ROGER SANT

DENNIS BAKKE

ORGANIZING FOR EMPOWERMENT: AN INTERVIEW WITH AES'S ROGER SANT AND DENNIS BAKKE

BY SUZY WETLAUFER

FEW MANAGEMENT TOPICS *have received as much attention recently as empowerment. In the past four years alone, nearly 30,000 articles about empowerment have appeared in a wide variety of print media, from the* Wall Street Journal *to* Nation's Restaurant News. *By and large, the press is positive: executives and factory workers alike have extolled the virtues of organizations in which frontline employees are charged with the authority to make and execute important decisions without top-down interference. Empowered organizations are said to be hothouses of autonomy and trust, where people at all levels take full responsibility for their work and for the organization's performance.*

But there are skeptics. Management expert Chris Argyris, for instance, recently argued that most talk of empowerment is lip service. (See "Empowerment: The Emperor's New Clothes," HBR May–June 1998.) Many executives claim that they are empowering their employees, Argyris says, but employees know better. They are still either second-guessed or left out in the cold on big decisions. Indeed, Argyris goes on, the gap between empowerment's myth and its reality is one reason that employees are so cynical these days. Empowerment is a false promise, nothing more.

In the middle of this debate are executives who consider empowerment a sound business idea – or even a noble cause – but are perplexed

PORTRAITS BY LANCE HIDY

about how to make it work. They are struggling with empowerment's mechanics. What kind of hiring practices results in frontline employees with the knowledge and the skills required to make critical business decisions? In a truly empowered organization, what controls should exist, if any? If authority is extended to the far reaches of an empowered organization, what is left for the leaders to do?

AES Corporation, the global electricity company based in Arlington, Virginia, has been refining those mechanics for years. Founded in 1981 by Chairman Roger Sant and CEO Dennis Bakke, the company today operates roughly 90 electricity plants in 13 countries, employing some 40,000 people. (For a look at AES's performance from 1990 through 1998, see the insert "AES: Growing Up and Growing Fast.") In this interview with HBR senior editor Suzy Wetlaufer, the two executives discuss the company they have built – both in terms of its day-to-day logistics and its philosophical foundations.

Did you set out to make AES a "poster company" for empowerment?

Bakke: We knew that we wanted to create a very different kind of company, that's for sure. I don't think we used the word *empowerment* – I'm not sure it was even around in 1981.

Our main goal at the beginning was to build a company that we ourselves would want to work in. The actual type of business wasn't really important, to tell you the truth. It could have been an energy conservation company; it could have been steel. It ended up being an electricity company. We just wanted to create a company that embodied the four principles that we felt mattered in any kind of community, be it a business, church, village, or whatever: fairness, integrity, social responsibility, and fun.

That last one – fun – is very important. Some companies just tag it on to the end of their mission statements. But for us, fun is really central. We never set out to be the most efficient or most powerful or richest company in the world – only the most fun. And I think we're getting there.

Sant: I would agree. But the word *fun* can be misleading. We're not talking about having parties all the time. That's not why AES is fun. It's fun because the people who work here are fully engaged. They have total responsibility for decisions. They are accountable for results. What they do every day matters to the company, and it matters to the communities we operate in. We do celebrate a lot – because lots of great things are happening. We just did a billion-dollar deal, for instance, and that called for a party. But it's what happens before the celebrations that's really fun.

Bakke: The struggle before the deal, for instance, the challenge and the creativity required to make it work, taking risks, even the sleepless nights. Believe it or not, those things really are fun because they engage people – heart, mind, and soul. And that was the kind of company we set out to create, one in which people could have engaging experiences on a daily basis.

What goes on within AES that makes those experiences possible?

Bakke: It has to do with our structure and our practices – hiring, compensation, information flow, and so on. They're like an ecosystem. Everything about how we organize gives people the power and the responsibility to make important decisions, to engage with their work as businesspeople, not as cogs in a machine.

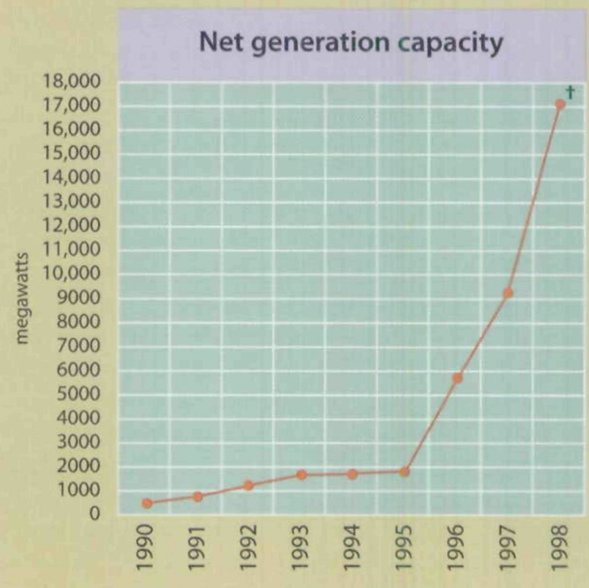
I'll give you an example. We have a team member in India; he's been with us for three years. He and his team wanted to buy two coal plants. Most board members, including me, were very interested in getting those plants, and we urged him to bid $170 million. He said no, primarily based on strong advice he got from his colleagues around the company. The returns weren't good enough, he believed; there was too much risk. He bid $143 million – and he won. The important point is this: even with advice from the most senior people in the company, the decision belonged to him. We let him make it, and he made it. The AES system is designed to make sure power gets distributed throughout the organization.

