The Ineffective Enterprise

MOST AMERICANS TODAY WORK, either directly or indirectly, for enterprises, for large organizations that employ specialized workforces and multiple layers of management.

Enterprises have been driving the American economy for well over a century, and Americans have been debating, for almost as long, just what needs to be done to make enterprises effective. The debates have revolved, for the most part, around a single simple question: How do you turn dozens, hundreds, or thousands of people who don't know each other — and may not even know much about the work they have been hired to perform — into an operation that efficiently produces goods or provides services?

At the end of the nineteenth century, one American felt sure he knew the answer. To make enterprises effective, industrial engineer Frederick Winslow Taylor asserted, managements needed to manage — down to the most minute details of the work to be done. Taylor called his approach to enterprise effectiveness "scientific management."

In a scientifically managed enterprise, Taylor taught, management does the thinking. All of it. Managers, he advised, should always "fully" plan out every single task every single worker "is to accomplish, as well as the means to be used in doing the work."[1]

Taylorism — the notion that workers need to be carefully scripted, motion by motion — would go on to flourish in the new twentieth century. Businesses hustled to organize themselves, as best they could, along "scientific management" lines. Total management control over the work process, executives believed, would make for enterprises that functioned efficiently, with no effort ever wasted, no minutes ever lost.

Today, a century later, the nostrums of "scientific management" seem a quaint, even barbaric, relic of a distant past. No contemporary business leader would dare suggest, at least not in polite company, that employees only do good work when management tells them exactly what to do and how to do it. Instead, modern executives orate, at every opportunity, about *empowering* workers, about the importance of creating workplaces that encourage employees to exercise their creativity.

Originally published in *Greed and Good: Understanding and Overcoming the Inequality That Limits Our Lives* by Sam Pizzigati (Apex Press/Rowman & Littlefield, 2004). For more, see Inequality.org.

Almost every high-level corporate manager now knows, by heart, this empowerment mantra: In generations past, they have learned at innumerable management seminars, command-and-control might have made some business sense. In the old days of mass production, with workers standing at assembly lines, performing the same mindless tasks over and over, corporations didn't really need to know what workers thought. They just needed workers to do what they were told. But that mass-production world, the story continues, no longer exists. The Industrial Age has given way to an Age of Information.

In the old days, enterprises could prosper churning out the same product by the millions. Customers were expected to buy what manufacturers produced — and they usually did. "You can have any color you want," as automaker Henry Ford once quipped, "so long as it's black." In the new Information Age, by contrast, enterprises only do well when they *customize* products to what customers want. And who knows what customers want? The workers at the front lines, the employees who interact directly with consumers. These workers, through their contacts with customers, gain incredibly significant information. An effective enterprise values this information — and the employees who have it.

The effective enterprise, adds the empowerment mantra, also values workers on the production line, because modern production operations must be constantly changing to keep up with evolving consumer preferences. Who better to help figure out how to change, how to produce products ever faster, smarter, and more efficiently, than the workers actually involved in the producing?

For Information Age business success, in short, workers simply must be engaged and involved. In our modern world, command-and-control no longer makes any sense.[2]

Think of modern enterprise life, suggests British economist John Kay, as a basketball game. If a basketball game were entirely predictable, coaches could succeed merely by defining what they want each player to do at each exact moment. But no coach ever tries to script an entire game. No script, coaches understand, could ever anticipate "the almost infinite variety of situations that might arise."[3] Smart coaches prepare players — and expect players — to make their own decisions.

Expectations like these, notes Edward Lawler, the director of the Center for Effective Organizations at the University of Southern California, go against the "old logic" grain of corporate America. In the old logic enterprise, management makes all the decisions. Management, the old logic assumes, creates most value. What Lawler calls the "new logic" enterprise subscribes to a quite different set of assumptions. Corporate success, the new logic enterprise understands, requires that all employees, not just managers, "must add significant value."[4]

And just how can corporations maximize this added value? In the late twentieth century, experts rushed forward with guidance. Their strategies would go by a host of different labels. Participative management. Quality circles. Total quality management. Experts would talk endlessly about "reengineering" corporations to effect "high-performance organizations." Employee involvement, the experts stressed over and over, gives corporations smart enough to try it the "ultimate competitive advantage."[5]

This empowering ethos swept through corporate America in the 1980s and 1990s. Managers and their staffs sat together, in meeting after meeting, drafting, discussing, and debating "mission" and "values" statements. And journals, magazines, and newspapers noticed. They celebrated, year after year, the triumphs of enterprises that were said to have successfully empowered their employees.

One typical triumph came at Ironite, an Arizona fertilizer company. An Ironite customer had asked for the company's fertilizer in boxes instead of bags, a reasonable enough request. But Ironite didn't have a boxing machine, and buying one would have cost the company far more than the firm could have comfortably afforded. No problem. Ironite's employees simply built a boxmaker themselves, at a tenth of the cost of buying one.

That sort of employee creativity, Ironite's chief executive pointed out proudly, does not just happen out of the blue.

"You get this only if you involve and respect employees," explained Ironite CEO Heinz Brungs. "You can't order them to build a machine."[6]

Every company, "effective enterprise" gurus insisted throughout the 1980s and 1990s, could become an Ironite. But few companies, researchers agreed by century's end, had actually reached anything close to Ironite status. Study after study reached the same dispiriting conclusion. Enterprises, by and large, were not empowering workers.[7]

Just 10 percent of *Fortune* 1000 corporations, Edward Lawler would report in 1996, were managing "according to the new logic."[8] And only a small fraction of the companies that claimed to be empowering workers, a *Journal of Business* study would reveal two years later, were actually engaging in any serious empowerment work.[9] Another study, published in 2000 by *Administrative Science Quarterly*, found executives across the United States quick to proclaim their allegiance to the new logic, but slow to practice it. On empowerment, concluded Barry Staw and Lisa Epstein, the study's authors, top executives are essentially going through the motions.[10]

But why? Why aren't top executives giving empowerment strategies a real go?[11] Empowering employees, the experts all agree, can enhance enterprise efficiency. Why aren't executives making any real effort to see whether the experts are right? What CEOs, after all, wouldn't want their enterprises to be more efficient?

Strange. Something is stopping American business from creating the employee-empowering, customer-focused "new logic" enterprises that the Information Age so clearly demands. What is it?

ALMOST ANYONE WHO HAS EVER WORKED in a large company would probably agree, in a heartbeat, that the obstacles to enterprise effectiveness can almost always be summed up in just one eleven-letter word. Bureaucracy. Average employees experience frustrating doses of "bureaucracy" each and every day, in everything from turf wars between managers to the endless delays while ideas go up and down the decision-making ladder.

Bureaucracies, sociologists tell us, grow naturally — and inevitably — in enterprises organized along hierarchical lines. In the classic corporate hierarchy, workers sit at the base of a steep pyramid. Above them rest layers upon layers of management. The more layers, the steeper the pyramid, the greater the distance between actual workers and ultimate corporate decision-making authority. To succeed in the Information Age, analysts contended in the 1980s and 1990s, enterprises needed, above all else, to "flatten" these towering pyramids.[12] Many top executives readily agreed, some intensely.

"Rigid hierarchies," exclaimed one such executive, J. Burgess Winter, the CEO of an empowerment-minded Tucson copper company, "are the corporate cholesterol of organizations."[13]

Reformers like Winter urged executives to do battle against hierarchy. Deflate that management bloat, they beseeched, and free your employees to become the creative contributors to enterprise success they most certainly can be. For a time, in the early 1990s, corporate America claimed to be following the reformers' advice. America's corporations, observers pronounced, were shearing off management fat layer by layer. But these claims, once subjected to review, would not hold up. American companies weren't becoming leaner, as economist David Gordon documented, just meaner. Corporate America remained, he concluded, as "middle-management-heavy as ever."[14]

Other research reinforced Gordon's findings.[15] The total number of middle managers, one investigation found, actually increased between 1989 and 1995.[16] Corporate America's demand for managers, the *Wall Street Journal* reported in 1996, "is booming."[17]

The "new logic" war against hierarchy had clearly fizzled. Years of seminars and books and speeches had made virtually no impact. Organizational pyramids had not been flattened. Employees remained shut out from decision-making. And none of this, careful analysts pointed out, should have surprised anyone. Reformers tend to see corporate hierarchies as anachronistic, easily disposable hangovers from bygone days of command-and-control. But hierarchies are no feeble anachronisms. In contemporary business, they still serve a real purpose. They help ensure that excessive executive pay remains excessive. They amount, in essence, to income-maintenance programs for top executives.

Peter Drucker, the father of modern management theory, had detected and described this income-maintenance dynamic years before, back in the early 1980s. In any hierarchy, Drucker noted, every level of bureaucracy must be compensated at a higher rate than the level below. The more levels, the higher the pay at the top.[18] Hierarchies would remain appealing to executives, he argued, as long as they prop up and push up executive pay. His solution? To make hierarchies less appealing to executives, Drucker suggested, limit executive pay. No executives, Drucker wrote in 1982, should be allowed to make more than twenty times the compensation of their workers.[19]

Few other prominent scholars in the boom years would dare to suggest, following Drucker, a specific ratio between executive and worker compensation. But many did make clear their concern that wide pay gaps fouled the "atmosphere of trust and confidence between workers and management" so essential to successful employee empowering. "Large differences in status," concluded a Brookings Institution analysis, "can inhibit participation."[20] "Extreme wage differentials between workers and management," agreed four other researchers in a major study published in 2000, "discourage trust and prevent employees from seeing themselves as stakeholders."[21]

Those who care deeply about building effective enterprises have drawn one clear conclusion from these realities. To be serious about reducing bureaucratic bloat, about ending command-and-control, about creating effective organizations for a modern economy, enterprises simply must narrow wide reward differentials. Enterprises that crave the best their employees have to offer, but ignore gaping differentials in compensation between top and bottom, do so at their peril.

IN THE EARLY DAYS OF THE COMPUTER REVOLUTION, in the heady air of America's unofficial capital of high tech, Silicon Valley, some companies did do more than just crave the best their employees had to offer. These companies openly declared war on corporate business as usual. The founders of these firms, executives like Bob Noyce, forty when he helped launch Intel in 1968, had experienced command-and-control hierarchies earlier in their careers. They were determined not to let command-and-control habits define their new enterprises. They would empower employees. They would flatten hierarchies.

An early hire of Intel, a company history notes, once stopped co-founder Noyce in an office hallway.

"I'm not really clear on the reporting structure of this outfit," the new hire asked. "Can you just draw me a quick organization chart?"[22]

Noyce gladly obliged. He walked to a nearby blackboard, drew an X and then a circle of Xs around that first X. The X in the middle, he explained, was the employee. The Xs that circled the employee were Intel's executives. The employee, Noyce told the new hire, could interact with any one of them he chose.

