We are uniquely created with the ability to reason, make decisions, and be held accountable for our actions. When all of these factors come into play at the same time, we feel something approaching pure joy.

CHAPTER 3

From Misery to Joy

“There is no fun like work.” That was the motto of Dr. Charles Mayo, founder of the famous medical clinic. The key to joy at work is the personal freedom to take actions and make decisions using individual skills and talents. This is a simple concept but almost impossible to carry out because of the roadblocks thrown up by large organizations—as AES discovered with one of our early power plants.

I had just returned to my hotel room after a long day of trying to convince high-level Florida state government officials that our plant under construction in Jacksonville was following all the permit requirements (and then some). When the phone rang at 10:30 p.m., I was stunned by what I heard from Bill Arnold, the manager of the AES plant in Shady Point, Oklahoma, our newest, largest, and most profitable power-generating facility. The news he related to me would set in motion the most intense six months of learning in my professional career. It would also eventually drain the spirit of this gifted plant leader.

One of Bill’s assistants had discovered that nine technicians had conspired to falsify the results of water testing in the plant. They had sent inaccurate water-quality data to regulators at the Environmental Protection Agency. While the falsification did not result in
any harm to the river into which the water was discharged, it was a major breach of our shared commitment to integrity and social responsibility. A week or so later, Roger Sant and I wrote a very strong and candid letter to our employees and shareholders. Because it captures the spirit, values, and operating ethos of AES, I think the letter is worth quoting. We were still in the process of refining our values, and, as you can see, we had yet to come down hard on training programs. The job security mentioned in the letter was needed to get to the bottom of a troubling situation, and in that sense it was an exception to my larger opposition to guaranteeing indefinite employment. Here are excerpts from our letter:

Dear Shareholders and People of AES:

Some disappointing news has just come to our attention which, consistent with our values, we felt we should share with you at the earliest opportunity. On Thursday, June 18, we notified the Environmental Protection Administration (EPA) and the State of Oklahoma that we had discovered in an internal review that some water discharge reports have been falsified at the AES Shady Point Plant in Oklahoma.

It appears that no one in the management structure outside of the water treatment area was aware of these violations. The people involved say that they falsified the samples because they feared for their jobs if they reported a violation. Yet no one at AES has ever lost his or her job for telling the truth, nor will they ever, as long as we have anything to say about it.

This answer is hard to understand because these were the sort of minor excursions to be expected during the first year of operation of a new plant. Since discovering violations, we have adjusted operating procedures and are adding new equipment so that it should be highly unlikely for such exceedences to occur in the future.
What disappoints us most is that no one mentions these violations in either of the two confidential and anonymous values surveys that were conducted at Shady Point during the time this was going on.

This action raises serious questions in our minds about our performance relative to our values. One of the founding tenets of this Company is the shared values. We thought we had explained our values enough to everyone in AES that this sort of thing could never happen here. We are trying to treat people like adults, trusting in their honesty, judgment, maturity, and professionalism—rather than relying on detailed procedures, manuals, and minute supervisory oversight. We cannot comprehend why anyone would trade our integrity to make our environmental performance look better. We hope that the steps we have taken today address the problem, but are embarrassed and disappointed and angry that this could have happened in AES.

The letter was leaked to the press, and we quickly learned how candor can be misconstrued by the investing public. We were a young publicly traded company at the time, and many investors assumed that the misconduct at Shady Point was an economic disaster. In fact, it would bring nothing more than a small EPA fine because no damage had been done to the environment. Nonetheless, our stock price dropped 40 percent the day the letter was leaked. The precipitous fall was on top of the previous month’s 20 percent decline from problems we were having in Florida, where a neighborhood group was mounting an effective challenge to our building permits, even though we had already begun construction on a new plant.

Before the stock plummeted, key board members and senior officers were seriously but constructively concerned about the incident. We started to investigate what happened and how. Roger and I circulated our letter. Beyond thinking about discipline and rehabilitation for those directly involved, we began asking what we
could do better in hiring, leadership, and education to minimize the chances of something like this happening again.

After the stock price dropped, the nature of our response changed dramatically. We became panicky, and our emphasis shifted from disclosure to damage control. Much of our attention turned to reassuring our shareholders. A host of lawyers descended on the plant “to protect the assets.”

It seemed to me that most of our leaders, especially board members, were more concerned about the drop in stock price than the breach in our values. One of the lawyers’ first suggestions was to fire all nine of the people involved. When I asked why, he responded, “They will go easier on you at the Environmental Protection Agency.” From my perspective, that was an unacceptable reason for dismissing an employee. Rightly or wrongly, I decided that no one would be fired if he admitted wrongdoing, accepted his punishment, and pledged to adhere to AES values in the future. Under these conditions, seven of nine offending employees left the company one way or another within one year.

Several of our most senior people and board members raised the possibility that our approach to operations was a major part of the problem. It was as if the entire company were on the verge of ruin. They jumped to the conclusion that our radical decentralization, lack of organizational layers, and unorthodox operating style had caused “economic” collapse. There was, of course, no real economic collapse. Only the stock price had declined. In addition, one of our senior vice presidents did a presentation for the board suggesting that “Protect Our Assets” rather than “Serving Electrical Needs” should be the top goal of the company. What he meant was that we should follow a defensive strategy, led by a phalanx of lawyers, in order to avoid legal, environmental, and regulatory wrangles. There was also discussion of adding a new layer of operating vice presidents between me and the five plant managers we had at the time. A meeting of the company’s 13 top managers was convened when I was out of town. At the meeting, a senior officer of the company
suggested that our outside counsel should be made vice chairman of the company, with authority over me when “compliance” issues were involved. The officers group took a straw vote that showed 11 in favor of the new organizational ideas and only two against.

Bill Arnold phoned me again about a month after all this trouble began. He asked me not to visit the Oklahoma plant anymore. Under pressure from lawyers and because of an understandable loss of confidence, the plant had decided to return to a “proven” approach to running industrial facilities. Back came shift supervisors, an assistant plant manager, and a new environmental staff department reporting to the plant manager (to make sure water treatment employees did the right thing). These steps increased our staffing level at the plant by more than 30 percent. Bill told me I would not be happy with the changes. He added that employees at Shady Point would feel “uncomfortable” if I were to visit as I had in the past. If I had not been preoccupied with the larger issues of maintaining our corporate values, I might have rejected Bill’s request. I felt hurt and humiliated, but at the time I had bigger problems. I was fighting with the board to preserve our values—and to keep my job. Instead, I told people in AES I had been “fired” from the plant. I did not meet with the Shady Point managers for over six months, and even then we conferred “off campus.” When I finally visited the plant a month after that, I was greeted by cheers. It was one of the sweetest moments of my career.

In the six months following the stock price decline, there was considerable pressure from some board members and officers to “tone down the rhetoric” about values. Several of them thought it arrogant of us to talk about values in public when we didn’t always practice them. “Investors would not treat us so harshly if we didn’t put the values out front so much and then fail to live them,” said one board member. Besides, profits—not values—were what investors cared about, so “let’s not talk about values outside the company,” another board member said. The issue of why we put so much emphasis on values was raised again. “They didn’t work, Dennis. We
need to adjust,” is the way one of my associates put it. We engaged in lengthy discussions about whether we should change the way the company described the relationship between values and profits in our public-offering documents. During this time I felt under-appreciated and uncertain about how much support I had among board members, who seemed to like our values only because they generated good press and were popular among employees. I felt I was alone in fighting for our values because they were intrinsically right.

