Beyond Selfishness*

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Beyond Selfishness

September 11 has a message for management too. It became evident in the dramatic reversal of behavior in that corner of Manhattan from one day to the next.

It was business as usual before September 11, especially in lower Manhattan, where shareholder "value" was pursued vigorously through leaner and meaner organizations in the service of self. Then tragedy struck, and within hours another behavior appeared. People pitched in; they became engaged, in appreciation of collective need. Catering to self gave way to serving others.

No-one could expect that to continue for long, at least not to that degree. But we did get a glimpse—in the very epicenter of self-interest—of another pattern of behavior..

Our point is not that concern for others is suddenly going to replace self-interest. It is that there has to be a balance between the two, and that the events of those days helped to make evident how out of balanced our society has become. The role of management—responsible management—is to work toward restoration of that balance.

The House that Self-Interest Built

In the past decade, we have been experiencing a glorification of self-interest perhaps unequalled since the 1930s. It is as if, in denying much of the social progress made since then, we were thrown back to an earlier and darker age. Greed was raised to some sort of high calling; corporations were urged to ignore broader social responsibilities in favor of narrow shareholder value; chief executives were regarded as if they alone create economic

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performance. Meanwhile, concern for the disadvantaged—simple, old fashioned generosity—was somehow lost.

A society devoid of selfishness is certainly difficult to imagine. But a society that glorifies selfishness can be imagined only as base. Our intention here is to challenge such a society. Not to deny human nature, but to confront a distorted view of it. In so doing, we wish to promote another characteristic no less human: we call it *engagement.*

A tight little model—we call it a syndrome of selfishness—has taken hold of our corporations and our societies, as well as our minds. It builds on a set of half-truths—shown in Figure 1 as wedges—from a narrow view of ourselves, as economic man; to a distorted view of our values, reduced to shareholder value; to a particular view of leadership, as heroic and dramatic; to a nasty view of our organizations, as lean and increasingly mean; to an illusionary view of society, as a rising tide of prosperity. All of this looks rather neat, as does a house of cards. Before it collapses outright, we would do well to balance it with a rather different set of beliefs.

Below we take a good look at each of these half-truths, which we call "fabrications" to convey the point that they are assumptions we have constructed, not truths we have discovered.

First fabrication: Each of us is economic man, homo-economicus. In this view of the world, *a*ll of us, women included, are obsessed with our own self-interest, intent on maximizing our personal gains. Homo-economicus, in other words, is never satisfied: H.E. only wants *more*—demonstrably more, measurably more. To get it, H.E. is continually calculating, or perhaps we should say scheming. Thus are flesh and blood human beings reduced to hard-wired decision making machines—universally, "globally."

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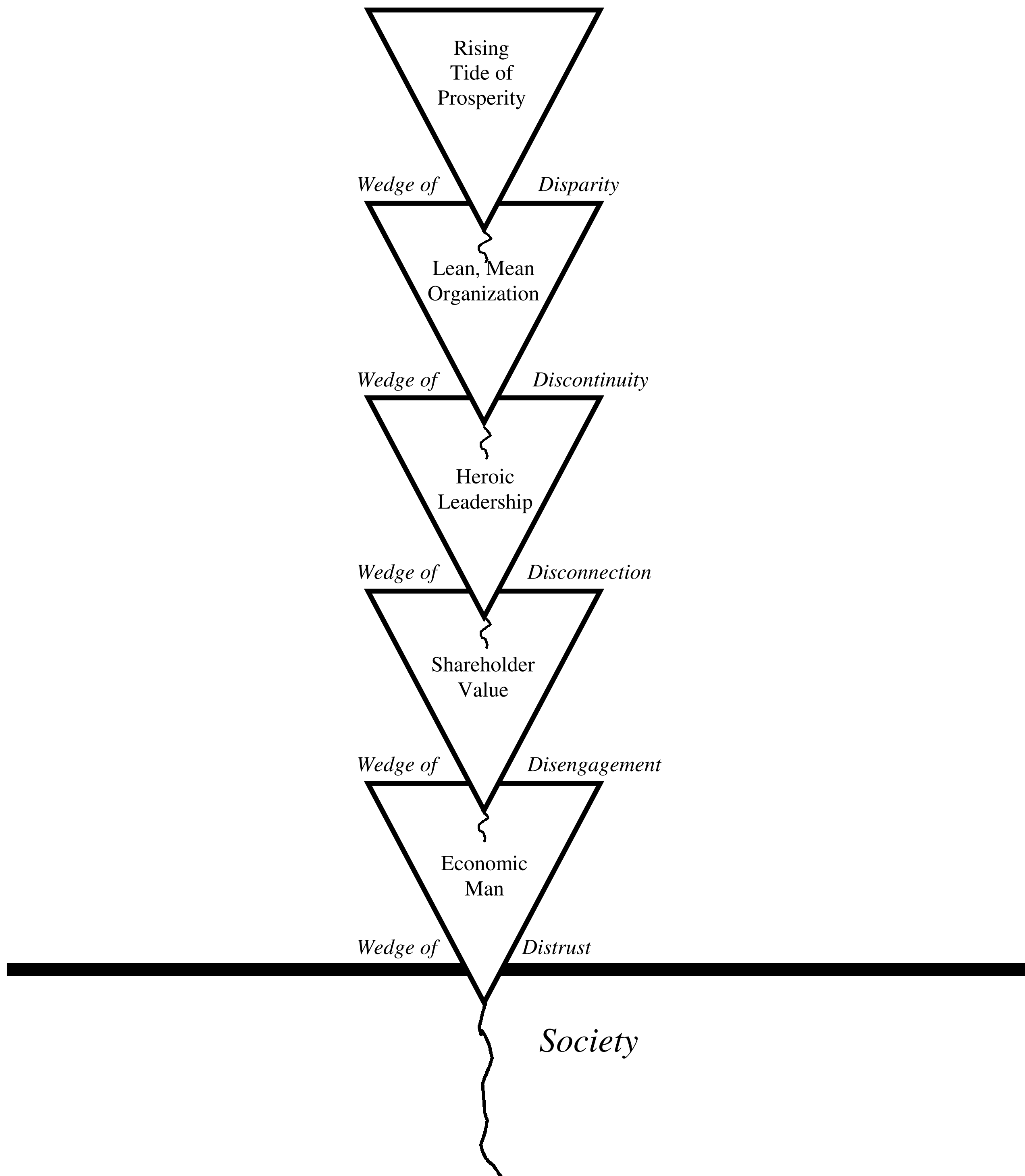
Figure 1
A Syndrome of Selfishness