In Intel's earliest years, circles, not pyramids, would define the workplace. Intel would nurture a culture that encouraged "anyone who had a good idea to speak up, anyone with a question to ask it."[23] In a "fast-moving industry where speed of response to change was all-important, and where information had to flow as swiftly as possible if the company was to make the right decisions," no other approach seemed appropriate, or even rational.

New companies throughout Silicon Valley shared Noyce's perspective. One of them, Hewlett-Packard, actually predated Intel. That company's co-founders, Bill Hewlett and Dave Packard, preached what would become known as the "HP Way." Their company, they pledged in 1966, would "maintain an organizational environment that fosters individual motivation, initiative and creativity, and a wide latitude of freedom in working toward established objectives and goals."[24]

Silicon Valley's start-ups of the 1970s would share this same contempt for corporate command-and-control. Curiosity and creativity, not profits and empire building, seemed to drive them. Steve Wozniak, the designer of the first Apple computer in 1976, wasn't out "to get rich or launch a *Fortune* 500 company," as one journalist fascinated by Silicon Valley's early history has noted. Wozniak "just wanted to have fun and impress the guys down at the local computer club."[25] Wozniak and his soulmates felt they were forging new ways of doing business, not just new products. Their companies would operate on a free and open basis. Worklife in the companies they founded would be exciting and fun.

And lucrative, too. Extremely so. People liked the products that shipped out of Silicon Valley. Computing's founding executives may not have set out to make themselves wealthy, but they soon amassed millions anyway. Would these millions spoil the creative, open-minded enterprises that dotted Silicon Valley? The founders didn't think so. They had a strategy for keeping their employees engaged and creative. They would share the wealth their companies were creating. They would give their employees stock options.[26] These options, they felt sure, would motivate everyone in their enterprises to strive for enterprise success. Inspired by options, executives and employees would bust down bureaucratic barriers. They would work, innovate, and prosper — together.

Options would go on to propagate wildly throughout Silicon Valley's corporate culture. Everybody in Silicon Valley, from receptionists to engineers, soon seemed to be cashing in on the option cascade. At one digital giant, Cisco, employees in 1998 held "an average of $200,000 in unvested options." Not everyone in computing, to be sure, would be sitting on such comfortable option stashes. Options were clearly enriching some far more than others. One late 1990s survey of twenty Silicon Valley companies, conducted by the National Center for Employee Stock Ownership, found that 49 percent of all options granted had gone to management. Senior executives at these companies had accumulated option grants that averaged $2 million. Administrative workers, in the same companies, held options that averaged just $18,000.[27]

These sorts of gaps, as startling as they might be, would raise few eyebrows in Silicon Valley. Options, high-tech's cheerleaders opined, made gaps irrelevant. Everyone was benefiting. Any inequality in the distribution of rewards simply didn't matter.

But that inequality, in the end, would matter — to the ideal of the open, empowering, creative workplace that Silicon Valley's original pioneers held so dear. By distributing options to all or most all employees, these pioneers had believed, young high-tech companies could cancel out any resentment that windfalls for executives might otherwise engender. But they were wrong. Options would not cancel out inequality. Inequality would cancel out the open, creative, empowering workplace.

Silicon Valley's *disempowering* dynamic would unfold initially at Intel, the first of the high-tech giants where huge pay gaps emerged between executives and everyone else. By 1971, Intel co-founders Bob Noyce and Gordon Moore had amassed shares of company stock worth nearly a combined $20 million. But they weren't selling, not a share.

"Both men," notes Tim Jackson, a *Financial Times* correspondent who authored a 1997 history of Intel, "clearly believed that Intel still had far to go."[28]

To get there, Noyce and Moore entrusted Intel's daily operations to the company's most hard-driving, least empowering-minded executive, Andy Grove. From 1971 on, Grove ran Intel — and arrogantly ran roughshod over the creative freedom that had typified Intel's earliest days. The command-and-control ethos that Intel had so famously rejected would now become Intel's standard operating procedure.[29]

One Grove contribution to Intel's workplace culture, the "Late List," came to symbolize the company's increasing regimentation. Security officers, operating under Grove's direct orders, were required to collect, and circulate to top Intel executives, the names of all employees who arrived at work after eight in the morning. This Late List infuriated Intel's engineers. They deeply resented any implication they were shirking. In the mornings, after long nights spent working, the engineers would scribble angry notes on the Late List sign-in sheets — "I was here until midnight last night, damnit!" — and subversively identify themselves as Mickey Mouse or even Andy Grove himself.[30]

Year after year, deep into the 1980s, Intel employees would chafe under Grove's heavy-handed management. Thousands of them, notes Tim Jackson, regularly put up "with more regimentation, more inconvenience, more indignity than people in other companies."[31] But they stayed on. They had to stay. They were trapped, locked in place by their options. Stock options have to vest before they can be cashed out, and vesting takes time. In the interim, employees disgruntled by Grove's petty tyrannies had no choice but to swallow their pride. Grove and his fellow executives could essentially manage however they saw fit, secure in the knowledge that their subordinates couldn't afford to walk away from unvested options. The options meant to encourage professionals to perform at the highest levels had created instead, at Intel, legions of bitter, resentful, humiliated employees who gave the company not their all, but their least.

Intel would evolve eventually into just another command-and-control workplace, a "second-rate manufacturer by world-class standards" that would sooner tie up rivals in court battles over patents than risk engaging them in fair and open competition. Intel's notorious litigation offensives would pay off handsomely for the company. By the end of the 1980s, notes company historian Tim Jackson, "Intel was making so much money that it didn't *need* to be an efficient producer."[32]

By the end of the 1990s, the empowering spirit that had once animated high-tech's pioneers had almost totally disappeared, and not just from Intel. Wealth now ruled.

"Silicon Valley used to care more about innovation than getting rich," shouted out the January 2000 cover of *Red Herring*, a Bay Area-based business magazine. "No longer."[33]

The last Silicon Valley bulwark against corporate business as usual, Hewlett-Packard, threw in the towel near century's end. Hewlett-Packard had done more to keep Silicon Valley's original egalitarian vision alive than any other big-time high-tech player. The company, in the hard times of the late 1970s, had avoided layoffs by cutting pay 10 percent across the entire board, executives included.[34] The company's CEO, into the 1980s, worked out of "a cubicle in the midst of a vast room instead of a corner office."[35] HP top executives did make good money, but nowhere near the magisterial sums pulled in by executives elsewhere. This "egalitarian" HP, by the mid 1990s, had started to fade. Some signs of the fade, most notably a private office for the HP CEO, would be obvious to all.[36] Other signs would be considerably less visible. In the 1970s, HP workers who boxed the company's calculators made decent money and benefits. In the 1990s, temps from Manpower were doing HP assembly work, with no benefits and making the same $1,000 a month HP workers had made back in the 1970s, despite decades of inflation.[37]

The final insult to the "HP Way" would come at decade's end. Midway through 1999, Hewlett-Packard would award its new chief executive, Carly Fiorina, the biggest no-strings stock grant in U.S. corporate history. The $66 million worth of shares handed to Fiorina, added to her base salary and assorted bonuses, brought the total value of her new, four-year pay package up to $90 million.[38] A small price to pay, the HP board figured, for a CEO who could rev up Hewlett-Packard's declining fortunes.

Fiorina would rev up nothing. Within two years, HP's stock shares had dropped more than 50 percent.[39] But Fiorina had a plan. To jump start the company, she would ask HP's ninety-three thousand worldwide employees to accept voluntary cutbacks. Employees would be able to pick their poison, either a 10 percent pay cut, a 5 percent pay cut and the loss of four vacation days, or the loss of eight vacation days. Workers could also choose none of the above. Remarkably, 86 percent of HP's workforce picked one of the three cutback options. One company spokesperson "chalked up the high participation rate" to the legacy of the HP Way.[40] The voluntary cutbacks would save HP $130 million.

Less than a month after HP employees made this noble collective sacrifice, the company rewarded them for it. Management, in a surprise announcement that would kill any vestigial remains of the HP Way, revealed plans to lay off six thousand workers. Inside HP's workplaces, observers found an immediate "bitterness" backlash. Employees, noted Rice University's Steven Currall, would have taken CEO Fiorina's fourth option — no voluntary cuts — if they thought they were "in jeopardy of getting laid off anyway."[41]

The voluntary pay cuts and the six thousand layoffs would produce no turnaround in HP's fortunes. Fiorina, in still another desperate gambit, proceeded to broker a merger with rival Compaq Computer, then spent millions of corporate dollars to sell the controversial merger to shareholders. She eventually won a shareholder green light for her merger and, as CEO of the newly merged company, moved quickly to make her new enterprise profitable — by eliminating 15,000 of the merged company's 150,000 jobs.[42]

Fiorina and her Compaq counterpart, Michael Capellas, had made sure during merger negotiations, of course, that their new company would have plenty of room for them, Fiorina as chief executive, Capellas as president. They would work under two-year contracts worth a combined $117.4 million in salary, bonuses, and stock options.[43]

Years before, back in Silicon Valley's earliest days, Carly Fiorina's predecessors thought they could make their fortunes and still, at the same time, maintain enterprises that fostered "individual motivation, initiative, and creativity." They could not. Silicon Valley had promised to empower employees. Silicon Valley, instead, betrayed them.

AMERICA'S BUSINESS LEADERS, IN PRACTICE, have never really accepted the notion that empowering employees makes enterprises effective. Empowering workers, after all, requires that power be shared, and the powerful, in business as elsewhere, seldom enjoy sharing their power.

The powerful enjoy sharing rewards even less. Corporate leaders have never accepted, either in theory or practice, the notion that enterprise effectiveness demands some sort of meaningful reward sharing. Rewards, business leaders have always believed, don't need to be shared. They only need to be targeted — to those employees who do good work. If high-achievers are rewarded, the traditional corporate calculus holds, more workers will strive to become high-achievers. Want to grow a high-performance organization? Simply offer individual workers rewards for high performance.

Researchers, down through the years, have repeatedly challenged this corporate devotion to "pay-for-performance." Rewards, they have shown, simply cannot guarantee that employees will perform at higher levels. People are simply too different, and motivations too complex, for any reward to make an automatic impact.[44] Indeed, as *Business Week* pointed out in 1999, researchers have not as yet unearthed a single case where singling out high-achieving individuals for extra pay has made an enterprise more effective.[45]

Why doesn't simply paying people for "good" performance work very well? The difficulties start with defining just exactly how performance will be measured. Employees usually, and understandably, balk at any performance measures they see as subjective. Managers, employees know from experience, can let everything from favoritism to outright racism cloud their judgments about performance. As a result, most employees would usually rather see "objective measures, such as sales volume or units produced," used to evaluate them.[46] But "objective" measures carry their own baggage. Employees, once they know they will be rewarded based on how well they meet a specific objective, tend to work toward meeting that objective — and only that objective.