All of this put an enormous strain on the relationship between Roger and me. We spent most of a day at his home discussing what to do. The board had lost confidence in me and my leadership approach. (I believe Roger had, too.) Should we split the company? Should one of us quit? He wasn’t having fun and neither was I. I told him I wanted to stay and make the company work. We decided that I would visit all the board members who had been with the company since the beginning. I would apologize for what had happened and ask them to give me another chance to show that I could lead the company in a way that would make them proud.

One of the things I learned from this experience was that I had done a terrible job teaching people our values and principles. As a company, we did not understand in a practical way how those values shaped the way we organized our work and life together. Our values, perhaps most notably “fun,” had become mere public-relations words. Their connection to the day-to-day operations of the company was superficial at best. Other than a couple of senior staff members and three or four of the plant managers, few people felt strongly enough about the values to adhere to the path we had started down a few years before. This was especially true whenever the share price declined or other economic problems arose. It did not seem to matter to the skeptics that there was almost no evidence that the approach we had adopted in operating our plants had anything to do with the water-treatment fiasco. If anything, most of the serious trouble—the lying and the coverup—occurred because nine AES people at Shady Point had not adhered to our values.
The breach by our Oklahoma group was minor relative to similar missteps by dozens of large, conventionally managed organizations. There was nothing to suggest that operating the company in a more conventional manner would have protected AES from such mistakes. Most important, I was convinced that weakening our covenant of values and principles would take most of the joy out of working for AES.

All this questioning forced me to examine every aspect of my business philosophy. I crammed into a few months a lifetime of learning about people and organizations. I left for vacation that summer realizing that I had nearly lost my job. I knew that if I was to continue pursuing my radical approach to the workplace, especially the highly unorthodox goal of having fun, I would run the risk of being ousted at any time. I had learned that most of the board members did not agree with my philosophy. They weren’t particularly supportive of my leadership approach nor were they the least bit loyal to me. I did not forget this during the next 10 years, even when our stock price was rising rapidly and many board members sang my praises and appeared enthusiastic about my management approach. I kept saying that our values were not responsible for the run-up in our share price and should not be blamed for any downturns in the future.

On my vacation, I focused on two options for using what I had learned. I could back off, softening my emphasis on values and taking a more conventional line in my actions and communications, especially outside the company. Or I could, as one of the senior vice presidents so aptly put it a few months later, “raise the values banner high and march full speed ahead.” I came back from the vacation determined to march smartly.

I committed myself to teach our values every day in word and deed. I planned regular and frequent travel everywhere in the company to do so. All outside communications would include a brief discussion of our purpose and principles and how they fit with the overall scheme of the business. I decided to return to fundamentals,
especially as they related to our goal of making AES a fun place to work. A few years earlier, we had defined the assumptions about people that we believed had guided the workplaces of the Industrial Revolution. I took the next logical step and defined a new set of assumptions about people in the workplace that reflected our thinking at AES. Then I challenged myself and all other company leaders to evaluate every aspect of our existing organizational design and every system either in place or proposed. Was it more consistent with our basic assumptions, or was it less? I suggested we always choose the alternative that was more consistent with our values and in that way increase the chances of creating a rewarding, exciting, vibrant, successful, and fun workplace.

The assumptions about people in the workplace that follow were first put on paper in the summer of 1992, in the aftermath of Shady Point. I added the point about our fallibility a year or so later, but the others remained fundamentally unchanged over time. Note the striking difference between these assumptions and the ones that grew out of the Industrial Revolution.

AES people, I wrote:

- Are creative, thoughtful, trustworthy adults, capable of making important decisions;
- Are accountable and responsible for their decisions and actions;
- Are fallible. We make mistakes, sometimes on purpose;
- Are unique;
- Want to use our talents and skills to make a positive contribution to the organization and the world.

My hypothesis was that a fun workplace is one that allows people to work in an environment that is most consistent with human nature. While each person is different, some characteristics are common to all of us. The assumptions I made about AES people are intended to capture the most important of these characteristics.
Do not minimize the difficulty of matching assumptions about people with specific organizational structures and systems. It is almost impossible to do consistently. Economic realities, for example, always increase the difficulty of creating a workplace that takes into account human traits and frailties. Designing a great workplace would be difficult even if all people were the same. Because each of us is unique, it is a very tall order to create a working community that is fun and meets our individual needs—and that is also economically successful.

Compounding the problem of creating a fun workplace is the prevailing view among most people that work is, at best, a necessary evil. In my discussions about the workplace, I often ask people to play a word association game. I say “work” and ask what comes to mind. Invariably, they respond with words like “hard,” “drudgery,” “something I have to do,” “boring,” and “difficult.” I have noticed that words and phrases like these are used frequently by people who have been working for 20 years or more. That is understandable given the length of time they have spent in working environments where they were rarely challenged or called on to make an important decision. What’s surprising is that these same words are used nearly as often by people who are still in school and may not have had anything but part-time or summer jobs. Their parents and friends have crushed their expectations even before they reach working age.

For Christians, Jews, and Muslims, the story of Adam and Eve and the Fall often is cited as the reason that work is difficult. A few years ago, I was asked to give the commencement address at Eastern University, a Christian school in Pennsylvania. My topic was “Fun in the Workplace.” In preparation, I reread the Genesis account of the Creation and realized that many of us have misinterpreted the story.

God created Adam and Eve and placed them in the Garden of Eden. In the Garden, they named and cared for the animals. They tilled the ground and harvested the fruit and vegetables. In other words, they seemed to spend much of their time “working.” Their work was not hard, difficult, or the least bit boring. It was paradise.
The whole experience was sublime. Of course, they sinned and were ousted from the garden, and life became more difficult. It is this last part of the story that appears to mark our attitude and expectations about work.

Another way to view the story, however, is that God intended that the workplace be beautiful, exciting, and satisfying. Work was to be filled with joy. Work was a major reason for our creation. It was intended to be an important act of worship. It was one of the most significant ways in which we could honor our Creator. From this perspective it is our responsibility to do whatever we can to make the modern workplace the way it was intended to be. While I realize the world is not the Garden of Eden, I do believe it is incumbent on those of us in leadership roles to do whatever we can to make the workplace as fun and successful as we can.

One Latin word for work is labor. It is similar in meaning to the word “labor” in English. It does not reflect any of the joy of work that we see in Genesis. Opus is another Latin word for work, and it comes closer to the concept of work that I am championing. Opus connotes a voluntary act, an act imbued with creativity and meaning. The development of a fun workplace is based on the opus concept of work.

In many of my interactions with people in the workplace, I ask the question, “What is the most important factor that makes a workplace rewarding, satisfying, exciting—fun? The typical answers I get will not surprise you:

- “Good friends”
- “Good environment”
- “It’s challenging”
- “I get to do what I’m good at”
- “Fair play”
- “I learn a lot”
- “Doing something worthwhile”
- “I’m needed”
• “I’m thought of as a person”
• “Winning”
• “Part of a team”
• “Significant responsibility”

The first thing that is obvious from these responses is that a fun workplace has a number of characteristics that help make it that way. My study and experience, however, lead me to believe that one factor is far more important than any other. First, let’s review some of the important factors that don’t make it to the top of the list.

Good relationships with colleagues and supervisors are almost always given as one of the answers to my question. However, when I ask people if they have ever worked in a place where they had good friends but no fun, almost everyone emphatically says yes. Although good relationships and camaraderie may be important to a good workplace, they are not the most important factor.

High pay and good benefits almost never are given as a serious answer to my question. I mention this because so many leaders spend enormous amounts of time on compensation questions. In my experience, unfair compensation can make a workplace less attractive, but fair or generous pay will have almost no effect on the quality of the work experience. People make pay an overly important factor when they choose a job, in my opinion. Most find out later that their happiness in the workplace has very little to do with the level of financial compensation they receive.

