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Building Entrepreneurial Enterprises: Lessons from AT&T and Enron

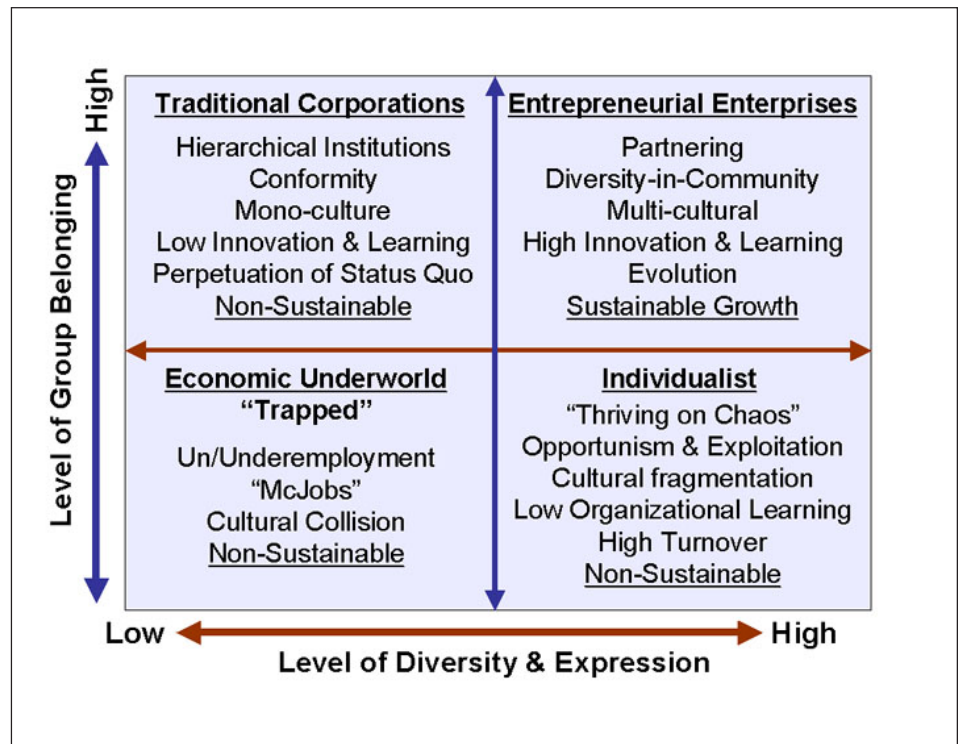
By Dr. Dean Robb

More than ever before, sustaining success in today's marketplace demands that every company build capability for sustainable entrepreneurship. Yet this capability seems to be extremely elusive. Why? When studied from the right perspective, some real lessons can be gained from looking into the failures of AT&T and Enron. Enron saw itself as an entrepreneurial enterprise, but it collapsed. AT&T is a very old, bureaucratic company that has been struggling - with little success - to become more entrepreneurial ever since divestiture of its local operating companies in 1984.

Each company illustrates a very different kind of problem. However, both failures can be understood using a simple 'model' of societies and organizations developed by anthropologists and sociologists (shown below). The model also provides some critical insights into how to create sustainable entrepreneurial enterprises.

The model is based on: 1) the degree to which members of a society or organization have a sense of group belonging and are interconnected; and 2) the degree of diversity, individuality and expression that's acceptable in that society.

The upper-left zone describes societies and organizations with a high level of group belonging, but a low tolerance for internal diversity, individuality or expressive freedom. Such groups always form into hierarchies with centralized power and control, for the purpose of perpetuating an embedded tradition and



protecting the status quo. In such organizations, every action and expression must be considered carefully - they must be "in synch" with prevailing expectations and the culture. There is little room for independent action or spontaneous expression. This is the zone of "keeping up appearances" and the "stiff upper lip."

Such organizations operate well in stable or slowly changing environments, but operate poorly in dynamically changing environments. And, it is in their very nature to stifle the entrepreneurial spirit - they can't help themselves! Entrepreneurship requires freedom to

explore, experiment and openly express. It requires internal diversity as a source of learning, innovation and growth. And it requires ongoing questioning of traditions, strategies, values and everything else. All of these go deeply against the grain of this kind of organization!

This zone describes AT&T to a tee. When divestiture (and the seeds of deregulation) began in 1984, AT&T had a very long history, a deeply embedded tradition, a steeply hierarchical, bureaucratic organization, and a rigid mono-culture. Overcoming this legacy would have required a revolutionary, charismatic and powerful CEO with a genuinely new

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vision and the power to carry it out - someone like Jack Welch. Instead, AT&T chose Bob Allen, a caretaker/manager type - a true son of the tradition - who lacked real leadership skills, a compelling vision or any sense of innovation. Allen led AT&T down the wrong path for quite a long time, and eventually into a real no-win situation, structurally. They've been stuck there ever since.

Enron's story is different because it fits more into the lower-right zone - the complete opposite of AT&T. In fact, our whole economy fits into this zone right now. In this zone, societies and organizations are characterized by exaggerated individualism, low social cohesion, unpredictable changes in markets, and constant organizational restructuring, downsizing and closings. The rules change constantly. Since there is low group belonging, people are thrown back on their own individual wits and resources. Operating in this environment is somewhat like living in a chaotic jungle or swimming in a pack of sharks.