"Pay customer-service reps to answer the phone on the first ring," quips *Fortune* management analyst Geoffrey Colvin, "and they'll answer it — and then put it down."[47]

At best, adds Colvin, performance rewards like these "will get people to do more of what they're doing. Not better, just more."

But just *more* no longer cuts it, not in the Information Age. The modern enterprise needs workers thinking — and caring about — their work. Such thinking and caring cannot be "bought" by dangling rewards for individual performance. In fact, many analysts believe, individual workplace rewards push enterprises in exactly the wrong direction. They discourage the collaboration and cooperation *between* employees so essential to Information Age enterprise success. Where companies target rewards to individual employees, explains economist Matt Bloom, individual employees quite logically "concentrate only on their own performance — to the exclusion of organizational goals."[48] Individual awards, in the end, undermine the cooperative spirit. They are, as analyst Edward Lawler notes, "counterproductive to individuals working together."[49]

So counterproductive, experts on motivation have concluded, that they deserve no place in the modern enterprise. Abraham Maslow, the influential twentieth century psychologist, held that individual rewards inevitably generate dysfunctional behavior.[50] W. Edwards Deming, the twentieth century's top workplace quality guru, agreed.[51] Effective enterprises, thinkers inspired by Deming continue to contend today, unite employees around a common goal. Individual rewards for performance divide them.[52]

But must rewards for performance always have this effect? Couldn't rewards be structured to encourage, not frustrate, cooperation and collaboration? A small but hardy band of labor and business analysts have made just this case. Rewards for performance, these analysts believe, can lead to greater enterprise effectiveness — so long as these rewards are shared on an enterprise-wide basis. This "gain-sharing" perspective, the brainchild of a union leader named Joseph Scanlon, first took significant root in the 1940s. Businesses, Scanlon argued, only thrive when labor and management join together and cooperate "to solve production problems and improve productivity."[53] And workers *will* cooperate, Scanlon argued, if the gains realized from cooperation are shared among all workers, not parceled out to a few.

Scanlon's influence would peak in the early 1950s, with "Scanlon plans" scattered widely throughout American industry.[54] The plans followed a similar outline. Performance goals would be identified.[55] Employee committees would generate, receive, and approve ideas for reaching these goals. Any profits generated by these ideas would then be split, typically fifty-fifty, between the company and the workers as a group.[56]

Joseph Scanlon would pass away in 1956, but his ideas would linger. In the 1990s, corporate reformers would still see in group bonus plans a healthy, team-building antidote to command-and-control.[57] Some CEOs even totally reconfigured their enterprises around the group-bonus spirit. In 1992, for instance, CEO Rob Rodin completely eliminated individual pay-for-performance rewards at his California company, Marshall Industries. All eighteen hundred employees would receive instead a share of Marshall's overall profit, and that share, as a percentage of salary, would be the same for everyone. Six years later, chief executive Rodin proudly reported that the productivity of his industrial electronics company had tripled.[58]

But successes like Rodin's would not change many minds in America's executive suites. In the 1990s, in corporate America as a whole, individual performance rewards would remain more than twice as common as group gain-sharing.[59] And of the 15 percent of companies that did claim to be engaged in some form of gain-sharing, few had actually been at it very long. Indeed, researchers seem to agree, few gain-sharing plans have ever lasted very long. Most gain-sharing efforts, the research suggests, typically go through the same depressing cycle. They launch with smiles all around. Workers enthusiastically pinpoint the obvious inefficiencies they see everyday in their workplaces, these inefficiencies are fixed, earnings jump, and everyone shares in some robust rewards. But workers can only fix obvious inefficiencies once. After this once, new productivity gains become steadily harder to realize. The "low-hanging fruit" has already been picked. The rewards from gain-sharing start to shrivel.[60]

That shriveling, in the 1990s, would put a particularly tight squeeze on workers involved in gain-sharing plans, mainly because many of the companies that did give gain-sharing a try over the course of the decade used gain-sharing bonuses to replace, not supplement, other forms of compensation. At Dupont Chemical's fibers division, for instance, workers agreed to trade all raises in exchange for three years of gain-sharing. At other companies, gain-sharing substituted for regularly scheduled cost-of-living inflation adjustments.[61]

In all these situations, essentially only workers stood at risk. If gain-sharing failed to generate appreciable cost reductions, workers could easily end up receiving less total compensation than they had earned before the gain-sharing went into effect. Top executives, meanwhile, faced no such risk. Their personal compensation, as we have seen in earlier pages, would continue to grow no matter how well their companies performed.

Gain-sharing plans that left only workers at risk, of course, totally subverted the trust between bosses and workers that Joe Scanlon had considered so basic to gain-sharing success. Plans that "shared" gains but not risks did not nurture more participative, empowering enterprises. They reinforced hierarchical distinctions.

Still, not every gain-sharing effort in the boom years would fizzle. Some enterprises did register meaningful, ongoing benefits from gain-sharing in the 1980s and 1990s. These enterprises all shared one distinction: They were small.[62] Most of them resembled Kay Manufacturing, an Illinois auto parts manufacturer with just 125 employees. Kay Manufacturing launched gain-sharing in 1993. By 1996, the company had halved factory rejects and reduced its accident rate from fifty a year to one.[63]

What makes small companies more hospitable to gain-sharing than large companies? Smaller companies, analysts note, carry fewer levels of management than larger companies and smaller pay gaps between executives at the top and workers at the base. These smaller gaps make cooperation easier to come by.[64] And individual workers at smaller firms can see clearly that their efforts really do make an impact on the enterprise bottom line. In larger companies, notes Edward Lawler, "profits are so far beyond the direct influence of most employees that profit-based bonuses are simply not likely to be an effective motivator."[65]

The evidence from America's workplaces, many analysts have concluded, all points in one direction. To keep hierarchies flat, to enhance cooperation and performance, keep enterprises small. In enterprises, as corporate reformer and later Supreme Court justice Louis Brandeis observed a century ago, human scale is small scale. Businesses, Brandeis noted, "may keep growing bigger but human beings come in the same size."[66] And that same size is overpowered, not empowered, when businesses bulge.

But businesses in the 1980s and 1990s kept bulging anyway. No one could credibly argue that this bulging, this swallowing up of former competitors into bigger and bigger single enterprises, was giving workers a more "direct stake in corporate performance." So why did businesses keep bulging ever larger? Businesses kept bulging simply because rewards kept concentrating — at the top.

RESEARCHERS FIRST DOCUMENTED the link between bigness and big pay in the 1950s. The corporate executives who made the most money, analysts discovered, didn't always have the most profitable companies. They had the biggest. Executive compensation, concluded one 1959 study, appears "to be far more closely related to the scale of operation of the firm than to its profitability."[67]

In the years to come, researchers would repeatedly reconfirm this size-compensation connection. Corporate performance, pay analyst Graef Crystal found at century's end, usually explains "only 2 to 4 percent" of the difference between what top executives make. "The rest," he reported, "largely depends on the size of the company."[68]

The larger a company, the more that company's top executives take home. Corporate moguls have understood this direct relationship ever since the dawn of corporate time — and done their best to act upon it. A century ago, they would get carried away. They would go on a bigness binge, between 1898 and 1902, that forged industrial behemoths many times greater in size than any the world had ever seen. These giant "trusts" generated astounding fortunes for the corporate titans at their summits — and bullied millions of average Americans, workers and consumers alike.

Average Americans did not take kindly to this fearsome corporate concentration. They struggled mightily to bust the trusts, and out of those struggles would emerge a body of "antitrust law" that essentially placed limits on just how big and powerful individual corporations could become. These limits would remain in place for over half a century, but, in the 1970s. they would start to unravel. By decade's end, several key industries — the airlines, trucking, natural gas, and banking — would all be significantly "freed" from government rules and regulations.

Wheelers and dealers would move quickly to profit off this "deregulation." Piece by piece, they began assembling little companies into big empires. Reagan administration officials, in the early 1980s, would help move this process along, by essentially refusing to enforce the nation's remaining antitrust statutes. The United States would soon see, in the wake of this law enforcement failure, a merger wave "that would have been inconceivable under prior administrations."[69]

Bigger corporate enterprises would bring bigger corporate executive paychecks. By the 1990s, America's corporate elite had achieved levels of compensation that dwarfed the pay of executives at any other time or in any other place. This lavish compensation, in turn, would only *increase* the pressure on enterprises to bulge even bigger, since executives awarded incredibly immense pay packages now found themselves prodded to justify their exalted status. Wall Street investors wanted results. And right away.[70]

How could executives deliver the fast and dramatic results investors expected? Certainly not by paying attention to the lofty ideals of the effective-enterprise crowd. A truly effective enterprise, a collaborative enterprise, could not be fashioned quickly and dramatically. So why should a richly rewarded top executive even try to fashion one? Why wrestle with the aggravations and uncertainties of trying to make an enterprise work more effectively and efficiently? Wall Street, after all, wasn't demanding that executives make their enterprises bigger *and* better. Just bigger would do.[71]

Bigger it would be. In the 1990s, top executives would go out and consummate mergers with a passion — and in a quantity — unseen since the heyday of the original trusts. U.S. corporate executives became, as Yale's Jeffrey Sonnenfeld would later quip, "serial acquirers" of other businesses.[72] They cut, from 1994 through 1998, merger and acquisition deals that involved, in all, more than thirty-six thousand companies.[73] They didn't stop there. In 1999, corporate America cut another $1.75 trillion worth of merger deals, nearly ten times the total merger action of 1990.[74]

"The industrial world," concluded the *Washington Post* just before the new millennium, "has approached the turn of the century in a frenzy of merger madness."[75]

Corporate leaders, naturally, did not consider their merging "madness." By assembling ever larger enterprises, executives argued, they were consolidating "overlapping networks," helping companies realize economies of scale, and, above all, creating "synergy."[76] Formerly separate companies, CEOs crowed, were now "synergistically" cross-promoting — and growing — each other's products.

These claims, inside America's newly merged companies, soon became little more than sick jokes. In actual workplaces, mergers were spreading havoc, not synergy. And how could they not? Many of the mergers had been assembled in haste, sometimes in just a matter of days.[77] Once assembled, the newly merged mega-corporations required top executives to "manage" far more than any executive could comfortably handle.[78] These executives were in no position to manage anything. They had spent so many years doing their best "to swallow their peers and grow through buying rather than building," business journalist Ken Kurson explained, that none of them "knew how to manage."[79]

America's corporate giants would enter the twenty-first century as bloated, top-heavy caricatures of the effective, quality-conscious enterprises that the Information Age demanded. Intel, again, would lead the way.