A special workplace has many ingredients. The feeling that you are part of a team, a sense of community, the knowledge that what you do has real purpose—all these things help make work fun. But by far the most important factor is whether people are able to use their individual talents and skills to do something useful, significant, and worthwhile. When bosses make all the decisions, we are apt to feel frustrated and powerless, like overgrown children being told what to do by our parents.

The difference can best be understood by considering the na-
ture of sports. Why do people consider sports fun and exciting but view work as boring and burdensome? My longtime love of sports prompted me to look more closely at what made me enjoy playing them so much. Maybe I could gain an insight or two that could help turn work into a much more positive experience. Take basketball, for example. When I ask people what the most fun thing to do is in basketball, a few say “passing the ball.” Most say “shooting the ball.”

“When is it most fun to shoot the ball?” I ask.

“In a game,” is the response.

“When during the game?”

“When there are two seconds left and my team is 1 or 2 points behind or the score is tied.”

“What kind of basketball game?”

“In the championship game, in the NBA finals.”

Most people experience game settings as “fun,” “exciting,” and “rewarding” when they are playing for something important and have a key role in deciding the outcome of the contest. Similarly, while young children enjoy card and board games that rely on chance, adults prefer games that require skill, strategy, or memory. In other words, the more challenging the better. While such analogies are not perfect, sports and games can help us understand what brings joy to the workplace.

In the Virginia Independent School Championship football game, my son, Dennis Jr., was the quarterback for one of the teams. His team was a touchdown behind with six minutes remaining in the game. They had the ball on their own 20-yard line. It was third down and 10 yards to go for a first down. The team needed to advance 80 yards to tie the game. I was a nervous wreck. I was pacing on the top level of the bleachers, almost afraid to watch. From a distance, however, Dennis seemed cool and confident. He calmly broke the huddle and began calling signals. He dropped back to pass and threw a perfect spiral to a streaking wide receiver for an 80-yard touchdown.

Why was I nervous and my son calm? That’s simple: He was
in control and I was not. He had the ball. The outcome of the play turned on his skills, his actions, and his decisions. My experiences as a manager, coach, parent, and player are similar in this respect. The person in control of the moment has more fun than people who are less likely to affect the outcome.

Related to this point is the complaint I often hear from people dissatisfied with their work because “it is so stressful.” I don’t believe that stress determines whether a workplace is fun. Was Dennis’s championship game stressful? Sure. Did it lessen the joy of playing? No, quite the contrary. As in most cases in which the outcome is on the line, stress enhances the experience, as long as a person has a certain amount of control over what happens. Debilitating stress stems from lack of control. The people who are probably most affected by this type of stress are middle managers caught between top executives, who won’t give them the power to make decisions, and subordinates, who are constantly pressing them for answers and direction.

Similarly, I hear people complain about their work because “it is so hard” and “takes so much time.” I doubt that hard work is the root of dissatisfaction. Again, I return to Dennis’s athletic experience for some insight. For eight weeks in the summer before his senior year in high school, he spent three to four hours a day at school running, throwing, lifting weights, and studying film. He worked extremely hard. He was not paid a cent for this work. He wasn’t even doing it to earn a scholarship to college; he had already concluded he had little chance of playing major college football. Why, then, would he work so hard? I believe it was for the opportunity that might come his way to run for a first down when it mattered or to throw a winning touchdown pass.
In basketball, football, and other games, another factor plays an important role: the scoreboard. Keeping score is a central part of the competitive experience, and it plays a crucial role in making games enjoyable. It doesn’t seem to matter if the game is Hopscotch, Four Square, Horseshoes, Hearts, Boggle, or the World Cup, we keep score and care about the results. We may lose as often as we win, but at least we can measure our performance.

“How am I doing?” former New York Mayor Ed Koch used to ask his constituents. In his flamboyant way, Koch was articulating a need that all of us feel. Feedback is essential to a joyful work experience.

Success obviously adds to our enjoyment of games and work. However, contrary to the rhetoric of coaches and inspirational leaders, this does not mean that we have to “win” all the time. A few years ago, there was an advertisement on television featuring basketball player Michael Jordan. In the ad, Jordan explained that from elementary school through his career in the NBA, he had played in 4,900 games. Thirty-nine times he had been in a position to win the game with the last shot—and missed. Was basketball fun for him even though he missed those shots and his team lost those games? I have no doubt that it is more fun to win the game than to lose. However, I believe the biggest source of joy to Jordan and other athletes—as well as to people in the workplace—is the opportunity to use their abilities when it really counts. From the perspective of the individual working person, the key to a great workplace is feeling wanted and important.

Failure and mistakes are also part of what makes games and work fun. In My Losing Season, an account of his high school and college basketball career, Pat Conroy says that failure is inevitable. It is also an essential element of learning and eventual success. Failure, in turn, teaches us humility, and because the experience is
often painful, we learn indelible lessons. Indeed, failure is nearly as important as success in creating a great workplace.

Why is it fun and rewarding to play in a game or work in an organization in which you are given a measure of control and responsibility? The answer lies in the nature of human beings. We are uniquely created with the ability to reason and to develop talents and skills; we are able to apply these gifts when making decisions; and we feel it is natural and appropriate to be held accountable for the actions we take. When all of these factors come into play at the same time, we feel something approaching pure joy.

Can workplaces be structured in such a way that the maximum number of individuals have an opportunity to experience this kind of joy? Can we significantly increase the percentage of individuals who make important decisions and take key actions? Can we make work fun for people other than those at the top of the corporate ladder? Academic experts have suggested pathways toward this goal, and some business leaders have made determined efforts to reach it.

Here are some of the practices we followed at AES in an effort to make it a more fun place to work:

**My administrative assistant** decides what computer and software to purchase for herself and for me. She makes all travel plans, including airline, hotel, and car rental reservations. She decides her hours of work and schedule of activities. She decides whether she participates in or leads preparations for the next quarterly business review. She does not need my approval before making decisions. I am just one adviser among many she may consult about decisions. On purchases of furniture or machines, she routinely checks with the office accountant to see how her decisions would affect the budget, but no higher approval is necessary. When buying office equipment, she simply checks with colleagues to make sure it is compatible with the office system. She decides with whom I meet and to whom I talk on the phone. While the trend among executives is to delegate
more decisions to their assistants, it is worth noting that she was not authorized to make any of these decisions in her previous job as assistant to the senior managing partner of a law firm.

A team of corporate administrative-assistant volunteers, including mine, was responsible for planning and executing the company’s orientation weekends twice a year. The event usually drew 200 to 300 AES people from over 20 nations. Individuals on the team would choose the location; plan the program; arrange food, hotels, and transportation; recruit speakers; and even decide who would attend when the event was oversubscribed. The team had full and final responsibility for the entire weekend. Almost all home-office functions were managed in this way. When we held business reviews in Pakistan or South America, people in these locations took responsibility for all decisions related to the conferences.

At a plant, a technician who discovered that the heat exchanger needed repairs was authorized to schedule an outage and order the necessary replacement parts. He would routinely consult colleagues, his team leader, and the plant manager if time permitted and the amount of money involved was significant, but the final decision was his.

Recruiting and hiring were usually handled by teams, either under the direction of their regular leader or by a designated member—and always after a significant amount of consultation with representatives of other teams and possibly the plant manager.

