Enron: Ethics And Corporate Social Responsibility

In 1985, two large gas pipeline companies joined forces and created what we know as the Enron Corporation. The Enron Corporation provided commodities, utilities, and services in natural gas through its vast pipelines. Enron produced, carried and dispersed electricity through the northwestern parts of the U.S, among many other power associated ventures worldwide (Ferrel, Fraedrich, & Ferrel, 2011).

During the 1990s, Ken Lay the Chair, Jeffrey Skilling the CEO and Andrew Fastow the CFO converted Enron into a $150 billion energy company and became a strong Wall Street competitor in the investment market, trading power deals (Ferrel, Fraedrich, & Ferrel, 2011). In two years, from 1998 to 2000, Enron evolved into holding the position of number seven on the list of Fortune 500's largest companies, with more than $100 billion in profits. Howbeit, that it was discovered by a bankruptcy examiner that Enron's reported net earnings of $979 million in 2000 were actually $42 million and that Enron's declared $3 billion cash flow was veritably in the red for $154 million (Ferrel, Fraedrich, & Ferrel, 2011).

As the Enron Company grew into a business powerhouse, its corporate culture grew a huge pretentious ego. Displaying its cultural sentiment in the lobby of corporate headquarters with an enormous banner that declared, "The World's Leading Company" and how its executives contently affirmed that Enron was so powerful that competition was non-existent for them (Ferrel, Fraedrich, & Ferrel, 2011). There was a mind-boggling sense of pride and the assumption that the people of Enron could deal with growing liability without any uncertainty (Ferrel, Fraedrich, & Ferrel, 2011). Enron's corporate culture centered on how its executives could monetarily benefit and not on how to build the company, ensure the welfare of its employees or stockholders.

Enron's corporate culture aided in what is called "Flouting" (Ferrel, Fraedrich, & Ferrel, 2011). Flouting is defined as an open disregard for rules or to treat with contemptuous disregard (Flout, n.d).

Jeffrey Skilling, Enron's CEO devised a policy whereas the employees were evaluated every six months, forcing those who scored in the low 20 percent out of the company. This created a hostile work environment where everyone within and outside of the company was in full competition with one another (Ferrel, Fraedrich, & Ferrel, 2011). It was stated that Enron's Chair, Ken Lay said "he felt that one of the great successes at Enron was the creation of a corporate culture in which people could reach their full potential. He wanted it to be highly moral and ethical culture and that he tried to ensure that people did honor the values of respect, integrity, and excellence" (Ferrel, Fraedrich, & Ferrel, 2011). This type of work environment did the exact opposite. It fosters lies and deceit, manifesting a dog eat dog mentality within their employees. Employees that found a way to generate business for Enron were rewarded, whereas those employees that fell short were punished, finding themselves forced to bend the rules to the point where ethical conduct was omitted on the quest to the next big victory (Enron, Ethics And Today's Corporate Values, 2013).

In 2001 Enron filed bankruptcy after a chain of events revealed that Enron had been utilizing

SPE’s (special purpose entities) to conceal their losses. Enron’s chief financial officer, Andrew Fastow, in a meeting told Enron’s lawyers that the SPE’s were initiated so that the equity and liabilities can be reallocated off the balance sheet. Also, to boost the cash flow by displaying that the funds were running in the books when it sold assets. By using SPE’s to reallocate equity and liabilities, painted a different picture as it altered the actual financial status of the company (Ferrel, Fraedrich, & Ferrel, 2011).

Enron used the SPE’s to funnel their funds and stocks while maintaining complete control. When obligations were not met by the partnerships, Enron used their stock to cover the debts. This was viable if Enron stock prices stayed high. Once Enron’s stock prices dropped, cash was needed to meet the deficiency (Ferrel, Fraedrich, & Ferrel, 2011). With continued cover-ups, lack of transparency and disclosures, Enron was on a financial decline directly to bankruptcy.

Appointed to work closely with Enron’s CFO Andrew Fastow in 2001, and now given the job of identifying saleable assets, Vice President of Enron, Sherron Watkins was distressed to find Enron’s obscure, unrecorded book arrangements, only supported by Enron’s shrinking stock (Ferrel, Fraedrich, & Ferrel, 2011). Unable to obtain a clear explanation, she confronted Jeffrey Skilling, Enron CEO. Shortly after, Jeffrey Skilling abruptly resigned. After Jeffrey Skilling’s resignation, Chair Ken Lay returned to the position of CEO. Ken Lay was given a seven-page letter from Sherron Watkins highlighting her concerns and explained that Enron will collapse under apparent scandalous accounting practices if efforts were not made to rectify things (Ferrel, Fraedrich, & Ferrel, 2011). Ken Lay appointed Enron’s law firm, Vinson & Elkins to investigate against the better judgment of Sharron Watkin’s (Ferrel, Fraedrich, & Ferrel, 2011). Shortly thereafter, Ken Lay began to sell his stock options averaging a total of $1.5 million. At the same time, Ken Lay was not honest with Enron’s employees and continued to falsely inform them that the company was doing well. Ken Lay encouraged his employees to continue to invest in the company (Ferrel, Fraedrich, & Ferrel, 2011).

Enron, labeled as the “World’s Leading Company”, employing over 20,000 people fell under the demise of greed filled leadership, unethical corporate culture, unscrupulous business practices, deceit, and lies.