IN 1998, LONG-TIME INTEL CEO ANDY GROVE handed his famous company's reins to his veteran deputy, Craig Barrett. Barrett, eager to make his own mark on Intel, would promptly go on a merger-and-acquisition tear. He would spend, over the next two years, some $7 billion to buy out more than twenty other companies.[80]

This fearsomely rapid expansion would take, inside Intel, a heavy toll. The company would soon start stumbling with one core product after another. In May 2000, Intel recalled a million faulty computer motherboards. Three months later, the company recalled a new chip. In October, executives postponed the launch of one long-awaited new processor and canceled plans for another. That same month, Intel outraged computer makers by shoving back, on the eve of the Christmas shopping season, the release of still another new processor.[81]

Industry observers blamed Intel's manic merging for the company's problems. Intel executives were spending much too much of their time, one Intel-watcher told *eWeek*, "reviewing takeover targets, negotiating deals, reviewing contractual agreements."[82]

"I think it's an interesting coincidence that Intel's having these problems at the same time they're venturing into all these other areas," agreed an analyst from *Microprocessor Report*. "I don't think you can underestimate the importance of staying focused."[83]

CEO Barrett's frantic wheeling-and-dealing had left Intel a bigger enterprise, not a better one. His mergers had not delivered. Computer industry mergers, one distinguished high-tech guru would add in 2001, *never* deliver.

"I know of no computer merger anywhere," observed David Caminer, the brain behind the world's first business computer, "where there has been added value from the merger of competing forces of engineers, marketers and programmers."[84]

Outside the computer world, other business insiders offered similar judgments about the negative impact of mergers on enterprise effectiveness. The maverick chief executive behind Southwest Airlines, for instance, credited his company's success to its refusal to play merger games. Southwest, CEO Herb Kelleher pointed out in 2002, had explicitly rejected taking the merger-and-acquisition road to king-sized status.

"We've never been focused on gigantism," Kelleher explained. "We've focused on being the best."[85]

Mergers, some analysts noted, may actually destroy more shareholder value than they create. In 2001, researchers from Stern Stewart & Co., a global consulting firm based in New York, ranked how well over five thousand major companies worldwide were doing at creating shareholder value.[86] The most striking finding: European enterprises were creating significantly more value than American enterprises. Why the difference?

"One possible reason is Europeans' smaller appetite for big mergers," suggested the British *Economist* magazine. "One lesson from the rankings is that costly acquisitions are a good way to destroy value."[87]

Another lesson would be that outsized compensation rewards for top executives are a good way to stimulate costly acquisitions. Executive pay in Europe, throughout the 1980s and 1990s, had lagged substantially behind executive pay in the United States. European executives, consequently, faced far less pressure to justify their exalted status — by making grand merger maneuvers — because their status was nowhere near as exalted.[88]

And a variety of stakeholders in Europe were eager to keep things that way. European unions, shareholders, and politicians all frowned on American-style CEO pay — and the merger games U.S. executives played to keep that pay soaring. These stakeholders acted as a constant constraint on executive behavior in Europe. Euro CEOs could fantasize about the lovely personal windfalls a megamerger might bring. Relatively few had enough power to pull them off.

CEOs in the United States faced no such constraints. American executives, from their command-and-control corporate perches, were free to play whatever corporate shell games caught their fancy. And why not play these merger games? These were games American executives could not possibly lose.

Some U.S. executives would "win" simply by gobbling up other companies as rapidly as possible. The fastest gobbler may have been L. Dennis Kozlowski, the CEO of Tyco International. Over one three-year span, "Deal-a-Day Dennis" engineered the acquisitions of *seven hundred* companies.[89] For his efforts, Kozlowski took home $140 million in 1999 and $205 million more in 2000.[90] His house-of-cards would start collapsing just over a year later. In 2002, Tyco would lose over $80 billion in value in just six months.[91]

Other American executives won their merger windfalls not by gobbling, but by being gobbled. They wheeled and dealed themselves out of jobs and into fortunes. Sometimes quite sizable fortunes. Richard Adams saw his Virginia-based company, UUNet Technologies, bought out by MFS Communications in 1996. MFS, a year later, was bought out by WorldCom. Adams ended 1997 with a personal fortune estimated at $500 million.[92] He went on to devote his spare time to a new company, Cello Technologies, which filed for bankruptcy in 2000. Despite this unfortunate setback, *Forbes* that same year valued the Adams fortune at $1 billion.[93]

Still other executives tried to get gobbled, failed, yet still walked away a good bit richer. In 2001, the chairman and CEO of Honeywell, Michael Bonsignore, was ousted after a deal to merge Honeywell into General Electric fell through. Bonsignore left with $9 million in severance on top of a $2 million annual pension slated to start in 2004. He did have to pay a price for all this Honeywell honey. The company demanded that Bonsignore stipulate that he would not work for a competitor — "or badmouth Honeywell" — after his exit.[94] With his severance and retirement, some wondered, why would Bonsignore ever want to?

And why would any American CEO of sound mind and body not want to follow in Bonsignore's footsteps and try to plot the biggest mergers they could possibly imagine? And if those mergers backfired and cost their companies a fortune — Quaker Oats CEO William Smithburg lost his company $1 billion in the mid 1990s after buying up and then having to sell off the sinking Snapple soft drink company — who cared?[95] The merger-and-acquisition action, after all, wasn't about building better enterprises. The action was all about, and only about, building fortunes. The grandest merger deal of the 1980s, the RJR Nabisco buyout, "gathered steam," journalist Michael Lewis would later write, "for no better reason than that a rich man — Henry Kravis, in this case — wanted to call attention to his capacity to get richer."[96]

And the richer, of course, could never get rich enough.

"If we're going to be big, we might as well be big," billionaire Ted Turner, a gobbler-turned-gobbled, exclaimed late in 1999. "I want one of everything."[97]

AT SOME POINT, FOR EVERY WHEELER-DEALER CEO, the dust eventually settles. At some point, these executives run out of companies to snap up and swallow. Their grand enterprises, at some point, need to operate profitably enough to keep their creditors and investors happy.

But how? The "economies of scale" the executives had so cavalierly promised quickly turn out to be mirages. And those "synergies"? Just phony illusions. The executives find themselves trapped. They sit at the summit of bureaucratic monstrosities, huge unworkable, inefficient, top-down, direction-less enterprises that bear absolutely no resemblance to the participatory, empowering, high-performance enterprises they give speeches lauding. From this summit, the executives cannot move their enterprises forward — toward "new logic" status — because that would mean unplugging the personal wealth-creation machines their corporations had become. From this summit, America's executives can only move their enterprises in one direction. Backwards.

The retreat — from the basic precepts of "Information Age" enterprise success — would begin before the twentieth century ended. America's top executives would not focus their enterprises on serving consumers. They would, instead, seek to bamboozle consumers at every turn. They would not empower workers. They would, instead, squeeze workers at every opportunity. Their new enterprises would be effective — but only at exploiting.

American consumers would be subject to this exploitation, by century's end, almost every time they dropped a dollar, or a credit card, on a counter. These dollars and credit cards came from banks and other financial institutions, and that's where the exploitation of America's consumers began.

In the late twentieth century, no sector of the economy experienced more frantic wheeling-and-dealing than what has come to be known as the "financial services" industry. Industry observers, by 1996, counted seventy different banking mergers valued at more than $1 billion. By the end of 1998, they counted three hundred. Each merger, along the way, seemed to feed a merge-at-any-cost fever. In 1996, NationsBank paid 2.6 times "book value" to buy Boatmen's Bancshares in St. Louis. In 1997, NationsBank paid four times book value for Florida's Barnett Banks. Later that year, First Union paid a record $17 billion — 5.3 times book value — to buy CoreStates, a lackluster bank that hadn't upped earnings in over a year. "By that time," *Fortune* magazine would later note, "the bidding had become so frenzied" that lackluster numbers "just didn't matter."[98]

Banking executives raised the billions they needed to keep the bidding going by promising Wall Street that "the new deals would generate spectacular earnings growth."[99] They could only deliver those "spectacular earnings" in one way: by spectacularly fleecing consumers.

Automated teller machines did a good bit of the fleecing, through an assortment of new surcharges and higher fees. By 1997, banks were routinely charging extra fees to customers who used another bank's ATM. In 1996, before these new surcharges, consumers typically paid $1.01 per transaction. By 2001, the average cost had jumped to $2.86.[100] In some big cities, transaction costs hit $4.50, for withdrawals as low as $20.[101]

America's banking giants were squeezing even more dollars out of customer pockets, the *Wall Street Journal* would report in 2002, by "racheting up late fees." In 2001, credit card issuers pulled in $7.3 billion in late fees, a five-fold leap from the $1.7 billion in late fees they collected in 1996.[102] By 2003, banks were charging late fees that averaged $30.04. Late fees, five years earlier, had averaged only half that.[103]

Banking mergers, Americans had been assured, would bring "economies of scale" that would help consumers save. In real life, mergers simply made gouging consumers easier.

And not just in banking. Media executives played the same merger-and-acquisition games as bankers, and consumers could feel the media M&A impact every time they opened up their monthly bills for cable and Internet or turned on their TVs and radios. The most blatant gouging would come from the most blatantly bone-headed media merger, the turn-of-the-century marriage of America Online and Time Warner.