In Oklahoma, a driver on the fuel-handling team noticed that a machine used to manage the coal pile was nearly at the end of its useful life and in any event was an obsolete model. He volunteered to lead an effort to select the best replacement machine, negotiate the purchase, and finance the $350,000 cost through a local bank. All this was done in consultation with colleagues and leaders at the
At budget time, each team in a business unit calculated its needs. Then the teams met to hash out the plant’s budget, which could run as high as $300 million. When the teams were satisfied that the budget passed muster, they sent it to the home office, which put the proposals together and sent them to all other units in the company. Several hundred individuals from local business units and the home office met together once a year to review the proposed budgets and suggest possible changes and improvements. The advice given to each business unit concerning its budget was just that—advice. The local business representatives took the advice back to their colleagues for consideration. It was up to them to make the final decisions on their budgets. Sometimes they took the advice, and sometimes they didn’t. Capital and operating budgets were handled at the same time and in the same manner.

In too many organizations, charitable giving is handled by senior executives, board members, or a corporate foundation composed of current and former company executives and civic leaders. Their decisions on charity often reflect corporate goals or the special interests of the individuals involved, rather than the real needs of the community. I believe that a better approach is for the company to match the charitable contributions of its employees, whether they give to schools, traditional charities, or faith-based groups and churches. In this way, charitable-giving decisions are placed in the hands of every member of the company.

This approach both encourages the organization’s people to give more and funnels money to causes that employees, in their collective wisdom, have decided are truly worthy. At AES, individual gifts were leveraged because the AES match doubled the amount given to each organization (in some poorer countries, the AES gift was triple the employee’s contribution) or because employees bundled their
contributions to major charities such as Habitat for Humanity or the United Way and the company matched the total.

**Business development** and financing decisions were almost always handled at the local level. The development of the Lal Pir generating facility in Pakistan provides a good illustration of how these decisions were made under our system.

Shahzad Qasim, who became one of the most successful developers of electric power facilities in the world, came to us as a financial analyst from a consulting firm. He was born in Pakistan and educated in the United States. A few months after joining AES, he returned to Pakistan to visit his family. While there, he noticed considerable interest in adding new electricity-generating capacity. “I was wondering if I could leave what I have been working on to make a more extensive investigation regarding the Pakistan opportunity,” he asked his supervisor. “That is your decision, not mine,” his supervisor told him. “Why don’t you run it by your colleagues and a couple of other vice presidents. See what Dennis thinks, also.” I told him I was skeptical. Several years earlier, Agency for International Development (AID) representatives from the U.S. Department of State had encouraged us to expand into Pakistan. We had told them that we hardly knew what we were doing in the United States, let alone a place like Pakistan. Besides, it ranked as one of the most corrupt countries in the world for doing business. The ethical standards at AES probably ensured that we would never get any business there.

The decision on whether to proceed was left to Shahzad. Six months later, he asked me to visit Pakistan with him to meet the prime minister and help push along the project that Shahzad and his team were planning. At each major step in the 2 ½-year development process, Shahzad asked for advice, then made the key decisions himself. Before securing the $700 million financing (including several hundred million dollars of AES equity), Shahzad consulted with the
AES board. The board reacted favorably, but the project decisions remained with Shahzad or a member of his expanding team. By this time, many of the final decisions on the development had been delegated by Shahzad to members of his team. The final decision on the construction contract and builder was not his. Neither were the final financing arrangements, including the $200 million of equity put up by AES. They all were made by people with less seniority and rank than Shahzad. As soon as the financing was complete, new construction and operating teams made all the important decisions on their respective parts of the development.

Neither the idea to investigate the possibilities in Pakistan nor any important decision that followed was made by senior executives or central planners, or by the finance department or even a central business-development unit at AES. Joy at work starts with individual initiative and individual control. Individuals, not a bureaucracy, make the decisions and hold themselves accountable. The process is bottom up, but it is not a loosey-goosey, anything-goes affair. It involves creativity, careful analysis, meticulous planning, and disciplined execution. Most of those activities are done far from the home office—and with nothing more than advice from staff groups and senior leaders at AES headquarters.

The employee decisions I have described differ widely in their complexity and consequences. The goal, however, is the same: to design a workplace where the maximum number of individuals have an opportunity to make important decisions, undertake actions of importance to the success of the organization, and assume responsibility for the results.
CHAPTER 4

“Honeycomb”: Dynamics of a Joyous Workplace

The kind of workplace we created at AES was not unstructured, much less “out of control,” as some newspaper and magazine articles suggested. It was not a hands-off, undisciplined, and uncoordinated approach. It was, however, radically different. Information flowed in all directions within the company. More people were engaged in every aspect of the business than in other large organizations. It was transparent from top to bottom. At the same time, it was self-regulating: People given the responsibility for decisions did not want to fail. The number of mistakes we made compared favorably with that of companies that traveled a more conventional path.

Representatives from each department at AES’s power plant in Houston were meeting to discuss elements of the plant’s new employee handbook. It was 1986. I was at the plant as part of my “Work Week”* and had been asked to observe the discussion. The specific issue on the table was the wording of the section on “leave policy” when the parent of an employee dies. The group had already concluded that three days of leave was the appropriate amount and was in the process of drafting the exact language. Someone raised a

* The idea of “Work Weeks” was inspired by the United Parcel Service, which required senior executives to spend time doing “real work” at one of the company’s facilities.
question. “What if I was raised by my grandparents or my uncle and aunt? Would that count?” Most agreed that it should. A paragraph was added for that contingency. “What if my parents live far away from Texas, maybe even in Europe? Three days isn’t really enough time.” After some additional discussion, more days were added to deal with this contingency. The handbook had grown by several pages in less than an hour.

While the idea of discussing the common needs of people working at the company seemed worthwhile, detailed written rules like the ones being developed that afternoon increasingly seemed out of place in a fun workplace. Where was the trust? Why couldn’t reasonable people deal with each situation as it arose? What were our assumptions about people behind all the rules that we developed?

Even before the session in Houston, I was becoming skeptical about handbooks and most of the other programs administered by human resources departments. Roger Sant had set the skepticism in motion when he railed against sick-leave rules in our home office. “When you are sick, stay home. You don’t need a handbook to tell you when or how long you can be sick or what you should do about it.”

That evening, after all the managers had left the plant, I wandered about the facility and visited with the night crew. The meeting that afternoon was still on my mind, and I began asking questions about the handbook. What if we eliminated it altogether? What if we did away with procedure manuals? They are always out of date, and no one follows them anyway. What if we did away with detailed job descriptions? What if we didn’t have an organization chart with boxes representing people and their jobs? What if we didn’t have any shift supervisors? What if there were no written limits on what individuals could authorize the company to spend? What if all the specialist titles given to employees were eliminated? What if we created teams of people around areas of the plant to operate and maintain the facility, instead of letting bosses assign tasks and run the plant? What if each group could set its own hours of work? What if team members hired and fired their own colleagues? What if you could
make important decisions rather than leave them to your supervisor or the plant manager? I gave no answers, just asked questions. Shortly after 1 a.m., I left the plant to return to my hotel.

When I arrived at the administration building the next morning, I noticed five or six plant leaders and supervisors hovering outside the plant manager’s office. His door opened as soon as he noticed I was there. With some urgency he escorted me into his office. “What have you done to my plant?” an agitated Bill Arnold asked. “Nothing much,” I said. “All I did was ask a few hypothetical questions.” “All my supervisors are ready to quit,” he said. I told him I was sorry for upsetting everyone, but I was not sorry about wanting to talk about changing the way we ran plants to better fit our values and our assumptions about people.

Bill Arnold asked me to meet with his senior team to try to calm them down. In the meeting, I outlined some of the ideas about structuring AES workplaces. I called the set of ideas “Honeycomb.”

