Enron Administration Personal Qualities That Led To The Company Bankruptcy

ABSTRACT

The administration and top executives at Enron were caught involved in unethical activities such as abusing their power by manipulating data, getting involved in inconsistent treatment with internal and external voters, proving unable to provide proper oversight over responsibilities and putting their own interests before that of their stakeholders. As a result, educators of leadership qualities must exercise:

- Share some of the blame for what happened at Enron,
- Integrate ethics into the rest of the curriculum,
- Highlight the responsibilities of both leaders and followers,
- Address both individual and contextual variables that encourage corruption,
- Recognize the importance of trust and credibility in the leader-follower relationship,
- Hold followers as well as leaders accountable for ethical misdeeds.

INTRODUCTION

Enron's chapter 11 documenting in November 2001 denoted the start of an exceptional rush of corporate embarrassments. Authorities at Tyco, WorldCom, ImClone, Global Crossing, Adelphia, AOL Time Warner, Quest, and Charter. Correspondences joined Enron officials as focuses of SEC tests, congressional hearings, investor claims, and criminal prosecutions. Enron's inconveniences, which had been the all-important focal point, were before long pushed to the foundation by consequent disclosures of corporate bad behavior.

Later examples of corporate debasement ought not lessen the significance of Enron as a contextual analysis in good disappointment. Enron crumbled in vast part on account of the exploitative practices of its administrators. Looking at the moral inadequacies of Enron's pioneers, and in addition the variables that added to their mischievous activities, can give critical bits of knowledge into how to address the theme of morals in a business situation.

The organization's crumple was at last activated by fizzled interests in abroad endeavors and the unwinding of a progression of questionable constrained associations called Special Purpose Entities (SPEs). These SPEs , supported by Enron stock and wrongfully kept running by organization insiders, were intended to keep obligation off the association's asset reports and helped prop up its offer cost. In any case, when the association's stock value started to slide, the organization was not able back its assurances. Notwithstanding charges identified with obscure associations Enron stands blamed for:

- borrowing from auxiliaries with no expectation to reimburse the advances (Wilke, 2002, August 5).
- avoiding government assesses despite the fact that a portion of its auxiliaries, similar to Portland General Electric, gathered expense installments from clients (Manning and Hill,

2002).
- contributing to the California vitality emergency by controlling power costs (Fusaro and Miller, 2002; Manning, 2002).
- paying off outside authorities to anchor contracts in India, Ghana and different nations (Wilke, 2002, August 7).
- promptly guaranteeing benefits for long haul extends that would in the end lose cash (Hill,Chaffin, and Fidler, 2002).
- exchanging account adjusts preceding quarterly reports to help obvious income (Cruver, 2002).
- controlling government vitality strategy (Duffy, 2002; Duffy and Dickerson, 2002).
- plotting with investigators to extend a bogus picture of the association's monetary wellbeing (Fox, 2003).

A significant part of the fault for what occurred at Enron (nicknamed the 'Screwy E' for its tilted Capital E logo) can be laid at the feet of organization author Kenneth Lay, his successor Jeffrey Skilling, CFO Andrew Fastow, and Fastow's best collaborator Michael Kopper. Each neglected to address critical moral difficulties or situations of administration (Johnson, 2001).

Abuse of Power

Lay and Skilling both exercised their power brutally. So many occupants were taken away from the position when they had problem with Lay or seemed as a threat to his power. Hence the vice-chairman position was called the “ejector seat”. In addition to the above, Skilling removed corporate competitors and tyrannized his subordinate officers. Enron also faced a problem concerning relinquishment of power. Occasionally, managers failed to understand their employees – what the employees were working on or how the business was functioning. Moreover, the board members did not have an effective oversight and seldom questioned the management decisions. According to Cruver, the writer of the book Anatomy of greed: The unshredded truth from an Enron, “Many were selected by CEO Kenneth Lay and did business with the firm or represented non-profits that received large contributions from Enron.”

Excess Privilege

The top management at Enron had some excessive privilege. Lay is a son of a Baptist preacher and lived a humble life later changed into money-grabber and started to showing off, trying to make a really big impression. As stated by Cruver, once Lay told his friend,” I don’t want to be rich, I want to be world-class rich.” One time he even joked about giving his wife a $2 million to decorate their new home and his wife, Linda exceeded that budget. As per the writings of Eisenberg, the writer of the book Ignorant & Poor – “The couple borrowed $75 million from the firm that they repaid in stock. Linda Lay fanned the flames of resentment among employees when she broke into tears on the Today Show to claim that the family was broke. This was despite the fact that the Lays owned over 20 properties worth over $30 million.” Through Enron’s period of success, workers also received some of the perks that came with the job. Workers availed benefits such as lavish Christmas parties, aerobic classes, free taxi rides, refreshments, and the services of a concierge (Enron excess, 2002; How Enron let down its employees, 2002)

Fraud

Executives of Enron influenced information unscrupulously in order to preserve their interests and to mislead the public. However, the degree of the deceit is yet to be discovered. The executives and board members together claimed that they had no knowledge of the organization's off-the-books partnerships developed and managed by Fastow and Kopper (Eisenberg, 2002). Lay and Skilling both were given fair warnings that the organizations bookkeeping approaches were under suspicion. Investigation was carried out to figure out the reasons for Enrons collapse. It was carried out by the Senate Permanent Subcommittee on Investigations and they came to a conclusion that the board members were actually aware of the unlawful activities which were taking place at Eron. Moreover, as stated by Cruver, "Board members specifically waived the conflict of interest clause in the company's code of ethics that would have prevented the formation of the most troublesome special partnerships." The employees were promptly moving forward in accordance with the organizations top executives. They stated fictitious profits, concealed expenses, misguided energy regulators etc.

