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A Corporate Fear Of Too Much Truth

By WARREN BENNIS

But I'd shut my eyes in the sentry-box,
So I didn't see nothin' wrong.

-- Rudyard Kipling

The sentry boxes of corporate America are its boards of directors, and there is ample evidence that Enron's directors kept their eyes shut when they should have been perusing the company's books. But all the sound and fury about Enron, whose collapse has led to Congressional hearings and media outrage, obscures a more basic problem that is ubiquitous in corporate life today: organizational structures that discourage honesty and suppress truth.

Let us deal with the board issue first. Yes, it is still the case that most board members are, in fact, willing dupes of management. Too many are overpaid, rubber-stamping corporate celebrities. Dogged by the constant threat of litigation, boards are selected by their subordinates -- the company officers. (Shareholders nominally choose them, but typically they vote for the directors the company recommends.) They seldom understand their function and are prone to meddle too much -- or, worse, not enough.

Three of the six directors who served on Enron's auditing committee -- the people responsible for double-checking Enron's bookkeeping -- were executives at firms in the faraway locales of Hong Kong, London and Rio de Janeiro. You can guess how much time they had for the vigilant oversight required of an effective audit committee. And like directors on many other boards, some had served too long. How Enron's directors could have stood by while top Enron executives cashed out more than $1 billion in company stock in the last two years is unfathomable.

But it's not only about the boards. The Enron collapse is emblematic of a problem that is far more imbedded, more intractable and, alas, far more universal than the board failures and malfeasance of a single company. In any one case, you can always fire the chief and other executives, reconstitute the board and file for bankruptcy; that's the easy part. The hard part inheres in the very nature and design of large-scale organizations, whose ethos and leadership too often create mindless and complacent cultures with vacant sentry boxes.

Unless the leadership and the social architecture of these behemoths change, I can promise you Congressional regulations will get tighter, the Securities and Exchange Commission more vigilant -- and the problems worse. The basic problem in most organizations today, both public and private, is that they work to block transparency. Most are conveniently designed so that everyone seems to know what's wrong -- but nobody admits it or tells anyone else.

A case in point: When I consulted for the State Department, I quickly learned that junior Foreign Service officers often decided not to tell their bosses what they had learned in the field because they believed the bosses wouldn't like it. In fact, their bosses often felt exactly the same way about telling their own bosses what they knew. One State Department panjandrum told me that they gave their fledgling diplomats two rules: Never tell a lie. But never the tell the whole truth, either.

It is never easy for subordinates to be honest with their superiors. After a string of box-office flops, Samuel Goldwyn is said to have told a meeting of his top staff, "I want you to tell me exactly what's wrong with me and M.G.M. -- even if means losing your job." Unfortunately, Enron's chief financial officer, Andrew Fastow, didn't have Mr. Goldwyn's sense of humor. When Sherron Watkins sent Kenneth Lay, Enron's chief executive, a letter warning him about Enron's accounting practices, she said, Mr. Fastow tried to fire her.

Unlike top management at Enron, exemplary leaders reward dissent. They encourage it. They understand that, whatever momentary discomfort they experience as a result of being told they might be wrong, it is more than offset by the fact that the information will help them make better decisions. And the trend toward outlandish executive compensation should surely be enough to salve the pricked ego of any leader whose followers speak their minds.

Organizations tend to fail when decision making is based on feedback from yes men. Mr. Lay's failing is not simply his myopia or cupidity or incompetence. It is his inability to create a company culture open to reality, one that does not discourage managers from delivering bad news. No organization can be honest with the public if it is not honest with itself.

So how does an organization institutionalize honesty, the way so many corporations have institutionalized the suppression of it? There is no easy answer. Honesty and candor at the top helps; executives should speak their minds and encourage their peers and subordinates to do so. Many organizations have found ways to generate honest communication -- even urging employees to make anonymous suggestions if necessary.

But a culture of honesty, like a healthy balance sheet, is an ongoing effort. It requires sustained attention and constant vigilance.

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