This was inspired by what my Uncle Aadne told me about the bees he kept on the farm. “Denny, each of these bees can fly individually up to several miles from the hive to the fireweed on that recently logged mountain. They independently collect nectar and make the trek back home. They return to the hive with nectar, which others in the hive use to produce this wonderful honey we use on our toast.” The basic thrust of my idea was to try to create an environment based on the same principles of trust, freedom, and individuals acting for the good of the larger group. These principles had guided our headquarters in Arlington, Virginia, since the company’s earliest days. In Houston, the supervisors didn’t begin to relax until I suggested it could take as long as two years for the plant to design and implement something in response to my questions. It marked the start of an amazingly creative and revolutionary overhaul of their industrial workplace.

* Bill Arnold was plant manager at Deepwater in Houston, Texas, before taking the same role at Shady Point, Oklahoma, several years later.
Within two months I was invited back to Houston to see the radical redesign of the plant. Using the Honeycomb theme, they had divided themselves into working groups with names of different types of bees (e.g., mud daubers, hornets, wasps, and yellow jackets). They had eliminated two layers of supervision (the operations superintendent and shift supervisors). Except for the maintenance department (which would break up later), the seven new teams (or families, as they called themselves) were organized around specific functions. There was a Boiler family, an Environmental Cleanup family, a Turbine Facility family, and several others. Each team leader reported to the plant manager. The teams were to be, for the most part, self-governing. They would be responsible for budgets, workload, safety, schedules, maintenance, compensation, capital expenditures, purchasing, quality control, hiring, and most other aspects of their work life. “Every person, a business person,” was the way I came to describe the goal in later years.

In 1997, I tried to define for the company what it meant to be an AES “business person.” A business person, I wrote, must “steward resources (money, equipment, fuels) … to meet a need in society,” while balancing the contributions and needs of all the stakeholder groups. This means providing a profit to shareholders, a fun workplace and fair compensation to employees, taxes and a clean environment to governments, and reliable electricity at reasonable prices to customers. “A person may very well be an engineer, or a heavy equipment operator or a financial wizard or an instrument technician, but a business person performs those functions in the context of balancing the interests of all stakeholders.” In other words, a business person recognizes that every action taken by the company affects the interests of every stakeholder. “That’s why I
believe every business person needs to ask for as much advice as possible before making a decision to ensure the best balance of interests possible among all the affected groups, without compromising the ultimate purpose of the company to meet a need in society.” Honeycomb was not the beginning, nor was it the end, of our efforts to build an organization consistent with AES values, but it was a major step forward.

Very few of the concepts underlying the AES ethos were new. Many start-up companies and other small organizations operate on similar principles. Modern high-tech organizations use some of these approaches as well. However, many of them treat administrative personnel and associates in the same way that bosses treated workers in the early days of the Industrial Revolution. Most non-profit organizations, educational institutions, and churches seem to fall into the same traps. Nor are law firms exempt from the sweatshop, production-line mentality. A recent Rhodes Scholar, now a junior partner in a prestigious London law firm, was venting about how little control he had over his work, even as he sat in his large, wood-paneled office. “I feel like a hen producing eggs for the firm with little say over how they are used.” The clever response of his superior—“I’ll be here to collect the eggs”—did little to endear his workplace to the young man.

My purpose in writing this book is not to tick off a bunch of ideas for the hypothetical workplace. That’s just skywriting. Corporate executives and business school professors have good ideas all the time but rarely do anything about them. What made AES unique was that we acted on our ideas. The results weren’t always what we hoped, and sometimes we scrapped ideas after one try, but on the whole I think we managed to create a workplace that was fair, efficient, and—yes, I’ll say it again—fulfilling and fun.

We organized ourselves around multiskilled, self-managed teams. This has been the operating style of some businesses for decades, and its popularity has grown markedly in the past 15 years. For millennia, human beings have lived and worked within
communities of other people, so it’s only natural that they should do so in a business setting.

What we tried to create at AES was a collection of small, interacting groups that would operate various sections of the business. Individuals on a team were responsible for everything about the “area” in which they worked. Their responsibilities might include day-to-day operations, investments, maintenance, scheduling, long-term strategy, hours of work, hiring and firing, education, safety, environmental management, risk management, budgeting and economic performance, quality control, charitable giving, or community relations. In many organizations, most of these tasks are performed by specialists. Our team system showed that complex tasks could be learned and understood by the average technicians within the operating units. At times, situations arose that exceeded their level of expertise. When that happened, team members could get help and advice from experts either inside or outside the company.

Giving teams primary responsibility for functions normally left to specialists was an approach radically different from that of most large organizations. Employees are usually grouped according to their expertise: finance and budgeting, long-term planning, safety issues, human resources, and the like. These groups of specialists often don’t understand or appreciate the operating groups and their problems. Similarly, traditional operating groups have little understanding of financial and strategic planning. Typically, operations people are in awe of the specialists’ skills and jealous of their salaries and status in the company.

Dividing a business into specialists (staff groups) and operating departments, as most large organizations do, blurs responsibility and decision making in ways that make work far less satisfying. The traditional structure also can make it more difficult to sustain economic success over a long period. Stories of waste caused by central purchasing or “sourcing” departments are at least as numerous as stories of cost savings.
Bobby Haft, a consummate entrepreneur, started a very successful chain of bookstores in the Washington, D.C., area in the 1980s. After the first store took off, the company opened a second store in another neighborhood. To stock the store with books, Haft’s central purchaser simply doubled the order of the first store. Very soon, Bobby realized the books were not selling well in the second store. People in that community had very different interests than those living around the first store. He decided to scrap the idea of central purchasing and required each store to order its own books—and be responsible for keeping book returns to a minimum. The second store and the ones that followed were as financially successful as the first. Even more importantly, employees loved a working environment that put them in charge of all the important elements of the business. Turnover was extremely low, especially compared with that of other bookstores.

Haft recognized that a business is more responsive when workers are freed of the arbitrary limits placed on their authority. I was told of a similar situation shortly before AES purchased its plants in Northern Ireland. A turbine at one of the facilities vibrated above the levels considered normal. An operator on the shift noticed the problem. Instead of shutting down the machine immediately, he began searching for his supervisor. Only the supervisor had the authority to decide whether to shut it down or not. Before the supervisor could be found, a catastrophic failure took place and several hundred thousand dollars of damage occurred. Fortunately, no one was hurt. The operator, who was in the best position to have made the shut-down decision, could have averted the failure and saved the plant both money and inconvenience.

I have heard dozens of similar stories. The person recounting the incident always stresses the negative financial consequences. Sometimes, the safety or environmental damage that could have been prevented is included to illustrate the problem with such “rules.” Unfortunately, most of these stories are told and retold without mentioning the negative effects on a working person’s job.
satisfaction, personal growth, and sense of self-worth. Rigid job
definitions are not compatible with joy at work.

I have seen no credible evidence that limits on authority pro-
duce better decisions in large businesses. Yet, such limits remain
standard operating procedure in most modern organizations. It is a
carryover from the patriarchal system of the early Industrial Revo-
lution. Before AES implemented Honeycomb, every individual and
working unit had strict limits on spending authority. For example,
the plant manager could authorize expenditures of up to $100,000,
the operations superintendent $50,000, the financial manager
$25,000, unit leaders $10,000, and others $1,000. In Europe, the
limits were much lower for the “lower” employees. We eliminated
all of these limits. Instead, staffers simply had to get the advice and
perspective of colleagues and more senior people before making
decisions on planned expenditures.