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In an article that has had a profound influence on generations of MBA students, finance professors Michael Jensen and William Meckling introduce five models of "The Nature of Man."[4] Three of these, called Sociological, Psychological, and Political, are quickly dismissed. A fourth, economic model describes man as an "evaluator and maximizer who has only one want: money income." The authors find this model "not very interesting" or accurate, used often to accommodate "economists' desire for simplicity in modeling." But Jensen and Meckling do not so much dismiss this model as fold it into a fifth, by dropping the focus on money. This, their favored model, goes by the rather convoluted label of "Resourceful, Evaluative, Maximizing Model", or REMM. Here, everyone "is an evaluator." People have all sorts of wants, and "make tradeoffs and substitutions among them"—specifically among the "amounts" of each. (That the amounts of some wants, such as money or diamond rings, can be evaluated and measured more easily than other wants, such as trust or integrity, is not discussed.) And these "wants are unlimited… REMM cannot be satiated. He or she always wants more," so "each individual is a maximizer."

An important consequence of this is that economic man has no absolutes. Specifically, "there is no such thing as a need," according to Jensen and Meckling. Everything is a tradeoff (except, of course, the need for more itself). They illustrate with a rather startling example:

> George Bernard Shaw, the famous playwright and social thinker, reportedly once claimed that while on an ocean voyage he met a celebrated actress on deck and asked her whether she would be willing to sleep with him for a million dollars. She was agreeable. He followed with a counterproposal: "What about ten dollars?" "What do you think I am?" she responded indignantly. He replied, "We've already established that—now we're just haggling over price."

[4] Originally published in Michael C. Jensen and William H. Meckling, "The Nature of Man," *Journal of Applied*

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Startling is the fact that, instead of qualifying this in any way, Jensen and Meckling follow the story with this statement: "Like it or not, individuals are willing to sacrifice a little of almost anything we care to name, even reputation or morality, for a sufficiently large quantity of other desired things…" In other words, pushed to the limit, every economic man is a willing prostitute. H.E. cherishes nothing. Everything, everyone, every value, has its price.

Our quarrel is not just with the outrageous fallaciousness of this claim, but also with its degree of truth. For there are all too many such people in our midst, perhaps more than ever, all too many athletes, or financiers, or streetwalkers, or professors willing to sell their integrity at some price. "REMMs are everywhere," claim the authors. How true. How sad.

But mercifully not everyone. There remain financiers who will not do the dirty deals and athletes who will not endorse the useless products, just as there are women who will not sell their bodies at any price. For these people, integrity and self-respect are basic values—needs—open to no negotiation. Beyond outer material goods lies an inner sense of good. Beyond calculation lies judgement. Indeed, is this not the essence of responsible management: to *judge* the difference between short-term calculable gains and deeply rooted core values?

The fabrication of economic man drives a wedge of *distrust* into society, between our individual wants and our social needs. When all of us merely calculate, we end up with a scheming society. "In the end," write Jensen and Meckling, "we can do things *to* and *for* individuals only." There is no society, no social glue.

This may be the perspective of economics, at least a narrow side of it, encouraged, perhaps, by the collapse of communism that stood so dogmatically for collectivism. But dogmatic individualism is hardly better. If capitalism stands only for individualism, it will

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Finance, Summer 1994, Vol. 7 no.2, pp. 4-19. Revised version July 1997, p. 6.

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collapse too. For we live as individuals in a social space: we certainly need individual initiative, but embedded in social engagement.