The supergiant that would become known as AOL Time Warner had actually started to take shape back years before, when Time took over Warner in the most celebrated media merger of the 1980s. Warner CEO Steve Ross made $200 million off the deal. Time Warner then swallowed Ted Turner's media empire, a deal that gave Turner a new title, vice chairman, and $111 million for five years of vice chairing.[104] Time Warner next moved to tie the knot, in 2000, with the biggest on-ramp to the Internet, America Online. That deal brought under one roof media properties that ranged from HBO, CNN, and Looney Tunes to CompuServe and Netscape — and also triggered $1.8 billion worth of option cash-out clauses in the contracts of the top five executives who did the dealing.[105]

Those executives didn't have much time to savor their windfalls. They needed, quickly, to figure out how to post enough earnings to justify their mega-merging. Their solution? Squeeze consumers. Midway through 2001, they hiked America Online's basic monthly subscription rate, already the highest in the industry, from $21.95 to $23.90, a move that figured to boost company revenues by $150 million. About $100 million of that new revenue, company officials told Wall Street, would be "pure profit."[106]

America Online's rivals blasted the price boost, in public — and cheered lustily in private. AOL's price hike meant they could jump their own Internet rates as much as 20 percent and, as one industry analyst noted, "still be in the same relative pricing position vis-à-vis AOL as they were before!" Added the analyst: "It's almost like free money!"[107]

Free money from the pockets of America's consumers. But consumers, by century's end, were used to having their pockets picked by media giants. In 1996, these giants had convinced Congress to sweep away most of the remaining government regulations that covered the communications industry. This deregulation, members of Congress cheerfully predicted, would stimulate competition and save consumers millions. The legislation, instead, gave a green light to greater industry concentration — and consumer gouging. In the five years after the passage of the Telecommunications Act of 1996, basic rates for cable TV jumped 36 percent, well over twice the inflation rate.[108]

That same Telecommunications Act had an even greater impact on radio. Before the act's passage, no company could legally own more than forty radio stations nationally. The act erased this national limit. Five years — and $100 billion worth of radio station mergers later — just two companies totally dominated the nation's airwaves. One of the two, Clear Channel Communications, had amassed nearly twelve hundred local radio stations.[109] These five years of gobbling added $72.5 million to the personal fortune of Clear Channel's chief executive, L. Lowry Mays.[110]

Clear Channel felt the same pressure to deliver big-time earnings as banks and AOL Time Warner. And Clear Channel responded in exactly the same fashion — by thumbing its nose at consumers. Radio's new giant gave listeners just what they didn't want to hear: automated, homogenized programming stuffed with incredible numbers of commercials. By the end of the 1990s, some Clear Channel stations were running uninterrupted blocks of commercials that lasted *eight minutes* long.[111]

The same dynamics played out in network television, where prime-time programming, as the 1990s wore on, gave viewers less and less program and more and more commercials. The more ads that media giants like Disney, owner of ABC, could squeeze into each prime-time hour, the higher the earnings they could waltz before Wall Street.

In 1999, Disney CEO Michael Eisner needed to do a good bit of that waltzing. Disney earnings had dropped 27 percent. Wall Street was grumbling. Eisner responded. To make way for more commercials — and more commercial revenue — he had the producers of ABC's prime-time programming ordered to "trim their shows by at least 30 seconds per episode." At the time, ABC already sported more "non-program time" than any other major network, almost sixteen and a half minutes of commercials per hour, over ten minutes more of commercials than prime-time programs sported in the 1970s.[112]

In industry after industry, the same storyline kept repeating. Companies merge. Company executives hit the jackpot. The huge new merged company scrambles to make enough money to pay off creditors and keep investors happy. Consumers take it on the chin.

Or sometimes, if the consumers were flying, their butts.

By the late 1990s, America's deregulated airlines had been merging and purging for twenty years. Those mergers fattened executive wallets — and ended up squeezing passengers into seats much too small for the standard American tush. Continental, to maximize passenger revenue, bolted its airplane seat rows all of thirty-one inches apart, with the width of the seats just over half that.[113] But airlines like Continental weren't completely heartless. They actually did their best to help passengers fit into those silly little seats. They stopped feeding them. At century's end, passengers could spend twelve hours getting on and off planes and not get anything to eat more substantial than a bag of pretzels.[114] Plane travel had clearly become, for many Americans, the ultimate expression of corporate indifference to the consuming public.

For other Americans, the ultimate indifference tag belonged, hands down, to America's telephone giants. And no phone giant seemed to deserve that tag more than US West, the Denver-based Baby Bell the *Arizona Republic* labeled "the company everyone loves to hate."[115] Plenty of people had good reason to hate US West, among them Maggie Wilson, an elderly rural Arizonan. Wilson had ordered a $99 phone installation in June 1997. She promptly received a bill for $13,000 but no phone. She complained and was curtly informed she would personally have to sign up twenty-five customers for US West before the company would do her installation. Two and a half years after Wilson first asked for phone service, she still had none. Stories like Maggie Wilson's would be so common that three states would eventually levy substantial fines against US West. Two others debated yanking the company's license to do business.[116]

US West CEO Solomon Trujillo, amid the blistering criticism, solemnly promised service improvements. But the promised improvements never seemed to come. Trujillo, lawsuits against US West would later charge, never intended them to come. He was purposefully shortchanging customers to jack up US West's bottom line and make the company a more appealing merger partner.[117] In 2000, US West did merge, into Qwest Communications. Trujillo, from the merger deal, would clear $30 million.[118]

Making phone calls, watching TV, flying home for the holidays — America's middle class basics would all seem less attractive and more aggravating as the twentieth century ended. No simple pleasure seemed able to escape the relentless corporate pressure to maximize earnings at consumer expense. Not even duckpin bowling.

Duckpins have survived, over the years, as an acquired taste peculiar to the mid-Atlantic and parts of New England. Bowlers in duckpins put their hands around their bowling balls, not their fingers in. The balls weigh less than four pounds, and even little kids can roll them. Baltimore gave birth to duckpins in the early 1900s, and the game spread, "like canasta," into blue-collar communities up and down the East Coast.[119] The number of duckpin alleys would peak, at about twelve hundred, in the early 1960s.[120] Duckpins and the more standard "tenpin" game would both start fading after that. Locally owned lanes would plod along, sustained by devoted if not growing cohorts of practitioners.

Then suddenly, midway through the 1990s, everything changed. Bowling caught the fancy of the power suits at Goldman Sachs, a Wall Street investment bank. Here was a business, Goldman Sachs figured, ripe for consolidation. In 1996, Goldman Sachs spent $1.1 billion buying control over bowling's biggest business, the Richmond-based AMF, and then proceeded to grow that business considerably bigger. AMF, moving fast, bought up some two hundred bowling alleys across the country.[121] But even bigger bowling markets beckoned, most notably in China. AMF rushed onto the Chinese bowling scene, investing millions in lane construction. Bowling seemed to be going big-time!

The big-time didn't last. The Chinese bowling bubble would pop in 1998, amid the Asian financial crisis, and the popping sent AMF's overall profits "into the gutter." Company executives now needed to shore up investor confidence back in the United States. They demanded big earnings numbers from their American lanes. The duckpin alleys couldn't comply. They were profitable, but not profitable enough. AMF, in short order, "all but abandoned duckpins." By early 1999, only eighty duckpin lanes remained open.[122]

"Eventually," noted a discouraged John Shanahan, the president of the Baltimore Duckpin Bowlers Association, "there won't be any ducks."[123]

Effective enterprises, preached the organizational development prophets of the latter twentieth century, care about people like John Shanahan. They care about all their customers. Effective enterprises, the prophets agreed, talk to customers, study customers, do everything they can to discern what they can do to make their customers' lives easier and more pleasurable. This knowledge in hand, effective enterprises then endeavor to deliver on what consumers want — by providing products and services at a quality and cost that customers will find impossible to pass up.

An effective enterprise, in other words, concentrates on customers, first, last, and always.

In the closing years of the twentieth century, America's enterprises could not keep that concentration. The executives of these enterprises had something more important on their minds, their own personal fortunes. They sold out their customers. No one should have ever expected otherwise. Where we allow executive wealth to concentrate, without limit, executives will forever concentrate on maximizing that wealth. First, last, and always.

HOW CAN ENTERPRISES, IN THE INFORMATION AGE, really know what consumers want and address those wants efficiently? Effective enterprise theorists almost all advance variations on the same answer: To end up with loyal customers who value their products and services, enterprises first need to value their employees.

Employee commitment and creativity, effective enterprises understand, determine how well customer needs can be met.[124] Effective enterprises, consequently, do everything they can to keep employees committed and creative. They invest in employee training. They ask employee advice. They treat employees as their most important competitive advantage.

In the 1980s and 1990s, corporate executives spent significant sums to send their managers to a never-ending series of training sessions where earnest organizational consultants patiently explained these ABCs of effective enterprise success. And then these same corporate executives turned around, without a moment's pause, and took steps that rendered totally null and void all the lessons the consultants taught. The consultants urged that managers respect employees. The executives ordered, instead, that managers systematically discard them — as part of a calculated corporate strategy that had never before been employed on a massive scale. Observers eventually came up with a word to describe this new discarding phenomenon. They called it *downsizing*.

American workers had, of course, been discarded before. But downsizing, as begun in the 1990s, represented something quite different, a new departure for American business. Companies had traditionally discarded workers — "laid them off" — when sales went sour. Executives generally tried to avoid layoffs.

Every layoff, after all, signaled a management failure. A company that found itself forced to lay off workers had clearly misread market demand.[125] Companies that did lay off workers hoped, and expected, to be able to hire them back. Managements considered layoffs *temporary* measures.

By the early 1990s, in America's biggest corporations, these classic attitudes about layoffs had started to wither away. Employers were no longer laying off workers, on a temporary basis, because they faced shrinking demand for their products. Perfectly healthy, profitable companies were now consciously dismissing workers — permanently discarding them — solely to boost their short-term bottom lines.

In 1991, a recession-scarred year, American companies laid off an estimated 550,000 workers. By 1992, the recession had ended. The economy was growing again. Goods were flying off shelves. But layoffs continued: 500,000 in 1992, over 600,000 in 1993, over 500,000 in 1994.[126] These layoffs had virtually nothing to do with sluggish consumer demand. They had everything to do with the games executives play. Corporate executives were downsizing to make their mergers and acquisitions pay off — for themselves.

In August 1995, for instance, executives at Chemical Bank announced plans to merge with the Chase Manhattan Bank. Both banks had been profitable before the merger announcement. The new merged bank, the executives promised, would be even more profitable. Downsizing would see to that. The workforce of the merged bank would be sliced by twelve thousand employees, a move that would reduce the new bank's annual expenses by $1.5 billion. The personal bank accounts of Chemical Bank's former top officers and directors, in the meantime, would be increased, by just under $10 million.[127]

Not all the companies that downsized in the 1990s, to be sure, were merging. Nonmerging companies downsized, too — to keep pace with their merging competitors. By downsizing, they could create their own labor "efficiencies."