Sant: Our system starts with a lack of hierarchy. We abhor layers. We avoid them like the plague. The more authority figures you have above you, the more likely it is that you won't make decisions yourself. So we organize around small teams. The plants and business development activities are grouped into 11 regions; each one led by a manager. Every plant has a manager as well. He or she oversees 5 to 20 teams within the plant, each containing about 5 to 20 people, including a team leader.

Bakke: So for instance, there's a team that oversees the control room and one that oversees everything having to do with the fuel for the plant. There's almost always a water treatment team. All our plants clean water in order to power the facilities. They take rainwater or effluent from the city treatment facility, or water from a river or a well, and they make it very clean. Purer, even, than drinking water, because if any minerals or dirt are

AES: GROWING UP AND GROWING FAST

AES is the world's largest global power company, and its revenues, profits, and generation capacity show no signs of slowing.



AES at a glance

Mission:
to help serve the world's need for electricity

Goal:
to be the leading global power company

Guiding principles:
fairness, integrity, social responsibility, and fun

* Source for 1998 estimates: Lehman Brothers

† Source for 1998 estimate: BT Alex. Brown Incorporated

present, they will contaminate the blades and tubes of the turbine and boiler and cause major problems for the equipment.

Sant: We're moving toward a system in which each team has total responsibility for its area both in terms of operations *and* maintenance. That's different from most of the industrial world, where the two are kept separate. Most industrial settings have a special maintenance group that comes and fixes things when they break and tries to keep things running efficiently. But we want people to take ownership of the whole – the way you care about your house. You run it; you keep it up; you fix it. When something goes wrong, you own the problem from start to finish. And nobody has to tell you to do it because the responsibility is all yours – operating and maintaining.

Bakke: We have very few layers, and teams take full responsibility for their work. But what always seems to surprise people most about us is that we don't have any staff to speak of; we have tried to eliminate all groups of functional specialists. We don't have a corporate marketing division or a finance group or an environmental compliance division. And we certainly don't have a human resources department – we don't even allow people to use those words to describe our people: *human resources.* That's not what they are – assets like fuel or money. People are special and unique. So the only staff we have now – and that's because we haven't figured out how to push this activity to local teams – is an accounting group. It includes about 25 people at the corporate office. They collect financial information from around the company so it can be reported to the public. This is a bigger group than we would like, but it's not too bad for a company with a market capitalization of around $9 billion.

Sant: We also work incredibly hard to make sure that operating teams don't contain more than one of each kind of expert or specialist.

Bakke: I joke that one engineer is great, but two together is a disaster. And you can say the same thing about lawyers or any other type of specialist. As soon as you start to cluster them, all sorts of bad things happen. Mainly, corporate learning slows down enormously because the experts tend to talk and listen to one another, both inside and outside the company.

Sant: For the system to work, every person in the company has to become a well-rounded generalist who understands all aspects of our operation, who understands the economy in which we work, and who has the good of the whole company in mind when he or she makes decisions. It's like every AES person is a mini-CEO.

How does that CEO perspective get formed?

Bakke: There are lots of ways we aim for that goal. One is job rotation. People move from team to team and from plant to plant. The example of Pete Norgeot's career with us is a good case in point. Before joining our Thames plant in Connecticut, he was a heavy-machine operator. His first assignment with us was as a member of the fuel-handling team. He stayed with that team for six months, then shifted to the water treatment team, and then to the boiler team. For three years, he basically went from group to group. He studied all the technical books he could – we have manuals on every aspect of our operation, and you can use them to help prepare for the qualification exams that you must pass before you can work in an area. After spending three years at Thames, he learned of an opportunity in our Medway plant in England, and he took it. After a few years, he was selected to be the plant manager at our new Barry facility in Wales.

That kind of movement is typical. For instance, of the original 24 people hired at the Thames plant when it opened in 1988, today two are vice presidents and group managers, eight are plant managers, and seven are team leaders. And they're all generalists. They know most aspects of our operation inside and out.

Doesn't eliminating specialists hurt efficiency?

Sant: It might. But we try to reinvent the wheel every time we get a chance. The process of learning and doing is what creates engagement – fun.

Bakke: The trade-off is worth it because of the sense of control and total responsibility that people feel when they really own their decisions.

Let me give you an example. We don't have groups of finance specialists, right? But someone has to invest the company's money. The people at the plant do it – it's their responsibility. So in Uncasville, Connecticut, the question went out to all the teams: Is there any group that would like to take a stab at investing the $12 million cash reserve held at the plant? And what was then the maintenance crew – it was a team of about 15 guys – said that they would. They didn't have a clue about how to invest short-term money in the market, but they thought it would be fun to learn.