Along with the creation of multidisciplinary teams with broader
responsibilities, we changed the way each “employee” was to be
identified. We had already followed the lead of Wal-Mart and others
and replaced the words “employee” and “manager,” which we felt
had become somewhat demeaning over time. (Let me say again that
I will occasionally use these terms in this book because they are so
widely applied outside of AES.) We decided we would identify every
person who worked at the company as an “AES person” or “AES
people.” It seemed silly that we would feel compelled to identify
people as “people.” But it was more than a matter of nomenclature.
Throughout history, especially from the onset of the Industrial
Revolution, working people were often treated as less than human.
At most AES plants, most of our people decided that everyone who
was not a leader in the plant should have equivalent titles: “AES
technician,” “AES plant engineer,” or something similar that would
indicate general responsibility for a significant area of the plant.
Most of the traditional industrial designations, such as welder or
pipe fitter, were jettisoned.

In the early days of Honeycomb, we asked ourselves how many
people could work together on an ideal team. Some research indicated that 10 to 15 people was about the right number for one leader. My experience suggested that teams could have up to 40 members and still be effective, even with only one official leader. The larger the number of people on a team reporting to one supervisor, the fewer levels of hierarchy are required in the entire organization.

I was very concerned about having too many organizational layers. I set a goal of having only two layers of supervision between me and an entry-level person anywhere in the company. While that number increased to three layers and in a few cases four as the company grew to more than 30,000 people, keeping the number of layers to a minimum is important to make work fun. Each layer tends to block communication and other interaction in organizations. It also separates people at one level from those at another, sometimes physically and almost always in status. Each layer requires another leader, and each additional leader increases the chances that people will feel squelched by a boss.

On the other hand, if the team is too large, it reduces the amount of individual attention and coaching a leader can give to each team member. It can also reduce the opportunity for cooperation and friendship. The “right” number is probably different in every situation. My personal preference is to err on the side of larger teams. This reduces the chance that a leader will interfere in all the decisions. It leads to a much flatter organizational structure and a lot more fun.

A question related to the size of the individual team is the number of teams that can operate smoothly in one physical location. I have found little persuasive research on this subject. My hunch is that bad things begin to happen when an organization has more than 300 to 600 people in one location. This suggests that an
effective organization should have no more than 15 to 20 teams with 15 to 20 people on each team. Most of us have difficulty maintaining strong relationships with more than 20 people. Few of us can work alongside 1,000 people and manage to put names and faces together and engage in casual conversation with all of our colleagues. The CEO of Dana Corporation once told me that his company tried to limit the size of any one facility to 400 people. Above that number, people seemed to have difficulty identifying with the company.

Recent studies of mega-sized high schools show organizational patterns similar to those in business. Larger schools force young people to specialize in academic disciplines and extracurricular activities to a much larger degree than small schools, in which each individual is “needed” and encouraged to participate in several sports and numerous other school activities. In large schools, many students simply blend into the crowd, which means fewer of them are encouraged to become engaged in the life of the school beyond the classroom.

Fortunately, the huge workforces that produced economies of scale in early steel and auto plants have been replaced by automated facilities requiring fewer people. When we purchased the Ekibastuz power plant in Kazakhstan, more than 5,000 people worked at the plant. Today, fewer than 500 people produce double the amount of electricity. Teams work together more effectively, and the plant has a human scale.

Groups that perform a variety of functions are an essential part of a successful and fun workplace. This means taking these functions away from specialist staff groups. When teams handle a variety of tasks, individuals are able to make full use of their skills, and work becomes more challenging and enjoyable.

The kind of teams I am suggesting are more like banana splits than milkshakes. Milkshakes blend the various flavors of ice cream, toppings, milk, and other ingredients into one undifferentiated dessert. In banana splits, each scoop of vanilla, chocolate, and strawberry ice cream, along with the bananas and toppings, remain
separate until eaten. In a banana-split team, individuals play special roles and maintain their identities. The sum of the parts is greater than the whole.

Building good teams depends on hiring the right kind of people. Dave McMillen, one of our most accomplished managers, designed a rigorous vetting process for identifying people who were most likely to succeed in the Honeycomb structure. He began with a series of questions that would both teach prospects about expectations for young people at the company and determine whether the individual would be a good fit. Skills and talent were important, but they took a back seat to the way a person reacted to the company’s values, including our particular definition of fun.

The questions focused on finding self-starters who would take responsibility for their own actions. Did they understand that fairness did not mean the same treatment for everyone? Did they have the courage to make decisions? Did they understand what it meant to serve their colleagues, other stakeholders, and the company as a whole? A potential new hire might be interviewed by six to ten people in a plant (none of them official “human resources” staffers) before being offered a position. We made some mistakes, of course, but the approach was quite effective in finding people to build and operate our special company.

The primary factor in determining whether people experience joy or drudgery in the workplace is the degree to which they control their work. By “control,” I mean making decisions and taking responsibility for them. It is difficult to design a structure that allows individuals to work to their highest potential. Even more difficult is creating a community of such people who work in
concert and produce something useful for society in a way that makes economic sense.

Even before we introduced the team concept into AES life, we used a “participatory” style of management. That is, the leader would seek out advice from knowledgeable colleagues before making decisions. “Suggestions” were very much welcomed and rewarded, but the boss still made the final decision. When we first formed teams in our plants, decision making shifted from the leader to the group. The teams either voted among themselves or discussed the matter until they had a consensus.

One effect was a drop in complaints about decisions. “Democracy” felt so much better than having decisions imposed by the corporate home office, or the plant manager, or a member of the plant manager’s staff, or the team leader. It was a good approach, but there was an even better alternative that would both increase the fun and the chances of success.

That alternative was giving people the opportunity from time to time to make an important decision or take an action individually, just as a player does in a team sport. Gradually, most important decisions in the plants and in the home office were made in this manner. “Who is the decision maker?” became a common question around the company. Besides being a way to increase joy at work, it also had the advantage of being faster if a quick decision was needed. It also made it easier to hold individuals accountable, without sacrificing group accountability. Once an individual made a decision, the group, the plant, and eventually the entire company took responsibility for it.

While this approach brought extra fun to people in the organization, it posed three thorny questions.

First, it required leaders to give up their traditional right to make important decisions. Some people think decentralization can occur in an organization even while top executives make most of the decisions and sign off on others. But there are only so many decisions made by an organization, and the power to decide must
be given to as many people as possible if their individual talents are to be fully utilized. This prompted an understandable question from experienced leaders: “Isn’t this what we’re paid to do?”

Second, this was a company, not a bunch of independent individuals. A company cannot afford lone rangers who operate apart from their leaders and colleagues. Why should one individual make an important decision for the whole company?

Third, how could a person on a team in a plant know enough to make a decision that could materially affect the entire company?

To deal with these questions, I introduced the “advice process.” It is a very simple, although often controversial, concept. It takes the “suggestion box” management approach of the 1970s and ’80s and turns it upside down. Instead of the boss getting advice and suggestions from people below, the decision maker—who is almost always not an official leader—seeks advice from leaders and from peers.

Usually, the decision maker is the person whose area is most affected, or the one who initiated an idea, discovered a problem, or saw an opportunity. If it is unclear who the decision maker should be, the leader selects an individual to gather advice and make the final decision. Before any decision can be made on any company matter, the decision maker must seek advice. The bigger the issue or problem, the wider the net that is thrown to gather pertinent information from people inside and outside the company. In my opinion, all issues of importance need advice from the decision maker’s own team. However, members of other teams in the plant or offices should also be consulted. Some decisions are so important that advice is gathered from other plants, divisions, and offices, including the home office. The board of directors should be consulted on the most important issues.
At AES, we did not always do a good job of carrying out the advice process, especially the requirement to reach beyond the team or business unit where the decision maker worked. Sometimes, the information and analysis provided to the potential adviser was sloppy and incomplete. Even with these weaknesses, the quality of the decisions using this approach was at least as good as those decisions made under more conventional management systems. Probably more important, it made work more interesting and fun for thousands of AES people.