Ernst Mayr, a "towering figure" in evolutionary biology, according to *Scientific American,* wrote there in the year 2000 that recent research "widespread among many social animals," has suggested that "a prosperity for altruism and harmonious cooperation in social groups *is* favored by natural selection. The old thesis of social Darwinism—strict selfishness—was based on an incomplete understanding of animals, particularly social species." [5]

In her influential writings, Ayn Rand considered selfishness a virtue.[6] But she had a particular view of selfishness, and of individualism, in mind, indeed as a basic value: the courage of the individual to stand up to the faceless, mindless system, to pursue what he or she believes in, as a need, not a want, in fact if necessary at the expense of measurable gain. Rand was, of course, railing against the socialist tendencies she saw manifested in Eastern Europe. But one might wonder how she would react to the influence of the REMMs on the corporate system of today.

Second fabrication: Corporations exist to maximize shareholder value. Corporations used to exist, so we once believed, to serve society. Indeed, that was the reason they were originally granted charters—and why those charters could be taken away from them.

Corporations are economic entities to be sure, but they are also social institutions that justify their existence by their overall contribution to society. Specifically they must serve a balanced set of stakeholders. That, at least, was the prevalent view until perhaps ten years ago. Now one group of these stakeholders, the shareholders, have muscled out all the others.

[5] Ernst Mayr, "Darwin's Influence on Modern Thought," *Scientific American*, July 2000, p. 83.

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For years a group of chief executives of America's 200 largest corporations, calling themselves the Business Roundtable, promoted this balanced view of the corporation, including a sense of corporate social responsibility. In 1981, their *Statement on Corporate Responsibility* stated:

> Balancing the shareholder's expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management. The shareholder must receive a good return but the legitimate concerns of other constituencies (customers, employees, communities, suppliers, and society at large) also must have the appropriate attention…. [Leading managers] believe that by giving enlightened consideration to balancing the legitimate claims of all its constituents, a corporation will best serve the interest of its shareholders.[7]

Then, in September 1997, their report on Corporate Governance announced an about-face: the paramount duty of management and of boards of directors is to the corporation's stockholders. Period. In their words, "The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors. It is, moreover, an unworkable notion because it would leave the board with no criterion for resolving conflicts between interest of stockholders and of other stakeholders or among different groups of stakeholders."[8] The customer may be "king", and the employee may be the corporation's "greatest asset," at least in the rhetoric, but when it comes down to it, there is no-one but the shareholder.

[6] See, for example, Ayn Rand, *The Virtue of Selfishness*, New York: New American Library, 1965.
[7] The Business Roundtable, *Statement on Corporate Responsibility*, October 1981, New York, p. 9.
[8] The Business Roundtable, *Statement of Corporate Governance*, September 1997, p.3.

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In a book recently released, Marjorie Kelly, herself a business entrepreneur, compares the privileges of today's shareholders with those of the feudal aristocrats.[9] Why should one group, she asks, particularly a group so distant from the operations, that may have added nothing for years, lay claim to such a large share of the benefits? Are the workers like the peasants who toiled the land to produce these benefits yet could be removed at the whim of the owners? Kelly's is a provocative argument with more than a grain of truth—in this case a half-truth that might be heeded.

Shareholder value represents a curious turning of back to front. For the shareholders have traditionally been the "residual claimants" on the corporation—those who took the surpluses, namely the profits, after the other claimants had been paid off. Now the corporation is managed for those claims, no matter how much pressure that puts on the employees. Under the calculations of EVA (economic value added), for example, a charge for the cost of capital provided by shareholders is subtracted from the profit of business. In effect, the business earns no profit until the shareholders receive their due. Shareholder *wants* have thus been transformed into shareholder *needs!*

Let us take a good look at *what* these shareholders own, and *how* they own it. In the modern economy, with instantaneous information, global access to capital, and Internet based stock trading, fewer and fewer shareholders are in any way committed to the businesses they "own." Giant mutual funds buy and sell millions of shares each day to mirror impersonal market indexes. Alongside these are the day traders who buy and sell within hours, looking for arbitrage or momentum opportunities. During the 2000 bull market, they accounted for 15% of NASDAQ trades.[10] These new breeds of shareholders

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[9] Marjorie Kelly, *The Divine Right of Capital: Dethroning the Corporate Aristocracy*. San Francisco: Berrett-Koehler, 2001.
[10] Tia O'Brien, "The Day Trader Blues," *Upside*, January 2000, 182-192.

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may not be interested in products or services or customers, let alone the companies themselves, yet the company managers live in mortal fear of their volatile actions.

The pressure not to "miss a quarter"—not to upset the expectations of the market analysts—can promote some awfully dysfunctional behavior. Executives are forced to watch the scoreboard instead of the ball, as the saying goes, to cut costs where the savings show up immediately (in jobs eliminated, for example), even if long-term benefits are foregone; to squeeze extra sales out of premature deliveries; at worst to cut ethical corners and sometimes engage in downright illegal actions. All of this for more "value." Shareholder *value*: what a curious term for something that is about the price of the stock!