This zone breeds charismatic personalities, hucksters - and companies - that play opportunistic, short-term business games with the environment. These individuals and companies manipulate and exploit emerging, short-term structural or market discontinuities to their own advantage. The model is one of "thriving on chaos" or "day trading" on a huge scale. Enron is a case in point. Enron played this game, and played it well, for a while.

But Enron collapsed. Its business practices practically guaranteed it. Continuously finding and successfully exploiting short-term discontinuities and opportunities is extraordinarily difficult to sustain over any significant period of time. This "business model" is fertile ground for the growth of unethical financial and accounting games necessary to paper over the inevitable misread-

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ing of constantly changing environmental "rules." If a company manages to gain a series of big wins, hubris can easily take root and get out of control, like a gambler who has a string of big wins and begins to think that he or she can't lose. Inevitably they do lose, however, and if they bet the farm, they go down the tubes. Enron is a quintessential example of this phenomenon.

"Thriving on chaos" is a myth. Can it be done for a short time? Yes, absolutely. Can it yield sustainable business growth over the long-term? The odds are extremely poor.

In changing times, the most effective strategy for sustainable entrepreneurship is to move into the upper-right corner of the model by building enterprises that are

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highly inclusive, and embrace high levels of diversity, individuality and expression. This zone is “primed” for high levels of organizational experimentation, learning, creativity, innovation, change and growth. This zone breeds highly innovative, entrepreneurial organizations and enterprises that can grow relatively rapidly, but not chaotically. Such enterprises are capable of creating, and recreating, internal order within a turbulent external environment. It is a zone of rapid evolution, not revolution or chaos.

Here are two reasons why: Embracing internal diversity and individuality overcomes the conformity and perpetuation of the status quo endemic to traditional bureaucracies. The other reason is more subtle: One of Enron’s key problems is that its INTERNAL, social environment mirrored the “pool of sharks” dynamic of the EXTERNAL environment. Just like the external market,

Enron’s internal world was one of individualistic opportunism and exploitation. This is a huge mistake. When the external environment is fragmented, the internal social world of a sustainable entrepreneurial enterprise should be coordinated and act with an organic, focused unity.

That requires a high sense of internal belonging, interconnectedness and coherence.

Our ingrained belief is that it’s impossible or unrealistic to build organizations with BOTH high belonging AND high diversity. This belief system devastates all possibilities for creating sustain-

able growth in turbulent times. It’s also a defense mechanism. The truth is that it is possible to build highly inclusive/diverse workplaces. If we are honest with ourselves, we will recognize that the real problem is that many of us simply are not willing to make the transformational changes needed to do it. We want to hang on to our old ways, but get different results. Somebody once told me that this is a working definition of insanity! If we can get past our resistance, the model provides insight into the path forward.

Enterprises in the “Entrepreneurial Zone” have low differentials in power and status between the “top” and the “bottom” of the organization. In other words, they are relatively flat. Traditional command-and-control practices are replaced by an emerging “partnership” model based on adult-to-adult (peer) relationships.

Traditionally, organizational alignment is gained through subtle (or not-so-subtle), coercive cultural pressures, and through extrinsic, social rewards like power and status. The goal is behavioral compliance. These methods fit firmly into the “AT&T zone” - and don’t work anymore. In entrepreneurial enterprises, alignment is gained by building individual-level, authentic commitment. Each enterprise member is managed uniquely by tapping into individual, intrinsic motivations and strengths, and leveraging those for

maximum enterprise advantage. As opposed to the bureaucratic “cog in the machine” model, employees feel - and act - like valued enterprise members.

The entrepreneurial spirit is “activated” by constructively harnessing internal variety and differences as the raw fuel for continuous experimentation, innovation, learning and growth. We instinctively resist this because allowing internal differences to surface can initially seem like a descent into chaos. However, while repressing differences might feel comfortable and “safe”, it is actually a dangerous strategy in a changing world. It yields only stagnation, loss of innovation, and potential extinction.

On the other side of perceived chaos is a vibrant, dynamic and diverse community of employees, each of whom is valued as a unique individual and encouraged to contribute and create. To get there, new leadership and management practices are required that foster safety, trust, honesty, integrity, accountability, mutuality and partnering.

This calls for a more sophisticated level of leadership and management competency, wisdom and maturity. This is the real reason why creating diverse, inclusive enterprises is resisted. It’s hard work, and it falls outside of the traditional business leadership “comfort zone.” It calls upon our leaders to significantly “ratchet up” their level of interpersonal, relational maturity. Knowing the “business side” alone is insufficient to build sustainable enterprise entrepreneurship. The key to a future of sustainable growth lies in combining business acumen with community-building skills. **SM**



Dr. Dean Robb is President of The Resilience Group. For over a decade, he has been helping domestic and foreign business leaders build high-performing, innovative, entrepreneurial enterprises. His expertise combines 16 years of practical, real-world corporate experience with in-depth doctoral research in Human and Organizational Systems. He can be reached at drobb@resiliencegroup.com or at (908) 757-4721.