So they hired a teacher who told them what a spread was, who to call on Wall Street to get the process going, and so forth. After a few weeks of studying, they starting calling up brokers and looking for the best vehicle for investing.

You should have heard them – it was exhilarating. I'd get a little note saying, "Man, you won't believe what happened – such and such broker reneged on the deal! They've been lying to us!"

Sant: They went through the process of learning how Wall Street works.

Bakke: By the third month, they actually beat the returns of the people who were investing the money for the company's treasury at the home office. They were so proud. My point is this: Did letting the maintenance crew invest that money make a huge difference in our bottom line, for better or for worse? Probably not. But those people will be changed forever. They have become better businesspeople. And there is no other way to do that than by doing. I mean, when do you learn to become a parent? When the baby arrives.

"We try to reinvent the wheel every time we get a chance. The process of learning and doing is what creates engagement – fun."

It amazes me – in our society, we tend to treat children like adults, and in the workplace, we treat adults like children. Think about the responsibilities we give kids – the TV programs and movies they watch or the subjects we expect them to know about and understand, like drugs and violence. But then, when they grow up, we put them in work environments where every decision is made for them. We say, "Here are the rules; here are the systems; here is how you do your job." At AES, we're trying to turn that on its head. We're letting adults, like the maintenance crew, take on very big challenges without requiring them to get approvals from senior people before making decisions.

That's not to say there weren't investment parameters for the maintenance crew. There were; they could only invest in A1, A2, or A3 money because the banks don't let us take a lot of risk with cash reserves when they are supporting a project financing. But it's our belief that, almost invariably, people will rise to the level of trust and dignity you invest in them. And the performance of the maintenance crew just proves that.

Does the maintenance crew still invest money for the plant?

Sant: No, once they figured out how to do it well, it was time to pass the job to other teams. Now groups within the plant bid on it from time to time. And, by the way, we don't have a maintenance crew anymore at that plant. Their work is all distributed to the other teams. As we've said, we're trying not to separate operations and maintenance.

AES has high expectations for its employees – they have to embrace the company's values, take full responsibility for important decisions, and have the desire and ability to become well-rounded businesspeople. How is hiring handled, then, in particular without an HR department overseeing the process?

Bakke: By and large, plants do their own hiring. We rarely use headhunters, and we really don't recruit much. And we seldom hire people directly into senior levels. People typically come to work in the plants, and they grow with us.

Hiring the right people is essential. The whole system would fall apart if we didn't have a lot of people who were passionately excited by our values or who didn't care about becoming businesspeople. But we've been very lucky over the past few years. We are really fortunate in that we have a huge pool of applicants. We've done well, and people are attracted to that. And I think there is a good feeling out there about us. People who work for us tell their friends about how we operate, and that gets them interested.

And so we usually have lots and lots of people to choose from; we're able to really pick and choose the people who are likely to understand what it means to be an AES person. And I think that there is also quite a bit of self-selection going on. If you're interested in gaining power or moving up in a traditional hierarchy, you're not going to choose to work at AES.

"If you're interested in moving up in a traditional hierarchy, you're not going to choose to work at AES."

The same thing can be said about people who are fearful of ambiguity or don't like to make decisions. They usually don't apply here for jobs. We attract people who want to be treated as responsible adults, who say, "I want to be a teacher, a nurturer, a servant-leader." They are typically people who are ready to make decisions and be held accountable for them.

Sant: It's important to point out that we very rarely hire primarily for technical ability. We put that factor second in the evaluation process and really focus on cultural fit. And there is a lot of peer review. Teams interview candidates, and there are multiple meetings in which they try to get the sense of the person and whether he or she will be comfortable in the AES environment. (For a sample of AES interview questions, see the insert "What Does 'Fun on the Job' Mean to You?")

Bakke: We've made our biggest mistakes in hiring when people have said "We need someone with such and such expertise" and put cultural fit second. We've been much better off when we've hired people who don't just accept our values but are evangelical about them. I am always amazed at how well some people who have just been hired understand what we are doing and how well they manage to spread the news, so to speak.

For instance, we purchased six plants in Kazakhstan over the past 18 months. We control about 30% of the electricity-generating capacity in that country. Our team has done an incredible job of explaining to the government that capitalism doesn't have to be "gangsterism," which is how some of the people there perceive it. Our people have been able to demonstrate to the government and to the people

WHAT DOES "FUN ON THE JOB" MEAN TO YOU?

In order to maintain AES's empowerment ecosystem, it is critical to hire the right people. Because the company's mechanics are so tightly coupled with its principles, it is essential that every employee, new and old, embrace those principles. It follows, then, that the interview process, largely conducted by teams at the plant level, is extensive – even exhaustive – and focused on cultural fit. Only when a candidate appears to have the makings of an "AES person" is his or her technical expertise examined.