Shareholder value thus drives a wedge between those who create the economic performance and those who harvest its benefits. It is a wedge of *disengagement,* both between the two groups and within each. Those who create the benefits are disengaged from the ownership of their efforts, and treated as dispensable, while those who own the enterprise treat that ownership as dispensable and so disengage themselves from its activities. Can we have healthy corporations, and a healthy society, without commitment?

One manager we know in a large bank referred to "this shareholder value craze" as "Draconian." Another manager told us that shareholder value "neither guides nor inspires employees." Who is supposed to get fired up about making money for people he or she has never met, who don't even care about the enterprise?

The wedge of disengagement acts between the company and its customers too, for the focus on ultimate performance tends to blind people to the means by which it is earned: employees are encouraged to see dollar signs out there, sources of shareholder value, not people in need of reliable products and services. So why not depreciate a respected brand for a quick boost in sales, or rush a questionable new product to market, or offer customer kickbacks to push up sales in a quarter? Perhaps this is why the American Customer

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Satisfaction Index has declined steadily in almost every industry since the early 1990s.[11] "Make the numbers and move on" seems to be the motto of the day.

Third fabrication: Corporations require heroic leaders. For decades, the shareholders remained passive. Indeed, famous books were written—from Berle and Means's *The Modern Corporation and Private Property* of 1932 to John Kenneth Galbraith's *New Industrial States* of 1967—about how managers had seized control of the large corporations and manipulated the shareholders for their own purposes. There was waste here, and dysfunction, so pressures arose in the financial community to challenge this. They fixed the problem all right, but instead of settling on some appropriate balance, they forced the pendulum to swing the other way, with a vengeance.

How did this happen? How have people so removed from the corporations been able to appropriate so much of the benefits?

The answer is rather simple: they co-opted the chief executives, by rewarding them disproportionately for the performance of the entire enterprise. Through options and bonuses, they bought off the chiefs.

To do so, however, they had to make one massive set of assumptions: that the chief *is* the enterprise, that he or she alone is responsible for the entire performance, and that this performance can be measured and the chief rewarded to do the shareholders' bidding.

But how could the chief executives, flesh and blood human beings like everyone else, deliver? By becoming heroic, in other words, by acting exactly as the shareholders treated them. In this, incidentally, the shareholders were joined by an all-too-willing press, in need of personalities and simple explanations. For example, as *Fortune* magazine wrote in its

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[11] National Quality Research Center, University of Michigan Business School, Q1, 2001, www.bus.umich.edu/research/nqrc.

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April 14, 1997 issue, “In four years Gestner has added more than $40 billion to IBM’s share value.” All by himself!

Shareholder value thus promoted heroic leadership, larger than life, riding in, not to save the day, but to raise the stock. That leadership has since been riding around announcing their magnificent strategies and doing their dramatic deals and promising grand results. And do these work? The interesting thing is that we often find out only after the chiefs have collected their bonuses.

Certainly there are success stories. But increasingly, it seems, we find stories of failure, often dramatic failure, especially from the chiefs who take their heroic personae seriously. Could all the attention to shareholder value in the end prove to have depreciated shareholder value? Read about the experiences of Scully at Apple, Armstrong at AT&T, McGinn at Lucent, and Wachner at Warnaco. (See the attached insert on “Heroic Management… for a time.”) Stay tuned at Daimler-Chrysler and Hewlett-Packard.

The problem with heroic leadership is that it is detached. It drives in a wedge between the leaders sitting atop their pedestals and everyone else looking on. This is a wedge of *disconnection* that sees leadership as something apart. Amidst the talk of empowerment, partnership, knowledge work, and the rest, we are seeing a centralization of power up the old hierarchies to a degree probably unmatched since the captains of industry a century ago.

Leadership, real leadership, is connected, involved, engaged. It is often more quiet than heroic. (See inset: “Two Ways to Manage”) Many of the best strategies are not

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Two Ways to Manage

Heroic Management	Engaging Management
1. Managers are important people, quite apart from others who develop products and deliver services, etc.	1. Managers are important to the extent that they help others to be important.
2. The higher "up" these managers go, the more important they become. At the "top," the chief executive *is* the corporation.	2. An organization is an interacting network, not a vertical hierarchy. Effective leaders work throughout; they do not sit on top.
3. Strategy—clear, deliberate, and bold—emanates from the chief, who takes the dramatic acts that drive up share price. Everyone else "implements."	3. Strategies, often initially modest and even obscure, emerge as the people who develop the products and deliver the services, etc. solve little problems that merge into new initiatives.
4. Implementation is the problem, because while the chief embraces change, most others resist it. That is why outsiders—consultants and new managers—must be favored over insiders.	4. Implementation cannot be separated from formulation. Healthy change requires a respect for the old alongside a recognition of the new.
5. To manage is to make decisions and allocate resources—including those "human" resources. Managing means analyzing, often calculating.	5. To manage is to bring out the energy that exists naturally within people. Managing thus means inspiring, engaging.
6. Rewards for increasing the share price go largely to the leader, the risk taker (who pays no penalty for drops in share price).	6. Rewards for making the company a better place go to everyone, and they are significantly psychic.

