

CHARACTER AND ETHICS: THE ENRON SCANDAL

CH 1-2

ENRON ACCOUNTING SCANDAL

- Summary of the Enron Scandal that began in 2001.
 - Enron was an energy company out of Houston, Texas.
 - Through multiple illegal accounting practices, billions of dollars of debt were hidden from stockholders.
 - Executives at Enron compelled accounting firm Arthur Andersen to ignore the issues in their reporting.
- Key Players
 - Andrew Fastow – Chief Financial Officer, Enron
 - Jeffery Skilling – Chief Executive Officer, Enron
 - Arthur Andersen – Accounting firm and auditor of Enron
 - Kenneth Lay- Former CEO, Founder, and Chairman of Enron
- A five-minute overview is at <https://www.youtube.com/watch?v=MizO1bH8pvw>

ORGANIZATIONAL CULTURE

- From last LTP:
 - Organizational culture consists of shared attitudes, values, goals, and practices that characterize the larger institution over time
 - Leaders use culture to let people know they are part of something bigger than just themselves
- There are three different levels of culture
 - Artifacts
 - What individuals can see on the surface
 - Shared values
 - The significant values, morals, and beliefs claimed to be especially important by leaders in the organization
 - Basic assumptions
 - How situations or problems within the organization are treated after repetition
- What was the organizational culture at Enron? How does such a culture reflect the ethical character of the organization's leaders? How does that impact the organization's members?

THE THREE LEVELS OF CULTURE AT ENRON

- Artifacts (What individuals can see on the surface)
 - Enron had a full-color, sixty-four page “Enron Code of Ethics” on the shelves during the period of its most egregious frauds
 - After the crisis a copy was advertised for sale on eBay with the product description “unopened”
- Shared values (The significant values, morals, and beliefs claimed to be especially important by leaders in the organization)
 - In reality, the main value at Enron was making money
 - Enron board members were paid as much as twice the average pay for nonexecutive directors at America’s 200 largest companies and had ample self-interest to “turn a blind eye to many of the questionable activities undertaken by management.”
- Basic assumptions (How situations or problems within the organization are treated after repetition)
 - Rushworth Kidder reports that at Enron, they were handled by groupthink
 - “In the driven and highly competitive atmosphere created by chairman Kenneth Lay and CEO Jeffrey Skilling, speaking up against the group’s interests would have required significant moral courage.”

CHARACTER

- **Character:** The concepts undergirding this pillar represent a consistent thread that runs through all aspects of The Citadel Experience. This functional area instills the high moral standards represented by the college's core values and the key behaviors manifested by principled leaders who act accordingly. Such leaders demonstrate integrity, truthfulness, and transparency in word and deed, building trust in those around them. Such leaders **hold themselves and others accountable** for these **moral and ethical standards**. Such leaders **consistently uphold these standards** into every aspect of problem solving and decision-making, avoiding merely temporary, pragmatic, or convenient solutions (LDP pg 8)
- "Holding team members accountable for results" is one of the eight behaviors. What does accountability to moral and ethical standards mean in the context of character?

ACCOUNTABILITY AT ENRON

- Arthur Andersen was discovered to have close to \$50M in conflict of interest money from Enron.
 - In addition, Enron also hired CPAs who worked on the FASB (Financial Accounting Standards Board) and the GAAP (Generally Accepted Accounting Principles) to find loopholes if Arthur Andersen was slow to do what was asked.
- Arthur Andersen chose to take the dirty money and hide Enron's debt instead of report them to the government for fraud, among other crimes. Because of this, Arthur Andersen would never recover their reputation.
- The LDP requires leaders of character to "hold themselves and others accountable for these moral and ethical standards"
 - Arthur Andersen failed to hold itself or Enron accountable. How did organizational culture, conflict of interest, and greed contribute to that failure?
 - How could the situation have been improved? What are some characteristics of an effective system of accountability?

