

Excerpt from **Character and the Corporation** by William J. O'Brien
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Foreword

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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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