The advice process is my answer to the age-old organizational dilemma of how to embrace the rights and needs of the individual, while simultaneously ensuring the successful functioning of the team, community, or company. I observed that Japanese companies tended to emphasize the group and consensus, while American culture pushed rugged individualism. I believe the advice process strikes a better balance. It leaves the final decisions to individuals, but it forces them to weigh the needs and wishes of the community. Parenthetically, the Internet was made to order for our advice process. The kind of wide consultations that I advocate would not be possible in large, dispersed organizations were it not for e-mail.

Five important things happen when the advice process is used by an individual before making a decision or taking action:

First, it draws the people whose advice is sought into the question at hand. They learn about the issues and become knowledgeable critics or cheerleaders. The sharing of information reinforces the feeling of community. Each person whose advice is sought feels honored and needed.

Second, asking for advice is an act of humility, which is one of the most important characteristics of a fun workplace. The act alone says, “I need you.” The decision maker and the adviser are pushed into a closer relationship. In my experience, this makes it nearly impossible for the decision maker to simply ignore advice.

Third, making decisions is on-the-job education. Advice comes from people who have an understanding of the situation and care
about the outcome. No other form of education or training can match this real-time experience.

Fourth, chances of reaching the best decision are greater than under conventional top-down approaches. The decision maker has the advantage of being closer to the issue and will probably be more conversant with the pros and cons than people in more senior positions. What’s more, the decision maker usually has to live with consequences of the decision. Even if the decision maker comes to an issue without fully understanding its implications for the organization, that weakness can be overcome by obtaining advice from senior people. As Samuel Taylor Coleridge wrote: “Advice is like snow; the softer it falls, the longer it dwells upon, and the deeper it sinks into the mind.”

Fifth, the process is just plain fun for the decision maker because it mirrors the joy found in playing team sports. The amount of fun in an organization is largely a function of the number of individuals allowed to make decisions. The advice process stimulates initiative and creativity, which are enhanced by wisdom from knowledgeable people elsewhere in the organization.

Most modern organizations place extraordinary emphasis on training. While the motives might be laudable, the methods are not. Adults need education that engages their attention in an interactive way. Dr. William Glasser is a psychiatrist and psychologist who specializes in education, counseling, and business. His research on learning reinforced what I learned in the early days of Honeycomb. Glasser found our retention rates vary widely according to the ways information is transmitted. By his estimates, we remember:

\[
\begin{align*}
10\% & \text{ of what we read} \\
20\% & \text{ of what we hear}
\end{align*}
\]
30% of what we see
50% of what we see and hear
70% of what we discuss with others
80% of what we experience personally
95% of what we teach to someone else

Education is a matter of performing tasks in an environment that encourages feedback and constructive criticism. In other words, we learn best when we discuss our work with others, make decisions that matter, and find out from others whether what we did was right or wrong. As Glasser’s research shows, the people consulted along the way are apt to learn even more.

The implications seem obvious. Working and taking responsibility for a turbine is the best way to learn about the turbine; maintaining water-treating equipment is the best way to learn about maintaining the equipment; and being a supervisor or a plant manager is the best way to learn how to be an effective leader. Group projects and performance reviews are also important learning settings for everyone—certainly more important than classroom lectures or formal training programs. All these learning experiences are made more valuable when leaders act as mentors and advisers.

While some important information can be transferred using training methods, real education requires a very different approach. I was in Argentina with some of our AES people a few years ago. I asked them, “How and when did you learn to become a parent? Was it the talks you had on the subject with your mother? Was it the books you read on parenting?” “¡No, no, cuando llegó el bebé!” (“No, no, when the baby came!”) they exclaimed, rocking an imaginary baby in their arms. Similarly, my wife’s experience suggests that one semester of teaching is the equivalent of several years of teacher training in college.

The education tool made famous by the Harvard Business School is the “case method.” The uniqueness of this teaching style is that the student is put in the position of the decision maker. Some-
thing magic happens to our learning experience when we are put in the role of seeking information because we need it to make a decision. Abstract concepts suddenly become germane and real—and a lot easier to understand.

As effective as it is, the case-study method can’t match making decisions that have real consequences. It is the difference between firing blanks and firing live ammunition. When making consequential decisions, our rate of learning steps to a whole new level. This explains why apprenticeship programs have been so effective over the ages. The design of the AES workplace somewhat accidentally created one of finest educational institutions around. The opportunity to make important decisions after participating in an intensive advice process helped people learn in an accelerated way.

To get the most out of the advice process, people inside an organization must share all information. To explain this “no secrets” approach, I said that any piece of information available to me as CEO was available to every person in the company. That was probably more an aspiration than a reality, but the concept is very important. As John Case pointed out in Open Book Management, the decision process is rendered impotent if all information is not made available to people at all levels of the organizations.

When AES told the Securities and Exchange Commission that we intended to make available to our employees all corporate financial data, including quarterly earnings reports before they were released to the public, the SEC imposed a novel requirement. If everyone had access to financial data of the company, then every AES employee, even those working in faraway plants, would be classified as “insiders.” Instead of five to 10 “insiders” at a typical company, AES had thousands. All were subject to “blackout periods” in which they could not trade the company securities. Fairly soon after AES
When AES stock began trading publicly, we asked our people if they would like to limit their access to information so that they would not be considered insiders and would be free to trade AES stock at any time. By an overwhelming margin, they chose to have full access to financial information and to remain insiders. Part of having joy at work is being “important” enough to have the same knowledge as leaders.

When the World Bank made a case study of AES as part of an internal review, I was asked to meet with a large group of the bank’s employees to discuss many of the topics covered in this chapter. “How many people do you think should be employed by the bank, especially here in Washington, D.C.?” asked one intrepid employee. “I certainly do not know the answer to that question,” I responded. “But let me share our experience at AES and compare it to yours,” I added. “The World Bank has about 10,000 employees. Our experience is that the typical restructured organization can accomplish twice as much with half the number of people than currently work there. If that rule held, the bank would need no more than 5,000 people. At AES we have about 40,000 people worldwide. Only about 100 work in the Arlington, Virginia, headquarters. At the bank, 8,000 of your 10,000 employees work in the Washington office. For a worldwide enterprise whose services are delivered to dozens of countries, that ratio seems upside down.”

To make a large organization exciting, successful, and fun, it is crucial to limit the number of people in the home office, central staff, and senior executive offices. Most senior executives seem to believe that God or the board created them to make all the important decisions. But every decision made at headquarters takes away responsibility from people elsewhere in the organization and reduces the number of people who feel they are making an
effective contribution to the organization. Remember, joy comes from freedom. When central staffs assume the lion’s share of power and control, the people who are operating units don’t get as much excitement and fulfillment from their work.

As CEO, I tried to limit myself to one significant decision a year (it usually involved restructuring the organization’s regions and selecting new leaders for various senior positions). I wasn’t always successful, but the discipline of trying made a deep impression throughout the organization. Other leaders tried to follow my example. Thousands of decisions that would have been made by leaders were spread among thousands of other AES employees. For the first time, many AES people felt needed, important, and trusted. In effect, they had become full participants in their workplace.