The goal of the interview is to determine whether the candidate will eagerly accept decision-making responsibility – that is, be held completely accountable for results, both good and bad. In addition, the company seeks candidates who believe that it is the responsibility of business to improve the lives of people and society in general. Candidates should be able to demonstrate their commitment to fairness and integrity, two key AES values. And finally, they should define fun the AES way, as a full mind-body-soul engagement with work well done – not just the celebration afterward. The following are questions typical of an AES interview.

- Should everyone be treated equally? Explain.
- What do you do when something needs to be done and no procedure exists?
- What self-improvement efforts are you making?
- Recall a time when people around you weren't being totally honest. What did you do?
- What does "fair" mean to you? How important is fairness?
- For what have you been counseled about the most?
- What is the most difficult situation you have faced? What did you feel? How did you react?
- Describe two important achievements.
- Tell me about a time when a decision was needed and no supervisor was available.
- What kinds of rewards are most satisfying to you?
- What does "fun on the job" mean to you?

working in the plants we have acquired what AES is all about – how we do business and how we represent a different version of capitalism. And these are people who haven't worked at AES for all that long. Some of them have only been with us six months, but they get the values, and they improve on them. It's fantastic.

How do you approach compensation and performance evaluation?

Sant: Both have evolved over the years as we've tried to get our ecosystem working properly – that is, consistent with our philosophy. Right now, I'd say we're at a stage where roughly 50% of a person's compensation is based on technical factors such as our financial performance and safety and environmental impacts. The other 50% is based on how well people, individually and as a group, understand and adhere to our four shared values – fairness, integrity, social responsibility, and fun.

Bakke: We base our evaluations on a couple of factors. First, everyone who works in a plant that's at least 50% owned by AES, all 10,000 of them, fills out a survey on values every year. I read the results of every single one. It helps me and other leaders see where people are, for instance, acting selfishly – putting themselves first, before the other stakeholders. A few years ago, I noticed that a lot of people from the same plant wrote in their surveys, "Why do we have to buy plants abroad? We should just stay in the United States and provide jobs to Americans." From that, I could tell that the plant manager and team leaders there were not doing a good job of making our mission to meet needs *in the world* understood. And those attitudes also called into question whether people were adhering to the principles of fairness and social responsibility. Were year-end reviews and compensation affected? I think so, at least for company leaders and in the companywide corporate bonus plan.

And second, I visit a lot. I listen to people in the company, and I look to see if people are holding on to power or if they are passing it around. If I hear a team leader proclaiming how happy he is that he finally has the authority to make decisions, I get a little concerned. I ask team members, "Who is actually making the decisions around here? Are you making them or is it the team leader or even some other plant leader?"

Once I found that leaders in a Northern Ireland facility had put a limit on purchases by individual team members. That is, team members had to get approval before they purchased anything that cost more than £2,000 – about $3,200. Approval processes are inconsistent with our principles. They take the fun – the responsibility and therefore the mental and emotional engagement – out of work. In fact, I would like to see approval limits abolished at every level of the company – not just for $2,000, but for $2 million or $200 million.

I hope that plant managers and team leaders are asking themselves the same kinds of questions that I ask, and making the same kinds of assessments. Sometimes those assessments, including year-end performance reviews, are done in groups. Each team member will evaluate his or her own performance – in terms of technical skills and on commitment to the principles – and then team members will affirm or critique the review, or sometimes do both.

Sant: The next step may be having individuals set their own compensation. One of our group managers is beginning to experiment with that now. The team is based in London, but it covers central Asia, principally. Each senior team member was asked to set his or her own salary this time. It worked well, but the team will decide next year whether to continue the practice.

When people evaluate one another in a group setting, you might expect a lot of tiptoeing around bad performance: "If you don't criticize me, I won't criticize you." Or you might find that some individuals savage others in order to look better.

Bakke: I am sure that happens to some extent around AES, but not frequently. Over time, people learn that that kind of behavior is not acceptable. Some of it goes back to hiring. The kind of people who engage in those types of behaviors don't often come here, or at least they usually don't last here very long. The people who stay are the ones who say, "I want to be better. I want the group to be better." And they evaluate themselves and others in that vein.

Sant: And you have to remember that, at the very senior levels of AES, we've been together a long time. Of our top 20 people, 17 have been working here for a decade or more. We know one another really well, and trust is a big thing among us. And that is transferred to the rest of the organization. We are supportive of one another.

Bakke: But *supportive* doesn't mean glossing over someone's problems. Evaluation meetings can be very intense. We push one another. We want to help one another be the best we can be in stewarding resources to meet the world's need for electricity.

Sant: We'd eventually like to see everyone in the company involved in this kind of evaluation session. Right now, the sessions are used mainly for some salaried people. Incidentally, we would like to eliminate hourly work at AES. About 50% of our people are salaried now, but we hope to change that soon, so that there won't be any more hourly workers at AES, anywhere in the world.

What's wrong with an hourly wage system?

Sant: What are you saying when you pay someone an hourly wage? You're saying, "We only care about the physical time you spend in the plant. We don't trust you, so you have to punch a time clock." That attitude is left over from the Industrial Revolution, and that's not the way we feel.