"Downsizing is not an event any more," as one business observer, Mitchell Marks of New York's Delta Consulting Group, put it. "It's become a way of business life."[128]

In 1998, near the height of the decade's boom, American firms sacked over two-thirds of a million workers, over one hundred thousand more workers than they cut loose in the recession year of 1991.[129] Simply by announcing a downsizing, executives found, they could build "earnings momentum." A single job eliminated, went the Wall Street rule of thumb, adds $60,000 to future annual earnings. A company with 500 million shares selling at ten times earnings could, investors figured, hike its stock price $1.20 a share just by downsizing a thousand workers.[130]

What executive sitting on top a pile of stock options could resist the lure of numbers like these? Certainly not Bernard Ebbers, the Mississippi entrepreneur who built an unknown telecommunications company, WorldCom, into the nation's second largest long distance phone company. Ebbers danced his way to the top with a corporate two-step. Step one: Cut a merger deal with another company. Step two: Slash costs at the new merged company by downsizing workers. Ebbers started two-stepping in 1983. Over the next sixteen years, he engineered sixty-five acquisitions.[131] After nearly every one, he dropped a downsizing ax on the newly merged workforce.[132]

Unfortunately for Ebbers, his two-step eventually danced straight into an unforgiving wall. In 2000, the U.S. Justice Department and European antitrust officials nixed his biggest merger of all, a $129 billion hook-up with Sprint.[133] With no more grand merger partners in sight, Ebbers suddenly found himself forced, one industry reporter noted, "to generate growth in a fashion he has never had to master: simply running the company."[134]

Ebbers didn't have a clue. He tried spinning off some of the companies he had so energetically acquired. He tried more downsizing, by trumpeting, in 2001, plans to eliminate up to 15 percent of his seventy-seven thousand employees. Layoffs, he reportedly explained to insiders, were his "most straightforward option."[135] His management team, meanwhile, explored options that fell in the less straightforward column. Their accounting subterfuges would go on to make front-page headlines in 2002 — and drive WorldCom into bankruptcy. On June 27, 2002, the newly bankrupt WorldCom began laying off another seventeen thousand workers.[136]

Chronic downsizers like WorldCom could be found all across America's corporate landscape. Their downsizings were supposed to leave their companies lean and efficient. They did no such thing. Instead, thoughtful insiders agreed, the downsizings unleashed dynamics that left America's workplaces less effective, not more.

One such insider, Alan Downs, "personally fired hundreds of employees and planned for the batch firings of thousands more" during his corporate career.

"Slowly," Downs would later note, "I began to see what *really* happens after a layoff. Morale hits rock bottom. Lines of communications within the company shatter. Productivity ebbs, while high-priced consultants try to patch the business back together." Downsizing leaves behind, summed up Downs, "a sluggish, bumbling organization that must relearn even the most basic functions."[137]

The workers left behind, meanwhile, are seldom in the mood to do any relearning. What downsizing companies might gain through lower labor costs, researchers have found, they lose "through diminution in the loyalty and enthusiasm of remaining employees." Workplace survivors tend to "exhibit less entrepreneurship, stay out sick more often, and show little enthusiasm about meeting the company's production goals."[138]

Other employees react to the insecurity that downsizing evokes by rushing in the opposite direction. These employees start working every hour they possibly can, desperately hoping to earn enough to cushion themselves from the inevitable downsize ax.[139] One worker who felt this excruciating pressure, Brent Churchill, a thirty-year-old lineman with Central Maine Power, would be accidentally electrocuted to death in 2000 after "clambering up and down poles" for nearly twenty-four hours straight.

"In his last two and a half days of life, Brent Churchill slept a total of five hours," one news report noted. "The rest of the time he was working."[140]

Churchill, before his death, had seen thirty-seven of his fellow linemen downsized.

Brent Churchill may or may not haunt his former employers at Central Maine Power. Many other employers, in the 1990s, *would* be haunted. Lawsuits did the haunting. Downsized older workers, minorities, and women all brought unprecedented numbers of discrimination suits against their former employers in the decade before the century ended. The settlement and attorney costs of this massive legal action, two scholars noted in 1998, were making a significant impact on corporate bottom lines. Corporate America's "job massacres," they concluded, were helping to "undercut the very cost and productivity advantages they are supposed to create."[141]

The American Management Association would reinforce that conclusion with data that actually came from downsized companies themselves. Only about a third of companies that had downsized, the AMA reported, dared to claim any increases in productivity. An amazing 86 percent of these same companies admitted a fall-off in worker morale.[142]

Downsizings, in short, left enterprises *defective*. No CEOs, by the end of the 1990s, could credibly justify downsizings as a matter of efficiency or business necessity. Downsizings served only one purpose. They helped top executives keep their sweet deals sweet.

At the crest of the 1990s downsizing, the man who had invented modern management theory, Peter Drucker, was nearing ninety years old. Drucker was no ivory-tower academic. He knew, from personal experience, just how cruel life could be. In Germany, as a young man, he had watched the Nazis rise to power. But even Drucker, as world-wise as he was, would be taken aback by downsizing. The "financial benefit top management people get for laying off people," he told an interviewer in 1996, is "morally and socially unforgivable."

"There is no excuse for it," Drucker admonished. "No justification."[143]

The downsizers would not even blink. Downsizing would continue, as rewardingly as ever, into the twenty-first century. Top executives at the fifty U.S. companies that did the most downsizing in 2001 averaged 44 percent pay increases the next year, researchers from United for a Fair Economy and the Institute for Policy Studies would report in 2003.

Compensation for these energetic downsizers, the researchers noted, increased more than seven times faster than compensation for CEOs overall.[144]

SMART EXECUTIVES HAVE ALWAYS UNDERSTOOD that managerial success ultimately depends on having workers willing to contribute their best.

"Executives succeed," as business commentator Dale Dauten puts it, "when employees decide to bestow the gift of excellence upon them."[145]

But employees do not — and will not — bestow this gift when they feel others are capitalizing unfairly on their labors.[146] Employees, be they white-collar, blue-collar, or pink-collar, do not expect to make as much as their bosses. But they do expect to share fairly in the wealth they create. Employers who do not share wealth fairly violate the most basic of unspoken workplace understandings.

"The rational worker's response to the shredding of that understanding," as AFL-CIO President John Sweeney has noted, "is what we in the unions call work to rule — do the minimum and use your brain to help yourself, not your firm."[147]

The vast majority of us would, most definitely, rather *not* work to rule. We typically start out every job wanting to do our best, not our least. We want to feel part of a team, a good team. We humans are, after all, social creatures. We live and work in social situations. In good situations, we feed off each other's strengths. We help others and others help us. We learn. We grow. The group success becomes our success.

Most of us, at one point or another in our lives, have been part of a team that really worked — a team on a ballfield perhaps, or a team of volunteers building a playground, or a team of friends planning a surprise party. We know how satisfying, even thrilling, a good team experience can be. We want, not surprisingly, to experience this satisfaction, this thrill, at our workplaces. Few of us ever do.

Mike Daisey, for one short, shining moment, thought he had become one of the lucky ones. Mike had found a job — at Amazon.com, the Internet retailer — that did give him thrills. A twenty-something with a degree in aesthetics and several years of comedy troupe experience, Mike didn't figure to be someone who could get much satisfaction out of working for a big company. But Mike enjoyed his work at Amazon talking to customers and writing business plans. He felt part of something big, something important. He devoted himself to his job. He worked seventy hours a week, handled as many as twelve hundred e-mail messages in a single day.

"I had fallen in love with an idea, a dream of a company," he remembers. "I really thought I would change the world."[148]

Then the dream ended. Mike came across a spreadsheet listing the salaries and stock options people were making in the corner of Amazon where he worked. Mike found himself at the bottom of that list, a long way from the top. Amazon, he saw, was not sharing wealth with any real fairness. Mike suddenly felt betrayed. He no longer took any satisfaction from his job. The joy had evaporated. He left Amazon not long afterwards.[149]

Why did the inequities of that spreadsheet bother Mike Daisey so? What made the inequality he discovered so demotivating for him — and what makes inequality, in the business world at large, so poisonous to the values that make for healthy enterprises? Why are people less likely to give their best when rewards are unequally distributed?

Scholars and psychologists can help us here. We do our best work, they tell us, when we enjoy what we are doing, when our motivation comes from within. Most of us know this from our own experiences. Some of us cultivate magnificent flower beds. Some of us cook indescribably delicious dinners. Some of us restore rusted old clunkers into marvelous motoring machines. We invariably seem to do marvelous work like this for the pleasure we take from it, not for any monetary reward. Indeed, monetary rewards can sometimes get in the way, make what we enjoy doing seem *less* pleasurable.

One classic experiment, conducted in 1971, demonstrated rather dramatically just how quickly rewards can sap the joy out of activities that bring us pleasure.[150] The experiment placed inside a puzzle-filled room a group of people who had all previously indicated that they enjoy solving puzzles. In the first segment of the experiment, the investigator asked the puzzle people to do their puzzle thing. They all did. Then the investigator ended the first segment and announced a break before the second segment would begin.

"I shall be gone only a few minutes," the investigator announced. "You may do whatever you like while I'm gone."

The investigator, as promised, left the room. The puzzle people were now alone with their puzzles. Some merrily continued puzzle solving. But others pushed their puzzles aside. This contrast between players and abstainers would turn out to be anything but random. The investigator had, before the experiment began, divided the participants into two groups. One half would be paid, the other not. Neither half knew the other was getting different treatment. The subsequent behaviors during the break neatly tracked this division between paid and unpaid. Those who were getting paid for participating in the experiment spent much less of their break time playing with the puzzles than those who weren't getting paid. All the participants, remember, had initially described themselves as people who enjoy doing puzzles. So why didn't the people in the paid category continue, during the break, doing an activity they enjoyed? Pay, psychologists tell us, had essentially turned what had been *play* — and pleasurable — into *work*, something that we do for a reward, not for the simple pleasure of just doing it.

Pay almost always has this impact. Pay signals, at a most basic level, *compulsion*, that we are performing an activity not because we want to perform it, but because we must perform it, to earn enough to live.[151]

Workers who worry the most about making enough to live, who fear what will happen if their kids get sick, who scramble every month to meet the mortgage or pay the rent, never forget for an instant that they *must* work to live. They never stop feeling compelled to work. And the more that these workers, that any of us, feel pressured to work, the less pleasure we will take from the work we do. The less pleasure we take from our work, in turn, the less likely we are to do our work with any creativity or imagination.

No enterprise, of course, can turn work into play. But enterprises can, by helping employees feel more secure in their lives, take employee minds off the pressures that compel them to work. Enterprises that pay well and offer benefits that bring peace of mind can free employees to concentrate on the job at hand — and maybe even take some pleasure from it. But good pay and good benefits do not guarantee a workplace where employees take pleasure from their work. Inequality can poison any workplace. Where workers see rewards distributed unequally, and grossly so, pleasure will seldom proliferate.[152] Why should that be the case? Unequal rewards remind us that we are working under compulsion. Why, after all, would any sane person labor to make someone else rich? We enrich someone else with our labor — we let ourselves be exploited — only because we have no choice. We must do that labor because we must get that paycheck. So we labor on. We take a paycheck from our work, but no pleasure.