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immaculately conceived; they *emerge,* out of the competencies at the core of the enterprise, by the people struggling with them every day. Real leadership is therefore about teamwork, and about taking the long-term perspective, about building an organization slowly, carefully—and collectively. It is about setting an example to energize others, not about taking dramatic acts to up the score and appropriate the spoils.

Back in 1987, *Fortune* magazine described the rise in executive compensation as "scandalous." Look at where it has gone since then. According to a recent survey over the 1990s, entitled Executive Excess 2001 (by the Institute of Policy Studies), CEO's pay rose by 570%, while profits rose by 114%, and average worker pay rose by 37%, barely ahead of inflation of 32%. Had workers' pay kept pace, they "would have averaged $120,491 last year [2000], instead of $24,668."[12] In 1999, while median shareholders returns fell to by 3.9%, CEO direct compensation rose another 10.8%.[13] Perhaps the reason we are so obsessed with leadership today is that we see so little of it.

Instead of driving a wedge between the leadership and the led, executive compensation should be a tool for engagement. It could set an example of responsible leadership. Enterprises are built with commitment.

"Unhappy is the land that has no heroes," comments a character in Bertolt Brecht's *Life of Galileo*. "No," replies another, "Unhappy is the land that needs heroes."

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[12] Sarah Anderson, John Cavanagh, Chris Hartman, and Betsy Leondar-Wright, *Executive Excess 2001*, Washington: Institute for Policy Studies, 2001, p.1.
[13] Joann S. Lublin, "Net Envy, *Wall Street Journal on Executive Pay*, April 6, 2000, R1 and R3.

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Heroic Leadership…for a time

In 1998,[14] *Fortune* wrote about C. Michael Armstrong, new CEO of AT&T: "In Armstrong's first 100 days, the CEO has done what former chief Bob Allen couldn't in 8 years, namely create some buzz and excitement around the nation's largest telco." One longtime industry analyst was quoted as saying: "Last year morale at AT&T was in the toilet. This year there is a sense of anticipation. There has been a pent-up demand for real leadership, direction, and strategy."

Two and a half years later, in reporting that the AT&T stock was lower than when Armstrong arrived, the *Washington Post* wrote that "… the market hungers for companies that can show explosive growth."[15] The market sounds like some sort of drug addict.

"Wall Street praised the strategy"—"quickly crafted," it said, "to turn AT&T into United States largest cable television company," for which Armstrong had spent over $100 billion—"but lately has grown impatient with the pace and costs of the transformation." How long, after all, should it take to turn around an AT&T? It "has to start showing very promising results in the next six months to a year," the writer concluded. Having not met its numbers of new subscribers, the company "was exploring the possibilities of offering five months of free service…" Most analysts, however, "are resigned to the notion that AT&T's metamorphosis is a long-term proposition." Imagine!

[14] February 16, 1988.
[15] *International Herald Tribune*, September 1, 2000.

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A month later, AT&T was reported to be breaking itself into four pieces, yet another dramatic act, "the third major transformation since 1984."[16]

Better still, turn back to *Fortune*, July 9, 1984. "…in the year since Scully went to Apple from PepsiCo, the pioneering personal computer company has made a recovery even by the roller-coaster standards of Silicon Valley." But how had Scully "managed to put his stamp on Apple in such a short time?" they asked. Easy. The man who "declared that he would not read a memo more than a page long" did it because "I'm very comfortable absorbing a lot of complex information."

"I like to build cathedrals", Scully is quoted as saying. This one, like many others of its kind, seems to have been built out of the sand of marketing, rather than the bricks of research. Too slow, that kind of construction.

Fourth fabrication: The effective organization is lean and mean. "Lean and mean" is a fashionable term these days, a kind of mantra for economic man. Lean certainly sounds good—better than fat. Better than skinny too, although the meaning is similar. And the very fact that mean sounds good is another sad sign of the times. There is nothing wonderful about firing people. In their slash and burn tactics—the quickest way to "performance" in the absence of imagination—many corporations have become skinny and just plain mean. Chainsaw Al Dunlap, the master slash and burn artist, who eventually got slashed and burned himself, was not some aberration, but only the extreme example of a popular trend. In the year 2000 alone, before the current downturn, employers discharged approximately

[16] *International Herald Tribune*, October 29, 2000 (from *Washington Post*)

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1.2 million workers in mass layoff actions—ending the year with the highest number of layoffs since the Bureau of Labor Statistics resumed calculating these statistics in 1995.[17]

Like the other easy assumptions of this syndrome of selfishness, lean and mean is supposed to offer it all: lower costs, higher productivity, flatter and more flexible structures, more empowered workers (with those bosses gone), and happier customers—in those glib phrases, "doing more with less," "win-win."