HONOR

- **Honor:** Honor preserves the moral authority and trustworthiness leaders must earn to effectively influence others. People of honor lead with integrity and conduct themselves with the knowledge of being part of something larger than they are. A person of honor does the right thing the right way—even when no one is watching or when a personal cost is incurred. This value begins with personal adherence to the letter and the spirit of the Honor Code that “a cadet does not lie, cheat, or steal, nor tolerate those who do.” In its more advanced stages, honor includes forging a **unity of values that guides the action of all members** in the organization. (LDP pg 4)
- How do values guide leaders’ actions? How do leaders communicate their values to the organization and influence members to act based on them? What is a “compelling” vision and how do leaders communicate it to guide organizational action?

CONDUCT AND ACTION AT ENRON

- The LDP requires “people of honor [to] lead with integrity and conduct themselves with the knowledge of being part of something larger than they are.” As a value, it says that “ honor includes forging a **unity of values that guides the action of all members** in the organization.”
- Jeffery Skilling hired and trained a team of executives with the principles of accounting loopholes, fake accounts, and false reporting
 - Deliberately misled the Enron Board of Directors and stockholders on how the company was performing, hiding billions of dollars in corporate debt
 - Before allegations of fraud came to light, Skilling resigned as CEO and sold all of his shares. He then lied and denied any knowledge of the scandal
- Did Skilling conduct himself as an individual or as part of something bigger than himself?
 - How does a commitment to honor as a value act as a safeguard against selfish behavior?
- What “unity of values” were present that allowed Skilling to get a team of others to contribute to his fraud? What action did those negative values guide?
 - How can leaders ensure that the organization’s values are positive ones? How can those values be transformed into guides for action throughout the organization?

CHARACTER

- **Character:** The concepts undergirding this pillar represent a consistent thread that runs through all aspects of The Citadel Experience. This functional area instills the high moral standards represented by the college's core values and the key behaviors manifested by principled leaders who act accordingly. Such leaders demonstrate integrity, truthfulness, and transparency in word and deed, building trust in those around them. Such leaders hold themselves and others accountable for these **moral and ethical standards**. Such leaders consistently uphold these standards into every aspect of problem solving and decision-making, avoiding merely temporary, pragmatic, or convenient solutions (LDP pg 8)
- What are morals and ethics? To what extent can they be standardized across an organization? How is that done? What is the difference between having standards and acting on them? How do leaders minimize that inconsistency in themselves and the organization?

MORAL AND ETHICAL STANDARDS AT ENRON

- Morals are “standards of behavior; principles of right and wrong”
- Ethics are “moral principles that govern a person’s behavior or the conducting of an activity”
- “Morals” and “ethics” are often used interchangeably
- While morals and ethics can be sources of endless philosophical debate, their biggest leadership impact is when they are put “in action”
- Viktor Frankl is credited with saying, “Between stimulus and response, there is a space. In that space lies our freedom and our power to choose our response.”
 - How do your morals and ethics positively occupy Frankl’s “space”?
 - How do they give us “freedom?” Freedom to do what? Freedom from what?
 - How do they give us “power”? How is it power to do something positive? How is it power to overcome something negative?
- How could the team have used Frankl’s space between the time Skilling proposed his plan for fraudulent accounting and their next action?

PREPARING FOR THE CHALLENGE

- That space that Frankl talks about can refer to both the general and the specific
- If we wait for a specific stimulus to begin the space, we can find ourselves in crisis decision-making
- If we begin now to form the basic moral and ethical standards we will call upon once the stimulus is presented, we have the opportunity to take a more deliberate approach
- Consider these stimuli that may present themselves after graduation:
 - Your boss encourages you to manipulate inventory figures on a report.
 - You have the opportunity to take credit for an idea you got from a co-worker.
 - You can use inferior materials on a construction project because you know the inspector will not notice it.
 - Your friend asks you to cover for him when he misses a meeting to go play golf.
- How is your Citadel experience already helping you morally and ethically fill Frankl's space?