The starker the inequity in any workplace, the less pleasurable the work becomes. The less pleasurable the work, the less workers will likely contribute to enterprise success. The less workers contribute, the less effective the enterprise will be. In the workplace, in other words, justice matters. The "sense of injustice," as the British political scientist Harold Laski noted in 1930, "acts as an inhibition fatal to the doing of one's best."[153]

Not all employees, of course, *must* continue laboring in situations where they see and feel inequity. Many employees can afford to leave. They have nest-eggs large enough to tide them over — or good prospects for quickly finding another job. These employees, if they find themselves in situations where executives monopolize rewards, have the freedom to simply walk away. And they do. In workplaces where justice disappears, so does loyalty.

"What you see are people leaving who know a lot about the firm and the industry," the Stanford Business School's Charles O'Reilly would observe in 1998. "If they feel they are inequitably treated, then they are gone."[154]

And they are missed. Enterprises pay a heavy price for high turnover, and auditors can actually calculate the cost. They start with the unused vacation time that must be converted into dollars, add in the severance that must be shelled out, the recruitment ads that must be placed, the staff time that must be spent interviewing applicants, the training that must be conducted when the new hire finally comes on board. How much does all this total? Some human resources experts "place the cost of a single turnover at between 100 and 300 percent of the employee's annual wages or salary." Other estimates run higher. Modern enterprises, one analyst concludes, almost always experience serious damage "every time an experienced, competent, talented worker leaves the firm voluntarily."[155]

That damage can be particularly devastating when the exiting employee happens to have been an important part of a company's management team. In the 1990s, as pay gaps between CEOs and their subordinates within management widened, these sorts of exits became more and more frequent. Pay disparities within management ranks, the Harvard Business School's Jay Lorsch argued in 1999, were fostering "unspoken jealousy" at the top management level and creating a situation that "undoubtedly prompts the most talented executives to seek high paying positions elsewhere."[156]

Two Notre Dame researchers, the next year, would detail that exodus. The two scholars had analyzed turnover rates, over a five-year period, among executives at nearly five hundred companies. They found that senior executives at firms with wide management pay gaps were twice as likely to exit as senior executives at companies where pay was more equally distributed.[157] A company that spends "big dollars attracting and retaining a top CEO," Notre Dame's Matt Bloom noted, winds up "reducing the cohesion, knowledge and experience of the managerial team it relies on to make key decisions."

"Unless a board can provide compelling evidence for why one person is overwhelmingly more important than all the other employees," concluded Bloom, "shareholders and employees probably have good reasons to be very concerned about large pay gaps."[158]

These sorts of warnings from business school professors have made little impact on corporate America's top decision makers. The typical adult American today, runs the conventional corporate boardroom wisdom, will work for six or more companies by the time retirement comes. So why worry obsessively about loyalty? Why bother bending over backwards to keep employees contented and staying put? If employees aren't happy, they can leave. They'll leave anyway. That's life in the Information Age.

Corporate America, once again, has enterprise reality absolutely backwards. In the Information Age, organizational loyalty actually matters more, not less, than ever.

Generations ago, in the heyday of command-and-control, enterprises could survive high turnover. New employees just came in and did what they were told. But today, in the Information Age, enterprises need employees able and willing to do far more than what they are told to do. Modern enterprises need employees who can collaborate with colleagues and co-workers in problem-solving, high-performance teams. But teams only perform well when the people on them trust in each other. Trust building takes time. Employees in high-turnover workplaces never get to take that time. Nor do they want to take that time. Who in their right mind would pour their heart and soul into a company that doesn't expect them to be — doesn't want them to be — around for the long haul?

Enterprises that devalue loyalty, that welcome high turnover, will always be defective. Inequality will always make that devaluing inevitable.

OVER THE COURSE OF THE BOOM YEARS, loyalty would not get much respect in America's corporate boardrooms. Inspiration would be a different matter. Corporate boards lionized the ability to inspire. Truly great chief executives, they believed, captured imaginations. They united employees behind clear, vibrant, energizing visions of enterprise success.

This conventional boardroom wisdom appealed mightily to America's corporate elite. Top executives enjoyed thinking of themselves as visionary leaders. But the visions they would typically express, as top executives, would seldom stir any employee souls. In the boom years, America's top executives would display precious little visionary leadership. What they displayed, instead, would be tunnel vision.

By century's end, top executives had come to focus almost exclusively on what brings them individual wealth, not what makes their enterprises effective. And what brought them wealth were rising share prices. These share prices had become, for America's executive class, the only significant enterprise reality that demanded their attention. Offer leadership to their employees? Who could make the time?

"Top managers," astutely noted one mutual fund official, T. Rowe Price's Richard Howard, in 1999, "are almost more managers of their stock than they are managers of their own companies."[159]

"And why not," *Business Week* would ask three years later, "when every upward tick of the stock means massive gains for option-rich executives?" The personal net worths of corporate executives, *Business Week* would add, are "so closely tied" to the company share price that maintaining that price had become "the highest corporate value."[160]

Those responsible for America's corporate enterprises, in this environment, no longer saw organizations that needed to be led. They saw fortunes to be made. By any means necessary. By century's end, everybody who was anybody inside corporate America knew exactly what was going on. For anyone not in the know, *Fortune* magazine in 1999, more than two years *before* the Enron scandal surfaced, offered a guided tour.

"Someplace right now, in the layers of a *Fortune* 500 company, an employee — probably high up and probably helped by people who work for him — is perpetrating an accounting fraud," noted *Fortune.* "Down the road that crime will come to light and cost the company's shareholders hundreds of millions of dollars."[161]

In 2002, after Enron's spectacular collapse, these frauds would fill America's front pages. They came in a bewildering assortment. Some involved fudging revenues, in schemes that ranged from the simply sneaky — keeping "the books open at the end of quarters" to record enough sales to meet earnings targets — to the crudely criminal.[162]

Gregory Earls, the chief executive of U.S. Technologies, fell on the crude side. He would be indicted in 2003 for diverting, in two separate scams, nearly $15 million raised from investors to his ex-wife and other similarly noble causes. Few executives would be more brazen than Earls. A former director of the FBI, William Webster, chaired his company's audit committee![163]

Xerox fell between crude and sneaky. The copier giant, between 1997 and 2000, "prematurely" counted some $2 billion in revenue from its leasing operations, a sleight-of-hand that concealed company problems — and gave CEO Paul Allaire the time he needed, in 1998 and 1999, to sell off a stack of his own Xerox shares and pocket $16 million from the proceeds.[164]

Other companies, like Priceline, the Internet travel ticket company, claimed as revenue money they had no right claiming. Travel agencies had traditionally booked, as their own revenue, only the commissions they received from selling airline tickets. Priceline claimed, in its revenue totals, the entire ticket sales price.[165] America Online played the same sort of games, in its brokering of online advertising space.[166] Starting in 2000, these slick maneuvers padded America Online revenues by over a quarter of a billion dollars.

"Without the unconventional deals," noted a later *Washington Post* investigation, "AOL would have fallen short of analysts' estimates of the company's growth in ad revenue."[167]

With the unconventional deals, AOL chief executive Steve Case was able to take home $73.4 million in 2000.[168]

Still other companies, like Lucent, the technology spin-off from AT&T, "channel stuffed" their way to greater earnings. These companies reported, as sold, products that "had merely been placed in a warehouse or on a retailer's shelf."[169] A few companies, in an interesting twist on the channel-stuffing notion, essentially bribed "wholesalers to buy more of their products than retailers are selling" by stuffing wholesaler pockets with special "incentives." Bristol-Myers Squibb, the health care products kingpin, found this approach particularly promising.[170]

In telecom, the world of voice and data transmission, executives "swapped" their way to fortunes. "Swapping," the exchange of cable capacity between telecom companies, began as a legitimate business transaction. Swaps let telecoms with more customers than cable capacity transmit the messages their customers wanted to send. But none of the telecom giants, by 2000, were worrying about having too many customers. In their rush for riches, executives at all the big telecoms had vastly overbuilt their cable networks.[171] The resulting glut of cable capacity had shoved the telecoms into a bind. They needed to show Wall Street enough revenue growth to prove their businesses were viable. But revenues could only rise if customer traffic filled their networks, and the telecoms faced a distinct customer shortage. How could they possibly increase revenues without customers? Not to worry. They would become each other's customers! One telecom would wire money to fellow telecoms. The fellow telecoms would wire the same amounts back. Each telecom in on the phony transactions would record the wired dollars as revenue.[172] In 2001 alone, the telecoms swapped their way to revenues worth an estimated $2.5 billion.[173]

The swaps wouldn't be enough, in the end, to keep the telecom bubble from bursting. But they did enrich executives, their intended purpose all along. Before the bubble burst, Global Crossing chairman Gary Winnick walked off with $750.8 million, $735 million of that from selling off company shares propped up in price by swaps and other schemes.[174]

Top executives, in the boom years and beyond, would manufacture revenues from whatever source they could find. Pension funds became one favorite revenue candy jar, as soon as executives realized how they could get the jar open. Pension funds, over time, accumulate huge caches of cash. These are invested, with the returns from the investments used to pay retirees their pensions. Corporations cannot legally count, as corporate income, any pension fund investment earnings needed to pay retirees their promised benefits. But corporations can count as corporate revenue any pension fund investment income that might "exceed" those promised benefits.[175] This loophole, in the 1990s, gave corporate executives a sweet incentive to cut benefits. They couldn't resist.

In 1995, IBM shifted the bulk of its workforce into a new retirement plan that reduced pension benefits — and gave IBM the ability to claim hundreds of millions in pension fund revenue as company income. Five years later, this new plan was contributing $1.2 billion to IBM's bottom line, over 10 percent of the company's pretax income total.[176] Similar pension-driven revenue windfalls multiplied all over corporate America.[177]

By puffing up revenues, tunnel-visioned executives could enhance almost any bottom line. And where revenues couldn't be easily enhanced, expenses could always be hidden. The champ here would be WorldCom, the phone giant. In 2001, WorldCom concealed nearly $4 billion by recording ordinary operating expenses as capital expenditures, a blatantly dishonest maneuver that let the company "report higher profit and more favorable cash flow than honest accounting would have allowed."[178]

In the boom years, executives from all across corporate America played games like these, making sure, wherever necessary, that everyone around them played along. This executive rush to riches would corrupt entire corporate cultures, not just accounting departments, and nowhere more so than in the software industry, the home to most of the world's biggest fortunes.

By the 1990s, software giants like database king Oracle had become notorious for aggressively shoveling out into the marketplace software nowhere near ready for prime-time. Oracle salespeople would routinely tout new software features that didn't work well — or didn't even exist. Businesses that bought Oracle software would regularly find themselves spending "far more to fix the product than the original cost of buying it."[179] Some victims filed lawsuits, but, overall, few bothered. What good would complaining do? The entire software industry operated Oracle-style.