Once again, we wonder. Sure all this can happen. That is half the truth. The other half brings burned out managers, angry workers, quality losses in the guise of productivity gains, and disgruntled customers. Lose-lose too. Thus the chief economist for Morgan Stanley Dean Wittler, writing about "the dirty little secret" of the productivity miracle" of the last decade, suggests that there may be more "perspiration than inspiration" here—"in other words, pushing people and machines to their limits rather than discovering smarter ways to run economies."[18]

Perhaps the worst consequences of all this restructuring was the breaking of the covenant with the employees—that pledge of security in return for loyalty. People feel betrayed these days. "Is share-owner value a threat to your job? Or will it sustain your career?" asked a fancy Coca Cola brochure published for the employees in 1996. Four years later the employees received a different answer as 6,000 of them—about 20% of the workforce—were laid off.[19] Hewlett-Packard, long famous for its commitment to its employees, recently followed suit. No wonder one recent study reported that only 34% of employees worldwide felt a strong sense of loyalty to their employers; in the United States

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[17] "Extended Mass Layoffs in 2000," *U.S. Department of Labor: Bureau of Labor Statistics,* Report 951, July 2001, p.1.
[18] *International Herald Tribune*, February 15, 2000 (from *The New York Times*).
[19] Patrick Barta, "In Current Expansion, As Business Booms, So, Too, Do Layoffs," *Wall Street Journal*, March 13, 2000, p. A1.

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only 47% saw the leaders of their companies as people of high personal integrity.[20] How will that play out now, with the economy turning sour?

These feelings of betrayal cannot help productivity in the long run. But do we measure productivity in the long run? Are we concerned even with economic sustainability, let alone social or environmental? Quarterly earnings per share are easy to measure; long term, sustained productivity change is not. So the lean and mean organization drives a wedge between the present and the future, a wedge of *discontinuity.*

It has been said that greatest advance in health care was not penicillin or insulin but simply cleaning up the water supply. Is it not time that we cleaned up our organizations, by cleaning up our thinking and our values?

Fifth fabrication: A rising tide of prosperity lifts all the boats. Win-win flows beyond the lean, mean corporation into the entire society. As this homily would have it, a rising tide of prosperity lifts all boats: everyone prospers in the selfish economy.

This amounts to either a wonderfully convenient truth or a cynical justification for greed: the winners needn't worry about the losers because there are no losers. All consciousness can rest assured.

Let us take a look at this metaphor, and then at some facts. For one thing, perhaps a tidal wave is a better metaphor—arriving unexpectedly with great force and destruction. A tide that rises unexpectedly high lifts only those boats that are moored to nothing. The rest, connected to real things, get swamped. People, however, people rarely live in boats, except the wealthy, as an escape. Most live on the ground. When the tide rises unexpectedly high, the lowlands get inundated, and the people on them drown if they have nowhere else to go. Are we to be concerned only with the people in high places?

[20] Walker information Global Network and the Hudson Institute, in *Montreal Gazette*, October 9, 2000.

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Moreover, tides by their very nature are not sustainable. They eventually fall as far as they have risen. Then they reveal the devastation that has been hidden by the waters. "….the test of a welfare system comes in a weaker economy, not a strong one," wrote the *Washington Post* in an editorial.[21] Will we be finding out?

Our point is not to put down the tide, so to speak, but rather the simplistic and blinding use of a metaphor—indicative of so much of the rhetoric of the syndrome of selfishness. Metaphors can be used creatively, to open vistas, or mindlessly, to hide evidence. What evidence does this one hide?

In 1989, the United States had 66 billionaires and 31.5 million people living below the official poverty line. A decade later, the number of billionaires had increased to 268, while the number of people below the poverty line actually increased, to 34.5 million.[22] A recent survey of the world's18 wealthiest countries by the United Nations ranked the United States highest both in gross domestic product and poverty rates.[23] Given these figures, it should come as no surprise that the rise in the stock market between 1989 and 1998 went disproportionately to the rich. The wealthiest 10% of American households saw their stock market holdings increase by more than 72% while those in the bottom 60% of the income ranking saw their holding increase by less than 4%.[24] In 1999, at the height of the economic boom, one in six American children was officially poor, and that "poverty was more acute than in prior years, while income inequitably remained at record levels"[25]

Even with the recent increases in the 1990s, the inflation-adjusted minimum wage is 21% lower today than in 1979. In 1999, 26% of all workers were in jobs paying poverty-

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[21] *International Herald Tribune*, September 29, 2000.

[22] Chuck Collins, Chris Hartman, and Holly Sklar, *Divided Decade: Economic Disparity at the Century's Turn*, Boston: United for a Fair Economy, 1999, p. 2.

[23] *International Herald Tribune*, June 30, 2000.

[24] Lawrence Mishel, Jared Bernstein, and John Schmitt. *The State of Working America: 2000-2001*, Ithica: Economic Policy Institute, Cornell University Press, 2001, p. 270.

[25] *International Herald Tribune*, September 29, 2000 (from *Washington Post* editorial).

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level wages, a larger share than in the past.[26] Overall, the top 1% of households saw their after tax income rise by $414,000 from 1979 to 1997 (exclusive of their capital gains), while the middle fifth gained $3400, and the bottom fifth actually lost $100.[27] Some rising tide!