It was stated that, Enron collapsed because their executive pursued “profits, power, greed and influence” at all costs: by engaging in and rewarding lying, cheating, and other forms of rule-breaking; by punishing whistle-blowers and ridiculing under-performers who did not embrace rule-breaking: and by “shifting the blame and pointing fingers’ instead of taking responsibility (Munro & Thanem, 2018).

This scandal saw many members of this organization faced with federal criminal charges associated to accounting and corporate fraud, corruption, insider trading, and conspiracy, just to name a few (Edwards, Hawkins, & Schedlitzki, 2019). Thousands of employees were out of work, many losing their retirement portfolios, and billions of dollars were counted as investor losses (Ferrel, Fraedrich, & Ferrel, 2011). Enron had become a major example of business ethics failure, causing changes in legislation that places heavier restrictions on companies in hope to reduce the chances of such enormous ethical business ills of reoccurring in such a magnitude (Edwards, Hawkins, & Schedlitzki, 2019).

When reviewing the history of Enron, it is clear to see that many factors contributed to the bankruptcy and demise of this progressive company. Enron’s corporate culture was a great contributor to its bankruptcy because it promoted a culture of deceit and fraud on every level. The executives of Enron encouraged their employees to believe that practically anything could be made a financial product with the help of statistical techniques and traded for profit (Ferrel, Fraedrich, & Ferrel, 2011). Leadership incited its employees to produce by any means necessary resulting in decisions being made that may have been unethical, placing their employees in the position to cover up shortcomings and falsify vital information in order to be seen as productive in order to maintain their employment with Enron (Edwards, Hawkins, & Schedlitzki, 2019).

As a result, Enron’s financial information was inflated, and did not represent the company’s true financial status, the company’s stockholders were not taken into consideration and decisions made were based on how Enron’s executives could personally benefit monetary, other than protecting the company, its employees and stockholders (Ferrel, Fraedrich, & Ferrel, 2011).

Corporate culture was not the only culprit in Enron’s demise. Major responsibility lays also on Enron’s bankers, auditors, and attorneys. They all were part of manipulating financial information, making hidden investments and transactions, and overlooked fraudulent activities to have Enron’s financials appeal to investors (Munro & Thanem, 2018).

The role of a CFO is to ensure that financial records of a company are in order, to provide reliable data to the company board, management and stockholders to assist with critical decision making, to oversee and address any compliance issues, prevent fraud and to look out for the financial wellbeing of the company, its employees and stockholders (Biery, 2015). Enron’s CFO, Andrew Fastow failed in all CFO responsibilities, thus playing a huge part in creating dilemmas that led to Enron’s financial issues. As the gatekeeper of Enron’s financial health, Andrew Fastow ensured that he and the Enron executives personally profited by his taking part the fraudulent activities to inflate Enron’s financial standing. Andrew Fastow federally charges with fraud, money laundering, conspiracy and obstruction of justice for his part in Enron’s demise (Ferrel, Fraedrich, & Ferrel, 2011).

The Enron Scandal represents one of the largest business debacles in the United States, riddled with acts of greed, deceit and a host of fraudulent activities, which has changed the course of business today, proving that leadership that does not foster an ethical corporate culture, transparency and integrity can led an organization down the road of ruin.

The managing partner at Target Rock Advisors, Richard Rudden stated, “Ethics and integrity are at the core of viable, continued success”. The basis building a just and ethical corporate culture is to create fair and lasting business principles. Companies will be measured by the traditions they build and how they manage their relationships with shareholders, communities, and employees (Silverstein, 2013).

Dan Amos is the CEO, chairman and leader of the Fortune 500 Company, the America Family Life Assurance Company (AFLAC) and is known to have set a guideline for corporate culture and ethical business practices (Grillo, 2010). Through his character, integrity and strong moral principles, Dan Amos has lead AFLAC to being recognized as Fortune’s Most Admired Companies, 100 Best Companies to Work For List and the World’s Most Ethical Companies (Bowman, 2017). Dan Amos’s philosophy is, “Treat others the way they would like to be treated, not the way you want to be treated, it’s all about them. Dan Amos goes on to say, “Failure is a stepping stone to success, if you are not failing you are not taking enough risk therefore, don’t limit the failures”, “Leading with character and integrity encourages company loyalty that breeds dedication, ensuring reputation and success. “Walk the talk and don’t be afraid to stand alone when it’s right. Take the right moral ground” (Bowman, 2017). Dan Amos believes that if you give your employees all that is needed to be successful, they will in return give their all to help the success for the business (Grillo, 2010). Dan Amos encouraged his employees to take risks, without the fear of making mistakes. If mistakes are not being made, you are not taking enough chances. Decisions should be made to push the envelope a bit. If everything you do is right, then maybe you are too comfortable (Bowman, 2017).

According to Dan Amos, “Many times people are afraid to make mistakes and afraid they will be penalized. Here at AFLEC, we do not have that attitude. Job security is what an employee need to succeed”. (Grillo, 2010). In the 20 years that Dan Amos has been CEO of AFLAC, there has never been job cuts (Grillo, 2010).

Dan Amos has demonstrated many characteristics of an ethical leader by maintaining his high moral standards and integrity, by creating an ethical corporate culture whereas his employees can strive in a work environment that promotes fairness, honesty, encourages resourcefulness, and values his employees. Above all, Dan Amos leads by example.