When you pay someone a salary and make them eligible for bonuses and stock ownership, you are saying, "Our assumptions about you are no different from those we have about the plant leader. You can and should bring your brainpower and soul – your whole person – to work." In effect the company is saying, "You're a part of this organization; you have the same worth as everyone else."

At this point, about 50% of our workers who used to get paid by the hour have converted themselves to salary, and we hope that close to 100% will choose that approach eventually. Generally, once people try it, they love it. They're free to do, to be, to understand work in a whole new way. They see themselves differently – as real businesspeople.

So far, you've described the mechanics of AES in terms of its organizational structure and its approach to hiring and compensation. What other managerial practices make empowerment work?

Bakke: There's the incredibly important matter of free and frequent information flow. I don't know how we'd function without it because it undergirds everything we do. When people are making big decisions on the front lines, it's not as if they are doing so in a vacuum. They shouldn't be. We have lots and lots of corporate memory, and it's crucial for people to be able to access it.

We have very few secrets at AES. Even the details of potential acquisition decisions are shared. Personal compensation issues are confidential, but we're not even sure why that has to be the case.

But besides compensation levels, all financial and market information is widely circulated. That's why for SEC purposes, every one of our people is considered an "insider" for stock trading.

Some people are worried about how public we are with our information; they're concerned it's going to get leaked to competitors. But we think that's a risk worth taking because, otherwise, how would our people become businesspeople? You need information to make good decisions.

Sant: But it's not just that we put all our information out there. The system works because people volunteer information – they share knowledge.

Bakke: For example, a business development manager named Flora Zhou was chosen to lead our efforts in Vietnam last year. She was putting together a bid to the government – the deal involved supplying a region of Vietnam with about 700 megawatts of electricity for 20 years. Flora had a couple of other people working with her, but she was going to make the final call on the dollar amount of the bid. We knew price was very important to the government. In fact, price would probably account for about 70% of the final decision.

So Flora put together an e-mail that detailed what she was planning to bid and why, and sent it to about 200 or 300 people within AES. She received lots of advice and comments in return, but in general, most people thought her proposal sounded fine.

But a group manager in Central America, Sarah Slusser, had experienced a similar situation with a plant in the Yucatán – there were overlapping technology issues. She sent Flora a three-page e-mail that contained a wealth of information about what to pay attention to with that technology.

A few days later, Flora made the bid, and it was the lowest by two-tenths of a percent. (Nonprice factors are still being evaluated, so the overall winner has not yet been chosen.) Did Sarah tell her the exact dollar amount to bid? No. But she and many others around the company, including plant leaders and board members, gave her the best information and judgments they had to inform her decision. They shared everything they knew with her.

Do people share knowledge about the principles as well?

Sant: I often get e-mails or phone calls from people asking, How do you see this dilemma? What would you do in this situation? The questions are usually about fairness and integrity. They may sound like they're only about business, but they're not.

For instance, last summer we were working on the acquisition of a power station abroad. Along the way, a question arose about what had been agreed upon during the negotiations. The sellers had one point of view; we had another. But after some discussion, it became apparent to us that the sellers were more right than wrong about their recollection of the negotiations.

So the dilemma became, Do we admit that the sellers are right and go ahead based on their view of events? Or do we keep trying to get some important terms into the purchase and sale agreement that we had overlooked – or not explicitly included – during the negotiations? All the internal e-mails and phone calls about this matter centered on the question of integrity. Would we be acting with integrity if we continued to ask for our desired terms? Eventually, the team answered no. But the discussion leading up to that answer took many turns that helped us to better understand our value of integrity – what it meant in action.

The notion of accountability seems to greatly influence the way AES runs. How does that work? What would happen, for instance, if Flora Zhou loses a bid?

Bakke: There is no penalty, per se, for losing a bid, but an AES person would be unlikely to receive a bonus if we didn't win the business we were bidding on. And although losing a bid can be a mistake, so can winning a bid in which the economics turn out to be less than satisfactory. For instance, we had a person who bought a hydroelectric plant in Argentina and, based on how successful that transaction appeared to be on the pro forma financial analysis, he received a substantial bonus. He then went on to buy a second plant in Latin America, which looked like it was going to do well, too. But when the time came for a bonus for the second deal, the first plant in Argentina was in trouble. Part of it was not his fault. It didn't rain, and a hydroelectric facility needs water. But he hadn't built that possibility into the pro formas, nor had he built in the possibility that the market price for electricity would fall to the extent that it did. Overall, his projections for returns on the investment had been too optimistic. So he basically gave back his bonus on the first deal by not taking a bonus on the second deal, even though he deserved one.

Take another case. We had a very tough year in 1992 – not economically, but in the more important area of principles and values. There was a major breach of the AES values. Nine members of the water treatment team in Oklahoma lied to the EPA about water quality at the plant. There was no environmental damage, but they lied about test results. A new, young chemist at the plant discovered it, and she told a team leader, and, of course, we then were notified. Now, you could argue that the people who lied were responsible for the breach and were

> "We had a very tough year in 1992 – not economically, but in the more important area of values."

accountable, but the senior management team also took responsibility by taking pay cuts. My reduction was about 30%.