Behind these aggressive, customer-unfriendly tactics, industry observers noted, stood "Wall Street's relentless demands to meet earnings targets."[180] Oracle CEO Larry Ellison made sure his salespeople felt those pressures — and shared his tunnel vision.

"The management theory was simple," one former Oracle sales rep, Marc Benioff, would later note. "Go out and don't come back before you have a signed contract."[181]

Sales managers who didn't meet their quotas, by any means, fair or foul, could expect furious phone calls from Ellison, at any time, on any day. Ellison, one ex-Oracle employee told reporters, "treated people like chattel."[182] These chattel would help Ellison to over $700 million in personal stock option profits in 2001.

In their single-minded zeal, America's top corporate executives didn't just cheat customers and browbeat employees. They shortchanged the government, too, out of billions in taxes due. In 1991, corporations reported to the government, as taxable income, 91 cents for every $1 of profit they reported to stockholders. By 2000, for every dollar of profit reported to shareholders, corporations were reporting less than 70 cents to the IRS. In 1997 alone, the *New York Times* reported, this profit underreporting saved corporations $60 billion.[183]

Stock options accounted for some of this underreporting. Companies could legally deduct from their taxable income the huge options awards cashed out by their executives. These same awards didn't have to be subtracted from profits reported to Wall Street, a shady double-standard that helped keep share prices artificially high. But this "legal" loophole wouldn't be enough for America's corporate leaders. They cheated the IRS out of billions more through fraudulent tax shelters. The top tax avoiders, in the 1990s, would include some of corporate America's most respected names. UPS, for instance, "engaged in a long-running sham to evade more than $1 billion in taxes."[184]

Up until the 1990s, one high-ranking IRS official noted to the *New York Times* at the turn of the century, executives had feared getting caught cheating on their corporate taxes. They worried that cheating charges would blemish their company image. By the 1990s, image concerns no longer mattered. Top executives now saw their corporate tax offices as profit centers pure and simple. They entrusted these offices with just one obligation, to "aggressively reduce the tax burden."[185]

No company would pursue that goal more "aggressively" than the Houston-based Enron, as federal investigators would show in a three-volume report released in 2003.[186] Enron's various tax avoidance scams, the federal research revealed, enormously padded the profits the company reported to investors — and enabled Enron to pose, on Wall Street, as a going and growing concern. That posing, in turn, enabled Enron's top two hundred executives, in 2000 alone, to personally clear a combined $1.4 billion in earnings, most of that from stock options. And these option windfalls, in turn, enabled Enron to save still more in taxes. Overall, from 1996 through 1999, Enron would claim $2.1 billion in profits in its financial reports and pay no federal taxes on a dime of these profits. In 2000, Enron would claim another $979 million in profits and pay only $64 million in taxes.

Enron, to pull off this incredible heist, needed plenty of advice. America's top banking, law, and accounting firms were more than willing to provide it.

"Wall Street banks, acting on the advice of leading lawyers and accounting firms, helped Enron devise shelters that let the company operate tax-free for years," reporter David Cay Johnson would later note, "while exaggerating its reported profits by billions."[187]

Between 1995 and 2001, in all, Enron shelled out over $88 million in fees for tax-avoidance advice and hand-holding.[188]

Within corporate America, everyone seemed to be doing their part — to keep executive fortunes growing. Bankers. Accountants. Lawyers. Salespeople. Even a former FBI director. Everyone would be either looking the other way or greasing the skids.

Slowly and steadily, under the unrelenting pressure to keep share prices rising, an ethic of double-dealing and dishonesty was oozing out from America's executive suites and poisoning America's business culture. The executives who ruled from those suites were supposed to serve, according to their job descriptions, as the ultimate good "stewards" of their enterprises. To employees, they came across, instead, as looters. Employees saw, at every turn, behavior from their "betters" that violated every cliché about integrity, hard work, and honesty that ever appeared in a corporate "values" statement. Many employees responded in kind. They stole, too. Greed, after all, is "infectious," as Federal Reserve chairman Alan Greenspan reminded the nation in America's first post-Enron summer.[189] Workplace frauds, the Association of Certified Fraud Examiners estimated in 2002, were costing the American economy $600 billion a year, "or about $4,500 per employee."[190]

Not every disgruntled employee stole. Some just stewed — and then exploded. Management worried a good bit about these potential blow-ups, so much so that one former CIA staffer felt he could make a lucrative living selling corporations software that they could use to "detect anger and mood changes in employee e-mail."[191]

"Language becomes more simplified when we are angry or stressed," the ex-CIA hand, a psychologist named Eric Shaw, explained in 2001. "Angry people use words that denote judgment, good or bad, and they refer to individuals more frequently and are more emotional, more evaluative and more personal."

But Shaw was smart enough to put his software's eggs in more than one basket. Besides looking for complex, emotionally charged word patterns, his software would also search out simple single words, like *kill*, *fire*, and *bomb*.

American executives, in the new century, might not have much vision. At least they would have advance notice.

WE HUMAN BEINGS, UNLESS SOME CATASTROPHE sends us back to the Stone Age, will spend the rest of our existence as a species working in enterprises. How well we do as humankind will depend, in no small part, on how effectively these enterprises are able to function. If our enterprises learn how to truly tap the talents of everyone involved in them, if our enterprises efficiently and responsibly develop and deliver quality products and services that speak to deeply felt individual needs, then all our lives, as consumers and producers, will no doubt dramatically improve.

What sort of enterprises will help us reach these noble goals? No serious students of organizational effectiveness disagree on the basics. We need enterprises, they tell us, that hunger to know what their eventual customers or clients have to say. We need enterprises that unite employees behind a common vision, that empower employees with the tools, training, and decision-making authority they need to make creative contributions, that help employees cooperate and collaborate with each other. We need enterprises guided by leaders who respect their workers and are respected by them.

Inequality within the enterprise, the evidence from late twentieth-century America suggests, subverts all these elements of enterprise success. The more rewards are allowed to concentrate at enterprise summits, the less likely that consumers will be valued, workers will be empowered, and executives themselves will be respected.

Some do challenge this evidence. The rewards pumped to the top, these skeptics argue, couldn't possibly make as much of a difference as critics of executive pay charge. The rewards showered upon executives, their argument goes, are simply too tiny, relatively speaking. Executive pay, one *Barron's* business writer smugly explained in 1998, "is always an insignificant sum compared with workers' total compensation or to any other cost of doing business."[192] For a mega-billion company, mega-million executive windfalls amount to mere peanuts, not dangers.

But the danger comes not from the "peanuts," but from what executives will do to grab as many peanuts as they can. To keep their pockets stuffed, executives will nurture the hierarchies that frustrate enterprise empowerment. They will devote themselves to making their companies bigger, not better. They will dishonor customers and discard employees. They will create enterprises where workers take little satisfaction from the work they do — and, when nobody's looking, any valuable they can walk away with.

Corporations that lavish multiple millions on their executive superstars, even if those millions be mere "peanuts" in the grand corporate scheme of things, create great fortunes for their executives. They do not create great enterprises.

Ask Jim Collins, a former scholar at the Stanford Graduate School of Business who launched his own management laboratory in 1995. In the 1990s, Collins led a research team that spent five years trying to determine "what it takes" to turn an average company into a "great" one. Collins and his colleagues "systematically scoured a list of 1,435 established companies to find every extraordinary case that made a leap from no-better-than-average results to great results." No fly-by-night stock market bubble baby could qualify as a "great" enterprise on the Collins list. A company, to be defined as great, "had to generate cumulative stock returns" that, over fifteen years, had "exceeded the general stock market by at least three times" — and had to have made this remarkable showing "independent of its industry."[193]

The Collins research team eventually identified eleven firms that had successfully made the leap to "great." The researchers then went about discovering "what it took to make the change." They paired each "great" company with another company with similar attributes that could have made the leap to great "but didn't."[194] They combed through years of data, interviewed senior managers and board members, and examined compensation and employment patterns.[195] And what did they find?

"I want you to forget everything you've ever learned about what it takes to create great results," Collins would report in 2001. "I want you to realize that nearly all operating prescriptions for creating large-scale corporate change are nothing but myths."[196]

His research results, Collins explained, totally demolished "The Myth of Acquisitions," the idea that corporations could buy their way to greatness. None of the companies on the Collins list had made the leap to greatness by gobbling up other companies. His research results also refuted, just as convincingly, "The Myth of Stock Options," the idea that options, high salaries, and bonuses are valuable incentives that can "grease the wheels of change."[197] None of the companies that had made their way onto the great list, Collins pointed out, boasted a high-paid, celebrity CEO.

A celebrity CEO, Collins would explain, turns a company into "one genius with 1,000 helpers." The presence of a celebrity in the chief executive suite "creates a sense that the whole thing is really about the CEO."[198] And that sense, the Collins research concluded, will always make for enterprise mediocrity.

Corporate leaders, after the Collins research appeared, would make no rush to abandon the myths his research so deftly punctured. Nor would they make any serious effort to refute what the Collins study had to say. They had no choice, their apologists explained, but to continue along with corporate business as usual. After all, if CEO rewards aren't pegged at lavish levels, how else would corporations be able to motivate aspiring junior executives to work the brutishly long hours necessary to make their way to the top? CEOs, as Stanford economist Edward Lazar acknowledges, might not really contribute anything to their enterprises that justifies their outlandish pay. Still, Lazar argues, the outlandish pay they take in does serve an important purpose.

"The CEO gets to enjoy the money," he notes. "But it's making everybody else work harder."[199]

True enough, but at what cost to the "everybody else"? The dash for the jackpot at the end of the corporate rainbow, journalists noted at century's end, was brutalizing white-collar America. Up-and-comers who saw themselves as top executive material saw in that jackpot all the justification they needed to work and never stop working. The outrageous numbers of hours they labored would create, in corporate cubicles all across the United States, new norms and expectations. These expectations encouraged, even applauded, workaholism.[200] The inevitable results, as tallied by the *Economist* magazine: "burnt-out" employees, "low morale," "dulled creativity."[201] And more *defective* enterprises.

Effective enterprises simply cannot be bought or bribed or bullied into being. We expect money for our work. But we do not do our best work for money.

So what's the best way to pay people? *Fortune* asked that question late in the 1990s, then offered an answer from Alfie Kohn, a writer once labeled "America's most biting critic of money as motivator." Kohn's essential guidance: "Pay well, pay fairly, and then do everything you can to get money off people's minds."[202]

Inequality, within the enterprise, keeps money *on* people's minds. Deeply unequal enterprises have never been effective. They never will be.