Internationally, in some significant pockets at least, the situation has become alarming. In some countries in South America (e.g., Bolivia, Paraguay) and Africa (e.g., Central African Republic, Guinea-Bissau, Lesotho, Sierra Leone, and others), the top 20% of the population receives over 60% of the country's income while the bottom 10% of the population receives less than 1%.[28]

As a part of this rising tide, people around the world are promised that free trade will solve every social problem. Win-win once again. The economic will magically take care of the social.

Certainly economic development helps to foster social improvement. But no less certainly, social development (such as free elections) help to foster economic improvement. It appears that the two have to work in tandem, which means that economic development with social regression may be destructive. That seems to be the experience of a number of "developing" countries.

Much has been made of the diffusion of stock ownership in the United States, and of companies pushing stock options beyond the executive suite. Some figures are revealing here too. Stock ownership is clearly up—about 16% over the past 10 years. But over half the population owns no stocks or mutual funds, and only one-third of all households hold stock worth $5,000 or more.[29] And recent plunges in high tech stocks, bankrupting some employees who had cashed in their options and then had to pay taxes, will hardly

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[26] Mishel et al., p. 353.
[27] *International Herald Tribune*, June 7, 2001 (from *Washington Post* editorial).
[28] *World Development Indicators 2001*. World Bank Section 28, Distribution of Income or Consumption, pp. 70-72.
[29] Mishal et al., p. 266-7.

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encourage more of this. Should we feel comfortable as a society when over 30% of our households have a net worth including homes and investments of less than $10,000?[30]

Is this, then, a rising of the tide or a shifting of the waters? Has a *wedge of disparity* been driven between the prime beneficiaries of stock price increases and large numbers of people disadvantaged by the corresponding actions? Moreover, many of those who have done best in this economy—REMMs, in constant quest for "more"—have led a relentless and successful attack on taxes, further undermining protections for the most disadvantaged people in society. Today's wealthy in the United States "pay a lesser share of vastly increased incomes"—and yet have just won another large advantage.[31]

Prosperity is not just economic, and cannot be measured by averages alone. It has to be social too, and it depends on distribution. Real prosperity combines economic development with social generosity. Have we made progress in recent years? On the economic side, it is not clear. And on the social side, it is all too clear.

We conclude that this calculus of glorified self-interest must be challenged, not as *one* explanation of society, but as *the* explanation. A series of damaging wedges have been driven into our social fabric. They will damage us more severely—all of us—if they are not soon stopped. It is time for us to challenge the fabricated half-truths. Not to challenge material wants or returns to stockholders, not to challenge leadership, or productive efficiency, or economic prosperity, not even to challenge selfishness. Just to challenge these as ends in themselves. We have to challenge the glorification of greed.

Toward Engagement

Logical argument supported by factual evidence may be an appropriate way to confront the syndrome of selfishness—to challenge it on its own grounds, so to speak. That we have

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[30] Mishal et al., p. 264.
[31] *International Herald Tribune*, June 1, 2001 (from *Washington Post* editorial).

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done. But it may not be the most effective way to promote engagement, for that is a different phenomena. Certainly we can argue the case for another set of values, basic human values, rooted in trust, judgement, and commitment, to promote socially responsible behavior. But that, too, has already been woven into our challenge to the half-truths.

Engagement is rooted in experience. Accordingly, we tell several stories below to bring to life the rich reality that all of us have lived in one way or another.

Alistair Pilkington was an engineer in Pilkington Glass, a family owned company, although he was not a relative. He was, nevertheless, an engaged man. The economics followed.

One evening, while doing the dishes at home, he got an idea for a new way to make plate glass, by floating it on a bath of tin. The board encouraged him, and the experiments began. The team he formed ran into problem after problem—seven years worth of problems. The board maintained its support through years of negative cash flow, not to mention 100,000 tons of glass thrown away. As Alistair Pilkington commented:

> For 7 years it was an apologia as to why we weren't making salable glass, trying to explain the innumerable faults which occurred. But no single fault persisted. This is why we went ahead. When [board members] would ask, "Can you make salable glass?" I would answer: "I don't know, but nothing has proved it's impossible."

Eventually the process was perfected, and the patents were granted. This became the way to make such glass, and the company sold its patent worldwide—soon every new factory in the industry used it.[32]

Read the strategy books and you will not get the impression that the remaking of a production process is strategy, especially when championed by an engineer who did the

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dishes. Read the finance press and ask yourself which analysts today would tolerate seven years of failure. "It isn't just what you do this year that matters," said one director later, "but what you are working on that is going to bear fruit in ten years' time. It is important that the company is not only profitable, but also has a 'heart.'" This company had a heart, and it made a great deal of money too. The man who engaged to help transform the company as well as its industry eventually became chief executive.

At AES, the international power company, senior managers understood the untapped potential of employees. But to unleash that potential, they knew they had to delegate real decision making to those employees, and trust them. Leadership, in other words, had to be diffused. So the senior management gave a 15 member maintenance crew an unusual challenge: to invest their plant's $12 million cash reserve.

