better, or for material resources to work with. But we are sorely in need of strong ethical leaders to go out ahead to show the way so that moral standards and the perceptions of many will be raised, and so that they will serve better with what they have and what they know." It is an idea whose time has returned.

Building an ecology of soul presupposes a different approach to corporate management. It respects the need for good, orderly direction but combines that with a respect for individual capacities. It understands that organizations need to serve and satisfy all members of their work family. By carefully selecting and nurturing people who espouse and practice these ideas, the leader of an organization can help shift its ecology.

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Transforming Our Institutions

The central organizing principles—the decisions and actions that involve an organization's people, values, and aspirations—cannot be reduced to a formula. Nor will there ever be a package of rules, such as there is in accounting and in science, to be plugged in and applied to human relations. It is not only unwise, but also unworkable, in this age of democracy and capitalism, to try to run an organization on principles that are forced on people. A value, by definition, can be embraced only voluntarily.

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Work and happiness are mutually reinforcing. Work is an important vehicle for achieving happiness, and happiness has its roots in devoting our talents to something larger than ourselves. It follows that creating an effective environment for work is more than getting people to do jobs efficiently in exchange for pay. Instead, designing work at any level is a near-sacred responsibility that has a powerful, direct impact on the quality of life.

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Five Ideas about People

1. *There is in every person a relentless desire for happiness.*
2. *Work is an essential element of human happiness.*
3. *The learning that drives human growth is a lifelong process.*
4. *We do not fulfill our potential in isolation but in conjunction with others.*
5. *A superior level of happiness can be achieved only in conjunction with the pursuit of quality.*

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Localness

Localness combines a high level of personal responsibility and confidence in oneself with the understanding that key decisions should be tested by discussion with those who can add specialized knowledge, experience, or objectivity. Localness demands a mature willingness to use all the resources available. It is the only way we can combine the advantages of both local and national or global companies while avoiding the disadvantages of each.

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Merit

If localness is about liberating individuals, then the value merit is about liberating ideas. In fact, the two values are linked: localness frees people to generate ideas about their own work, and merit encourages the judging of those ideas based on their inherent worth, not on their degree of political connivance. In a merit-based organization, people strive to attain the organization's purpose and vision in a way that is consistent with its values and strategy—that is, what it stands for and intends to achieve.

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Openness

Have you ever attended a meeting where you disagreed with what was being said, but you did not feel free to voice your own ideas? Did you then leave the meeting at break to become involved in a discussion where people felt they could say what they really thought? If your answer is yes, you're not alone. Many people sit through such events thinking "I don't believe that's the right thing to do" or "I'd like to say what I think, but I know my boss doesn't agree" or "I'd better keep quiet about my ideas; they're just too different." Then, they vent in the corridors or the lavatories.

An open environment attempts to resolve this tension. It seeks to create a climate in which people can share their ideas without worrying about whether others will be pleased or offended, without considering who is for or against an idea, without keeping track of "winners" and "losers."

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Leanness

Leanness is not cheapness. It is not paying low salaries or accepting shoddy work or inferior thinking. It is not understaffing. It is not locating offices in rundown buildings.

What, then, is leanness? It is demanding that every dollar we spend earn a high return for our company. It is being mindful that many business and financial mistakes arise from waste, extravagance, overspending, monument building, ostentation, unsound expansion, and other wrong-headed actions that can eventually become bad habits. Although unwise practices intensify during good times, their penalties usually strike in hard times.

Leanness is a frame of mind that helps a person or an organization grow and prosper in good times and bounce back from bad times. It is a way of life in which we base our sense of satisfaction on what we achieve, not on what we spend. A lean organization avoids spending for show because it knows that results and performance speak for themselves. It feels no compulsion to impress others.

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Visions that
energize the individual must have three important
principles:

- *They must be aspirational.*
- *They must be intensely personal.*
- *They must be internalized.*

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Don't try to sell your vision or inoculate anyone with it. Just talk about it, letting your natural enthusiasm flow. Ask others to test it, and honestly and nonjudgmental hear them out. It will get better as you go along.

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…most people, regardless of their level of education, have within them a built-in horse manure detector (HMD), just as they have a mind, a soul, and a spirit—none of which can be identified on an anatomy chart. The HMD helps individuals sort out whether they are receiving an honest, forthright communication or one that is intended to manipulate their behavior. The HMD helps to sort out whether an action is taken for the sake of everyone or just out of self-interest.