Sant: We said, "It's our fault. Obviously, we didn't train those people properly or hire the right ones or choose the right leader." I mean, if it had been one person falsifying reports, we could have made the case that he or she was a bad seed. But with nine people, we had to accept that the problem was systemic. We demoted the individuals involved, and they took temporary pay cuts. Most of them eventually left, but those who accepted the discipline admitted their parts in the breach. They've stayed with the company and are doing well.

Bakke: We especially hold ourselves accountable for safety. At some of our plants, if there is one accident, everyone's bonus is cut by 25%, two accidents means a 50% cut, and by the third, there's no bonus for anyone. Last year we all took a cut in our companywide wealth-sharing plan because there were four fatal accidents at our plants – one in China, two in Kazakhstan, and one in Pakistan. We could have received up to 12% of our salaries in our bonuses. It was a perfect year from a lot of perspectives for us, but we decided that those deaths had to be accounted for, and we gave ourselves a 10% reduction in the bonus. It didn't matter where the deaths occurred or that no one who died was an AES person; in three cases, they were contractors, and in one case, a civilian. Our company is a community, and we are accountable to the world as one.

Are all mistakes penalized financially?

Bakke: Serious ones, yes. The same mistake made a second or third time, yes. But a mistake made as you learn, without significant consequences, of course not. It is okay to make most mistakes. We are all human. It's part of AES's values to accept mistakes, as long as people own up to them.

Sant: And you would be amazed at how quickly people support and forgive one another here. I haven't seen that in many organizations. In other places, when someone makes a mistake, the company is really punishing, and peer support vanishes.

Why is AES so forgiving?

Bakke: Maybe because of the humility that says, "We've been there. We've been on the front lines and made big decisions and big mistakes." I mean, on our first two or three projects, Roger and I really screwed up.

Sant: We should have been hung out to dry.

Bakke: Our first plant, in Pasadena, Texas, lost $20 million a year for about six years. And then we bought prototype turbines for the Placerita plant in California in 1984, and they kept cracking and eroding. And we also bought an oil field near there at the same time that lost us about $20 million. That whole investment lost money for years, until people at the plant figured out how to fix it. Now it's doing very well, very little thanks to us.

"It is okay to make most mistakes. We are all human. It's part of AES's values to accept mistakes."

Sant: The good news about owning up to your mistakes right away is that it is so much easier to move quickly to find a creative solution. You don't sit around wasting time trying to figure out whom to blame.

If AES's mechanics push responsibility and accountability away from corporate headquarters – what is left for you to do? How does empowerment redefine the role of the leader?

Bakke: We – and all AES leaders – end up having four roles. The first is to be advisers. We probably get more deference than we deserve, but people listen to our opinions.

The second is to be chief guardians of the principles. We don't have to play this role very often because the principles are well known. In fact, most of the time, our people guard the values without any input from senior people. For instance, our people in Indonesia had to decide whether to give 15% of a project there to a member of the Suharto family. The payment wasn't illegal, but people in our company decided that paying such a "tax," which basically was bribery, did not fit with our principles of fairness and integrity. We never did get a project in Indonesia. Roger didn't make that decision, and neither did I. So the guardian role really plays out most often when we write and teach.

Our third role is to be chief accountability officers. If no one else holds you accountable, or if for some reason the teams don't hold themselves accountable, we're the backup players. We ask, "Well, how did it go? How did we do?"

Sant: But as we've said, it's really hard to come up with a time we have had to do that. So this role ends up being something else: we are AES's chief accountability officers to the outside world. We answer for the company to people who question our values or challenge our integrity. That happened after the Oklahoma incident. And it happened earlier that same year. We wanted to build a cogeneration plant in Jacksonville, Florida. It would supply electricity to a local utility and steam to an adjoining paper mill. After we got the permits to go ahead, a member of the community claimed that we had lied about our plans, and she led a charge against us in the media. At issue was the number of boilers we would use at the paper plant. We had said we would shut the existing mill boilers, but later we said we were considering cleaning them up and then reopening them. Whichever approach we took, the amount of emissions – which was critical to the whole debate – would be exactly the same.

For six months, AES was really under fire. I spent most of my time in Jacksonville, and Dennis went to the state capital, Tallahassee. We really poured everything we had into defending the honor of the company. We were fighting to protect our values and what we stood for. The veracity of our principles was called into question. Eventually we prevailed, and the governor and cabinet gave us the go-ahead to continue building, but by that time, we were so worn down by the experience that we sold our share in the plant and moved on.

What's your fourth role?

Bakke: We're the chief encouragers. We celebrate with AES people. We attend orientations and plant openings. We give the speeches at five-year anniversary parties.

Sant: People always say they don't have time to celebrate because they're too busy, but stopping and remembering is really important. What is work if you don't see the meaning in it? You have to celebrate the meaning in it.

Are you saying you have dispensed with the main leadership role at traditional companies: making the major decisions that no one else wants to, or can, make?

Bakke: This year I made two decisions, which was one more than last year. I made the decision about how many regional groups we would have and who would lead them. Those were big decisions, so I took six months to make them. I really played them out, because if you only make two decisions a year, you want to play them for all they are worth.