Faced with a task for which they had little training, the group hired a teacher to help them understand the intricacies of financial investments and guide them to the right people on Wall Street. Within weeks they were calling up brokers to search for the best returns, and within a month they were beating the returns of the professionals in the company's treasury office.

Senior management later commented: "Did letting the maintenance crew invest that money make a huge difference in our bottom line? Probably not. But those people will be changed forever. They have become better business people. And there is no other way to that than by doing."[33]

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[32] J.B. Quinn, "Pilkington Brothrers P.L.C.," in Henry Mintzberg and James B. Quinn, *The Strategy Process*, Englewood Cliffs, N.J.: Prentice Hall, 1991, pp. 826-444.

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Friendly rather than mean, and more robust than lean, are signs of corporate health.

A woman at State Farm Mutual Insurance Company was converting a paper database into an electronic one. "Why are you working so energetically," someone asked her, "don't you know that you are working yourself out of a job?" "Sure," she answered, "but I've been here long enough to know that I can trust them. They'll find something else for me. If I didn't believe that, I might be tempted to sabotage the process."

How much sabotage has been taking place in our lean and mean organizations? Imagine, in contrast, the value—including shareholder value—of this kind of engagement.

From IBM comes a story of spontaneous, not heroic leadership. It explains how the company got into e-business.[34]

The process was driven—"led"—by two people far removed from the formal leadership, a "self-absorbed programmer" who had the initial idea and beat all sorts of people over the head to get them to understand it, and a staff manager who picked up the ball and somehow, with hardly any resources, stitched together the loose team of people that made it happen.

The second man, John Patrick, had to create a "groundswell," to "infiltrate IBM rather than manage some splendidly isolated project team." When Patrick was asked "to whom he reported, he said, 'The Internet'." When he was asked "about his organization, he replied, 'You're looking at it—and there are hundreds more'." Perhaps most significantly, "Patrick was hard to refuse [in his initiatives] partly because it was clear that he was operating in IBM's interests as a whole and not just fighting for his own little group."

[33] Suzy Wetlaufer, "Organizing for Empowerment: An Interview with AES's Roger Sant and Dennis Bakke." *Harvard Business Review,* January-February 1999, p.114.
[34] Gary Hamel, "Waking Up IBM: How a Gang of Unlikely Rebels Transformed Big Blue," *Harvard Business Review,* July/August 2000, pp. 137-146.

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The chief executive, Louis Gerstner, described earlier as having added $40 billion to the company's share value all by himself, played a role only in the background, but an appropriate one. When first presented with the idea, Gerstner recognized its potential and encouraged its champion, which he continued to do. Of course, Gerstner may have set the tone that enabled such things to happen in the first place. But that, too, is merely what real leaders do. Is the truly effective CEO, therefore, more quietly supportive than dramatically heroic?

One is reminded here of leadership in an advanced social organization, namely the beehive. Here the queen does not "empower" the worker bees. They know what they have to do and just do it. And she does not make the big decisions. These are taken collectively. When the hive has to change location, for example, the scouts survey various sites and return to convey their characteristics through dances. "… a contest ensues. Finally the site being advertised most vigorously by the largest number of workers wins, and the entire swarm flies off to it," the queen joining in.[35] Moreover, the queen does not take more of the benefits than she needs to do her job, for she is, after all, a leader.

What she does do, besides producing babies in great numbers, is emit a chemical substance that holds the hive together. In human organizations, we call this culture. Creating and sustaining a culture that brings out the natural energy in people, so they can do what they know they have to do, for the long term health and rejuvenation of the organization, is the sign of healthy leadership.

Sixty years ago, after a decade of depression, there was an enormous surge in the American economy. It was driven by the collective cause of war. American men and, in unprecedented numbers, women, engaged in the efforts of World War II, pulling together

[35] Edward O. Wilson, *The Insect Societies*, Boston: Harvard University Press, 1974.

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after one of the most divisive decades in the nation's history. Thousands of people laid down their lives; many others toiled in factories, and bought government bonds in huge numbers—not to make their fortunes, but to further the cause. This surge of collective effort, according to Charles Handy, "violated many of the precepts of allocative efficiency but pushed up GDP by 50% in four years and laid the basis for subsequent growth."[36]

A social tide rose in America, a tide of cooperative human engagement, not economic self-interest, that carried the nation through the crisis. That tide began to recede in 1945. It has been receding ever since. It was arguably at its lowest point in fifty-five years when a catastrophe occurred in New York City. Shades of that earlier engagement reappeared. People were horrified, but many also bonded together in a collective, selfless response to the tragedy. Will things now change?

We could add many more stories—so can anyone reading this article. But these brief stories are enough to make our point: that engagement is possible and desirable in all sorts of ways and in all kinds of places, for economic as well as social purposes.

Perhaps Jensen and Meckling were right in one limited respect. We do have a tradeoff to make, one crucial choice facing each of us as individuals. We can live our lives obsessed with getting ever more, with keeping score, with all that constant calculating and scheming. Or we can open ourselves to something else, engaging ourselves to engage others, so as to live our lives in balanced harmony.

[36] Charles Handy, *Economist* book review, February 15, 1997

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