Inconsistent Treatment of Internal and External Stakeholders

The relationship of Enron with its employees and external stakeholders were completely inconsistent. Employees were coerced to invest much of their savings in Enron shares through the retirement plan. Moreover, they were not allowed to sell their shares when Enron shares were in free fall. On the other hand top officials were able to sell their stocks as they desired. According to Barreveld, writer of the book The Enron Collapse: Creative Accounting, Wrong Economics or Criminal Acts?, "Five-hundred officials received "retention bonuses" totaling $55 million at the same time laid off workers received only a fraction of the severance pay they had been promised."

Friends of Enron were treated as royals. To illustrate, Enron made political donations in order to receive favourable treatment from government agencies. Executives made considerable donations to members of the House and Senate of both Democratic and Republican members and the highest contributor for the Bush campaign was Kenneth Lay. Consequently, the company got the opportunity to nominate favourable candidates for the Security Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERC). Federal officials along with the foreign government got involved to stimulate Enron projects, and representatives of Enron played a vital role in positioning federal energy policy that facilitated the removal of regulations of additional energy markets. However, if anyone was considered to be against Enrons interests could anticipate reprisal. At one time, to force Merrill Lynch to fire an analyst who sold out Enrons' stock, Lay pulled out an underwriting deal. As mentioned by Cruver, Skilling called one analyst an "asshole" when he questioned the company's performance during a conference call.

Loyalties Misplaced

Enron authorities put their faithfulness to themselves over those of every other person with a stake in the organization's destiny — investors, colleagues, rate payers, nearby networks, outside governments, etc. They likewise double-crossed the trust of the individuals who worked for them. Workers obviously had faith in the organization and in Lay's hopeful declarations. In August 2001, for instance, he announced 'I have never rested easy thinking about the prospects for the organization' (Cruver, 2003, p. 91). In late September, only weeks previously the organization crumbled, he urged workers to 'talk up the stock' in light of the fact that 'the

organization is on a very basic level sound' (Fox, 2003, p. 252). These admonishments came even as he was dumping his very own offers. The feeling of selling out experienced by Enron workers just added to the torment of losing their positions and retirement funds.

Irresponsible Behaviour

Officials and Executives at Enron failed awfully to take the necessary actions and conducted unethical activities by misusing power and not having proper oversight of their organization. Despite the warnings from the CEO of the company, employees at Enron received opportunities to window-frame the company accounts due to lacking of oversight from the management leading to board members being unable to understand company numbers and projects. No one stepped forward to accept the blame after the company collapsed resulting to Lay and Fastow claiming Fifth Amendment privileges. This was done to call this incident as an example of self-incrimination in front of the congressional committees claiming that he had no knowledge of the illegal activities being conducted within Enron. It was visible that the main motives that fueled such unethical activities inside the company’s management were due to greed.

By window-dressing the accounts, employees of Enron created artificially created optimistic reports showing optimistic earnings and hid losses. This tactic was used to keep the stock prices of Enron artificially high which was used as a justification for generous salaries and earnings and allowed the insiders to earn profits from their own stock options. Managers throughout the organization at times received bonuses larger than their salaries by showing artificially met targets. All these benefits compelled the employees of the organization to overlook the shortcomings that the business could face regarding ethics.

Hubris was a major flaw at the Crooked E, that reflected a fact in the company banner that stated: “FROM THE WORLD’S LEADING ENERGY COMPANY — TO THE WORLD’S LEADING COMPANY” (Cruver, 2002, p. 3). Lacking of the social and communication skills of Ken Lay, gives a good example of the haughty spirit of many Enron officials. During the California energy crisis he joked that the only difference between the Titanic and the state of California was that “when the Titanic went down, the lights were on” (Fusaro & Miller, 2002. p. 122).Even the so-called “heroes” of the Enron terribly failed to demonstrate reasons to delay or to prevent Enron’s demise. Complains were received from the company’s treasurer about the financial forgery and window-dressing but retired without going public with these issues.

Vice-president of corporate development Sherry Watkins showed concerns regarding the firm’s questionable financial practices in a letter and in a meeting with Lay (A Hero, 2002). Later Sherry Watkins discussed the same issues with an audit partner at Anderson. Individual greed and pride was magnified by the corporate culture of the company encouraging creativity and risk taking leading to the company’s demise. Employees invented new commodity products earning Enron as a top ranking six straight years on Fortune magazine’s list of most innovative companies (Fusaro & Miller, 2002). The cost of freedom was the pressure to produce that created a climate of terror. Lack of controls, combined with an intense, competitive, results-driven culture made ignoring the company’s code of ethics much easier which was prohibited and conflicted interest such as to seek results at any cost. Anderson’s auditors signed off on its questionable financial transactions fearing of loss of lucrative auditing and consulting contracts with Enron.

Publicly traded firms in the United States are judged by their quarterly earnings reports which greatly victimized Enron. Obsession with short-term results and expectations encouraged Enron executives to commit such unethical activities. Every stock index soared and billions got wasted on Internet start-ups that never had a chance to be profitable.

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