As we know, spin control takes different forms. Sometimes exaggeration is used to slant a subject a certain way; sometimes anxiety or fear is used to push opinion in a certain direction; at other times information is withheld to influence decision making. Most of us can't articulate how our HMD works, but we intuitively decide not to commit to propositions that trigger the alarm. Thus, the manipulative boss gets pseudo followership in response to pseudo leadership. That is why executive moral formation should be grounded in a passionate commitment to truth, forthrightness, and respect for the capacity in ordinary people to discern between high- and low-quality propositions.

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A Practical Understanding of Love

I hesitatingly suggest that the third step on our ladder of increasingly higher moral aspirations be based on a practical understanding of love. Why am I hesitant to suggest this? Because in our Western world, the word "love" has deep connotations we do not normally associate with business—romance, for example, or that special feeling among family members or close friends. But I'm not talking about these kinds of relationships. By "love" I mean a predisposition toward helping another person to become complete. This is our primary responsibility to everyone within our purview.

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Generative Leadership

Helping others grow is a fundamental attribute of generative leaders—it is the practice of love. The similarities between generative leadership and good parenting are striking—maybe you can't do either unless you can do both. But whether or not managers are parents, they all have a responsibility to encourage human growth.

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Paths to Maturity

There are three main paths to maturity. The first is the lonely inner journey of shaping core beliefs and making our choices congruent with our beliefs. The second is what we do. And the third is what we undergo. Don't underestimate the possibilities of the latter. Enormous growth emerges from adversity when we maintain an appropriate disposition. I know of instances where suffering an egocentric boss, a bad marriage, or even prison resulted in extraordinary personal growth.

The barriers to maturity are fear, anger, and selfish desire. These same barriers cloud judgment.

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Putting Principles into Practice

I offer the ideas in this book with the hope that they will help in the construction of corporate cultures that bring out the best in people, while delivering high customer satisfaction and superior financial performance, without which all "people-building" exercises in a corporate setting are either empty or temporary.

The ideas I've proposed are a significant departure from the ones on which the traditional corporate hierarchical pyramid is based. But the governance of business is a practical matter, and ideas ungrounded in practice, while they may be interesting philosophically, are not really very useful. So that you can judge for yourself the extent to which these ideas might be useful—and how they might be useful—I've included this section on my experience of putting these principles into practice at Hanover. I also think that ideas have more meaning when you understand the circumstances out of which they emerged and who the person espousing them is.

Roots

I am a Christian and a capitalist, in that order. The early formative experiences in my life were loving parents, a parochial school education followed by college at a Jesuit University, and two years of service in the U.S. Army as an enlisted man. The Jesuits imbued in me a lifelong appetite to go deeper into the causes of outcomes, while the Army introduced me to a "no-excuse" culture and taught me how to get along with and respect people from every walk of life. Additionally, the experience in the Army gave me a chance to see firsthand how a large organization actually works at the bottom, particularly in relation to human responses and interactions. I learned a lifelong lesson: you can't B.S. the troops.

After completing my Army service, I went to work in the insurance industry. I loved it. The game of business was my calling. It was a field on which I could play out the two driving forces within me—to live my faith (grow spiritually) and to contribute to my fellow human's well-being (grow professionally). I had a vehicle for integrating my Christianity with my occupation, though it was important to keep up the appearance of separation.

I started at the bottom as a clerk in an accounting department. Later, I spent a dozen years at the very top of a major corporation. What I learned at the bottom had a strong influence on what I did at the top. I saw myself more as an architect of culture and strategy than as a commander of a business, though I was always conscious of being in charge.

A Story about Performance

This story covers a twenty-two-year period, from 1969 to 1991. I was the CEO for twelve years, from 1979 to 1991. Jack Adam, under whom I served as head of marketing for eight years, was my predecessor from 1969 to 1979. Under our stewardship the philosophy of corporate governance described in this book was conceived, tested, implemented, and nourished.

A word about performance: In the insurance industry, companies can achieve high premium growth by lowering their underwriting standards and prices. If they take this route, they will grow like gangbusters for a while, but soon their profitability will sour. They will then usually tighten their selection standards (underwriting) so much that agents will reduce the volume and quality of business with them. This shift in approach to customers is behind the expressions "buyer's market" and "seller's market."

Superior insurance companies are not immune from these cyclical forces, but they can significantly better the industry averages for combined ratios and premium growth in both adverse and prosperous phases of the cycle. When I refer to "bottom-of-the-industry" and "upper-quarter" results, I'm referring to our management of these ratios in comparison to industry averages.

Insurance companies also hold a lot of money from which they earn considerable investment income that either augments their earnings or offsets their losses from insurance operations. But the key to superior results and distinctiveness in the insurance business is on the operating side, and that is where ninety-nine percent of our people worked.