As for the rest of the decisions (strategic, planning, capital allocation, and so on) that needed to be made for AES – well, they were made by the people out there who are right on top of the problems or issues or opportunities.

You've described how empowerment works, but the question arises: Why empower in the first place?

Sant: Certainly not for strategic reasons. You see that a lot these days – companies that endorse empowerment or operate with socially responsible principles claim that it is not only the right thing to do but also makes brilliant strategic sense. For us, the part about brilliant business sense is beside the point. The point is improving the world – even saving it. It's the right thing to do.

> "I think that we have to reinvent capitalism around a sense of mission – it can improve society."

I think capitalism could be different. I think that we have to reinvent capitalism around a sense of mission – it can improve society by improving the lives of people.

Bakke: My own sense is that we are not so much trying to reinvent capitalism as we are trying to go back to something. Corporations were originally created for very specific purposes. Back in the eighteenth century, when the government gave a corporation a charter, it was to do something for the public good, like build a canal or a bridge. But that emphasis has shifted over the years. When I give speeches nowadays and ask the audience, "Why do businesses exist?" 75% of the people say the same thing, regardless of whether I am at Harvard Business School or a Christian college. They say, "To make money."

Capitalism is in great jeopardy if people hold on to that notion. Companies have to exist primarily in order to *contribute* to society, to meet its needs. Businesses have to help people live better lives. They have to operate in ways that help communities cohere and thrive.

You both believe businesses should benefit society. Why?

Sant: Dennis and I actually come from somewhat different places on this one. My ideas about empowerment are based on experience, stimulated significantly by an integration of theory X and theory Y and by Bob Waterman, our long-time board member and author of *In Search of Excellence*. Quite a while back, I started thinking about when I had the most fun at work, and I realized it was when I was given responsibility and accountability, when I had the chance to make a difference. I figured there might be other people like me. My original notions about social responsibility arose because I had seen a lot of environmental irresponsibility. I headed up the energy conservation program at the Federal Energy Administration from 1974 to 1976. It was there that I came to believe that people couldn't keep doing unsustainable things – in terms of pollution, mainly. There had to be some answers to the question, How can we create a society that would stop stealing from the capital of the planet? And I realized that business played an important role. Companies could handle social responsibility in an integrative way, not tack it on at the end of their thinking about operations, like some kind of afterthought. That is, business could build social responsibility into its values and practices.

That's why, for instance, to offset our carbon dioxide emissions in Connecticut, we funded the planting of 52 million trees in Guatemala and why, to offset emissions from a plant in Hawaii, we gave a grant to preserve 144,000 acres of forest in Paraguay. In Pakistan, however, we learned that the environment was not necessarily the number one social problem in that country. So we've built four schools. We've built a school for 1,000 children in China. We want our company to do everything it can to be a responsible part of our communities – proactively, not reactively.

"I would love to get the workplace as close to the Garden as possible, knowing we can't."

Bakke: My belief in empowerment comes from my Christian faith, but many of my beliefs are not inconsistent with the fundamentals of Buddhism, Judaism, and Islam. I recently got a letter from an AES person who was leaving us to join a Buddhist monastery. She wrote, "Thank you for giving me an opportunity to work in a company where I could fully live out my values." So there are commonalities across the faiths.

Personally, I start with the book of Genesis, which teaches us that we are put on earth to glorify God by stewarding our resources for ourselves and for others. Our nonhierarchical structure and our desire to engage the wholeness of people comes from my belief that God created each one of us in his image. The Bible teaches that each person is holy, special, and unique. We are creative, accountable, trustworthy – and fallible. That's where forgiveness comes in. God set up the world with forgiveness. We are to work for wholeness and justice, integrity and fairness. And social responsibility comes from a requirement to love our neighbor as ourselves. Treat each person with respect and dignity. In essence, I would love to get the workplace as close to the Garden as possible, knowing we can't. But I shouldn't stop trying.

You want to make money at AES, though, don't you?

Bakke: Profits are a consequence of doing a good job of stewarding and of meeting a need. And they are essential so that we can pay shareholders the returns they deserve. Profits in and of themselves, however, are not the central purpose of AES.

Sant: You have to make money because the enterprise can't be sustained unless you do. And profits often measure how effectively you are carrying out your mission.

Bakke: We don't operate with the traditional notion that the company exists, first and foremost, for the benefit of the shareholders. Shareholders are one important constituency of our company, but they are not the most important. We have many other stakeholders: AES people, our customers, the communities we build and run our plants in, suppliers of debt and other services, the governments of the countries where AES operates. I used to say that our competitors were stakeholders, too, but my colleagues laughed at me and made me stop. But I still think it's true. Our competitors are critical to us because they make us better, and they make us credible. If we don't do things better – if we don't surpass them in meeting the world's needs for safe, clean, reliable electricity – then we'll disappear, as we should.

The ecosystem of empowerment that you've described differs from the way most companies today are organized and managed. Do you think that AES is unique?