An analogy offered by Attila Szokol, an AES technician in Hungary, explains how they felt. Even this wooden translation of his letter cannot conceal the strong emotional reaction of a man raised under communism: “What is important is trust. When a child will jump into a parent’s arms because of absolute trust that he has in the parent to catch him. Likewise, this approach requires leaders to trust those responsible to them as if the leader were jumping into the arms of the subordinate, because it is the subordinate’s actions and decisions that decide the fate and success of the leader.”

While having too many general managers at the center of the organization is a significant problem, the proliferation of staff offices, composed of specialists carrying out narrow functions, is an even bigger enemy of fun in the workplace. In my experience, it doesn’t matter whether it is human resources, legal, public relations, engineering, treasury, or any of 15 or 20 other similar departments that pop up in most large organizations. While they are billed as “service” offices, they usually make life in the operating parts of the enterprise more difficult. Most of what they do could be better accomplished if the specialists were working as part of an integrated team of people trying to accomplish a broader mission. They can be more effective as part of a banana-split team. Central staff offices remind me of
the derogatory phrase often used to describe people in the federal government who show up to audit or inspect an enterprise: “We are from the federal government, and we are here to help.”

Human resources is one of my least favorite. AES did away with its HR department six months after we started staffing our first plant. All but a few of the administrative functions were turned over to the existing teams within AES’s operating facilities. Recruiting, education, reviews, compensation, hiring, discipline, firing, and benefits were handled by the people who had direct responsibility for the quality of their work. Professor Jeff Pfeffer celebrated this radical decentralization in a Stanford Business School case on AES titled, “Human Resources: The Case of the Missing Department.”

I sometimes explain one of the problems with central staff groups by saying, “The stronger and more competent the central staff person, the worse it is likely to be for the rest of the organization.” If the central staff is believed to be very competent, operating leaders and their subordinates have a tendency to become passive, to stop learning about important aspects of the business, and to stop linking the success of the company with the success of their teams.

In one of my annual State of the Company presentations, I used a marionette as a metaphor for what happens to employees who feel controlled by staff experts at the top of large organizations. The image of being jerked around at the end of a string captured the helplessness and frustration of people in frontline units when they see dozens of specialists deal with process while they attend to business. Believe me, I experienced this in a very real way in the federal government.

There is no question in my mind that large organizations would be better places to work if they eliminated most groups organized around special functions and integrated those functions into operating groups. Not so clear is whether ridding the enterprise of all such units gives the organization a better chance to succeed. Expertise in purchasing, financial matters, auditing, engineering, strategic
planning, investor relations, purchasing, and a host of other disciplines is important. The organization needs people who have expertise in these areas, if only to spread their knowledge.

How then can we best make work fun and at the same time ensure that the company has sufficient expertise to deal with any contingency? There are several approaches I recommend:

(1) As noted above, experts can sometimes be integrated into the all-purpose teams. When this happens, they quickly learn what the “real world” is like and become much more effective in teaching and applying their specialties. At various times, our top expert in fluidized bed boilers worked as a plant manager in England, our leading specialist in U.S. environmental permitting was assigned to business development in Europe, and our best gas turbine person worked in our plant in Pakistan.

(2) Organization-wide task forces can handle many of the jobs usually assigned to central staff groups. Bob Waterman introduced me to the potential of task forces, but it was Dave McMillen, to whom this book is dedicated, who honed them to near perfection. He was a strong advocate of my so-called 80-20 rule. I thought that AES people should spend 80 percent of their time on their primary roles and devote the other 20 percent to participating on task forces, giving advice, learning new skills, and working on special projects not necessarily related to their primary responsibility.

My wife, Eileen, and I attended a Christmas party held in Mystic, Connecticut, near a plant managed by Dave. During the evening, Dave had members of the active task forces stand for recognition. There were task forces for Christmas party planning, annual budgeting, bonus compensation, community service, environmental work,
corporate values, and others. A man at our table, whose wife had earlier commented on how much he loved his job, stood when the budgeting task force was recognized. Later, Eileen asked him where in the plant he worked. “I’m a security guard,” he replied. There is no way to overestimate how much people learn by working on task forces—and how their participation makes them feel appreciated.

Task forces help people see work as a voluntary act, something they choose to do rather than something they have to do. My goal was to have everyone in the company feel like a volunteer. Volunteers are typically enthusiastic, energetic, and effective.

I have always favored using semi-permanent task forces even in crucial roles like safety, environment, and especially financial auditing. The major benefit of these audits goes to the auditors, not the audited. All of the task force members go back to their permanent roles in the organization with a wider appreciation for the work of others in the company. Needless to say, the task force leaders must have enough expertise to educate the generalists on their teams, or they must know where to find that special knowledge outside the company. Most of our important company-wide task forces were chaired by experts from inside the company, often with the assistance of outside consultants.

(3) If a permanent central staff group is deemed absolutely essential, make it small, staff it with people who have servants’ hearts, and keep to a minimum the number of important corporate decisions it makes. Even central financial groups should follow this approach.

A person with a servant’s heart is dedicated to serving others and bringing out the best in them. I was privileged to work with several people who were truly remarkable in this regard. Roger Naill, who was in charge of values, financial modeling, and strategic planning, led a group of about five people. He carried out his roles primarily by teaching, leading task forces, and participating in the advice process. He could have led an annual process to create a five-year strategy for the company, but such planning, in my opinion, is
a waste of time because conditions change so rapidly. Instead, Roger oversaw a process that was dynamic and flexible. We tried a whole bunch of things. We collected data and analyzed the results. A few of the things worked. We wrote those down and called the result our strategic plan. Instead of looking at expected costs and returns, we focused on our mission and our values, especially our goal of bringing fun to the workplace.

We felt convinced that this approach made AES a better place. Strict financial planning often serves to centralize control of the company among a few leaders at the top of the organization.

Barry Sharp, our chief financial officer, was a servant among servants. He was also the most competent financial accounting person I have ever known. Next to the CEO, the CFO has the greatest influence on the quality of the workplace. Barry’s willingness to act as an adviser, teacher, and exemplar made him the most admired person in the company. Those who worked with him were expected to act with the same selflessness. Numerous times he resisted efforts by board members to make him and others in his department act like controllers. (Controllers are not only joy-killers, but they also inhibit a company’s creativity and, in the process, dampen its long-term chances for success.) His humility and service ethic, along with his willingness to delegate decisions to people in the operating businesses, helped make AES a great place to work.

Unfortunately, people like Roger Naill and Barry Sharp, who have servants’ hearts along with brilliant business skills, are in short supply. Even if we intend to let others in the organization make important decisions, we often succumb to the temptation to make these decisions ourselves because we lack confidence in our subordinates. Two points are worth making. First, employees in operating units are usually wiser than executives think, and their batting average compares favorably with that of the typical central staff office. Second, even if they make the wrong decision, they derive enormous satisfaction and grow tremendously from the very act of making it.
The kind of workplace I describe in this chapter has one significant drawback. It does not easily accommodate people who cannot operate as creative, responsible colleagues because of mental, physical, or emotional limitations. The assumptions underlying the AES ethos do not require a Harvard education or extraordinary physical or mental capacities. But an AES-style workplace requires people who can reason, make decisions, and take responsibility for their actions. Some people have trouble functioning this way. It does not mean that they are not good human beings; indeed, many have other virtues that may be more important in the larger scheme of life. But it does mean that they will have trouble fitting into the Honeycomb system.

Most vibrant organizations following the philosophy I am advocating have a small number of people who do not meet the standards of the company. To varying degrees, they tend to be a drag on the organization and its teams. Leaders should try to steer them to other workplaces that are more in line with their talents and temperaments. In the end, both the organization and the individual are better off after an amicable parting of the ways.