Sant: Yes, but I hope not for long. The world will work better if people are empowered. But I would not recommend that other businesses adopt only our mechanics. They'd have to adopt some shared values first, because the mechanics flow from them. You can't have one without the other. But if companies adopt a set of shared principles, then the mechanics can be put in place. It takes time and commitment, though, because it's not easy to give up power. And it's very easy to fall back into the conventional way of doing things.

Bakke: That's what happened after the incident in Oklahoma. You know, our stock dropped $400 million in one day – one-third of the company's value at the time – and the board and others started saying, "Okay, your experiment is over. It failed. It's time to revert to the traditional way of doing things." And the people at the plant agreed. They went to shift supervisors like conventional industrial facilities have; a deputy plant manager was installed; and a bunch of functional departments were put in – such as environmental regulation, planning, and safety. And the plant manager basically fired me. He called me and said, "Please don't come out here anymore."

I spent about four months talking to people all over AES. I asked, "How can we stick with our fundamental principles and not move backward?" Finally, step by step – and there were a lot of conversations that took place – we agreed that we believed in our principles, and we would not waver. As for the Oklahoma plant, it didn't happen all at once, but eventually the people there undid what they had done to themselves. They got back to the AES way.

Can you think of an industry or situation where empowerment isn't applicable or appropriate for safety or regulatory reasons?

Bakke: Just the opposite. People think empowerment is a big free-for-all or something. That everyone is just "empowered" to do what he or she wants. But people are more accountable for their actions in our system than that, and maybe more accountable at AES than at many typical, traditional, hierarchical companies. The greatest difficulty any organization will have following the AES approach – including AES – is getting its leaders to freely and consistently give up the power to make decisions.

Sant: There are life-and-death decisions in our work all the time. There is always danger when you are working with awfully high temperatures and pressures, as we are. But empowerment makes it safer – not riskier. If a team feels it is fully accountable, it will take more responsibility than if it feels that its boss is accountable. At the end of the day, the team members aren't going to say, "It's not my job." Everything is their job. Very little slips through the cracks.

It's true that in some industries you need accumulated knowledge to do your job right. But we take care of that at AES by making sure people reach out and talk to one another, get advice, and share information. The Flora Zhou story is evidence of that, and there are hundreds of stories like hers.

As AES has expanded – both by building plants abroad and by forming alliances – have there been new or unexpected challenges?

Sant: We haven't had the problems opening plants internationally that people predicted. For some reason, people thought that our principles and our way of doing things couldn't work overseas. But we haven't really experienced anything like that.

"At the end of the day, the team members aren't going to say, 'It's not my job.' Everything is their job."

Bakke: In fact, sometimes our non-U.S. employees "get" AES faster than Americans do.

Sant: That's not to minimize that people are different in Hungary or Kazakhstan. But all people are innately the same. People from different countries and cultures may take longer to trust – to trust AES leaders, to trust the AES approach, and to trust themselves to take responsibility.

Bakke: People become who they are based on their microenvironments – not just the country they grew up in. They are formed by how they grew up – their families and their communities.

I was at Stanford a few months ago talking with the business school students, and by and large it was the American students who were saying, "Oh, you can't export AES's values abroad." But the foreign students were saying, "That will work just fine in my country." And it's been gratifying for me to see that the foreign students appear to be right. Certain values transcend cultural and religious borders, and AES is based on some of them.

And alliances?

Sant: The weakest part of our company is that we don't work with other companies very well. We're starting to figure it out, but we're not there yet.

Bakke: If you believe strongly in a particular set of principles, and if you practice your business in accordance with them, it's very difficult to have a partnership with a company that does not believe in them. As we said in our 1997 annual report, we're still not very good at working with partners who don't share our ideas, and I'm not sure we ever will be. You can't mix oil and water.

Sant: We have a new situation in Los Angeles that is working well – it's with Williams Companies. Williams gives us natural gas, and we convert it to kilowatt-hours. Then they take them back and sell them. It's not a formal partnership. It's a contractual relationship, and I think it may be a better approach to working together than anything we've done yet. Maybe when it's all said and done, we'll find their culture is great and we will mix well together, but we don't have to test that in this case.

Bakke: I mean, we would love to change the world. But we're not going to do it with a gun; we're not going to force it. We're going to try to do it with ideas. We hope people will hear our story and see how we do things and that, eventually, business will start to change.

Sant: And hopefully, the world will change, too.

What will happen to AES after you're gone?

Sant: I'm spending more than half my time outside of AES now, devoting most of my time to chairing the World Wildlife Fund and Sant family foundation. We call it the Summit Foundation, and it's devoted to assisting organizations to protect the environment and stabilize world population.

Bakke: I don't have any plans to leave soon. But that's a hard question. Sometimes I worry that the company will be run by someone who doesn't feel as strongly about our central tenets as I do. But in reality, that's not a worry of much merit. There are likely to be a number of people from inside the company who will build on what we have started and take AES's people to a whole new level of excellence. But doing that will necessarily involve staying true to the principles.

Sant: As we see it, empowerment without values isn't empowerment.

Bakke: It's just technique.

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