Lessons from the Enron Debacle: Corporate Culture Matters!

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The recent Enron collapse has sent shockwaves all over the financial world and raised serious questions regarding corporate governance: How could America's seventh largest corporation suddenly descend to bankruptcy? What has contributed to its sudden implosion? Currently, there are more than 10 separate committees investigating possible wrong doings and illegal activities, such as fraud and insider trading.

Available information suggests that Enron made its money with smoke and mirrors. With a set of off-the-books, unregulated private partnerships to take on debts, hide losses and kick off inflated revenues, Enron executives were able to keep bond-rating agencies happy. They were able to sustain this shell game through persistent refusal to disclose to analysts, who questioned where the money came from. Arthur Anderson, the auditing firm, turned a blind eye to questionable accounting practices because they did not want to lose the lucrative consulting fees.

However, under mounting pressure, Enron's eventual disclosure of its overstatement of profits in November 2001 immediately triggered the collapse of the company and its bankruptcy filing on December 2, 2001.

A special panel of Enron's Board recently issued a 217-page report, condemning Enron's management for inflated profit reports and failure of controls at every level. According to Eichenwald (2002), "As oversight broke down at Enron, the report states, a culture emerged of self-dealing and self-enrichment at the expenses of shareholders. Accountants and lawyers signed off on flawed and improper decisions every step of the way, the reported concluded."

The report is critical of Ken Lay, Enron's long time Chairman and Chief Executive, and his protégé Jeffrey Skilling, who served as President and Chief Executive before resigning abruptly for setting up a flawed system for self-enrichment at the expense of employees and ordinary shareholders.

In that system, Fastow would not only work as chief financial officer of Enron but would also serve as general partner of the partnerships. In order words, Fastow was on both sides of every transaction. He took the most blame because he manipulated Enron's financial statement to inflate profits in order to enrich himself and other senior executives.

In the 1980s, the savings-and-loan collapse rocked America and the junk-bond king Michael Milken ended up in jail. After this scandalous disaster, business schools all over America began to set up courses on business ethics, and most corporations have developed their own code of ethics.

However, Enron's failure indicates that the "ethical deficit" of corporate America remains a serious problem. In recent years, Mr. Richard Finlay, chairman of the Centre for Corporate and Public Governance, has warned about the danger of corporate corruption, but greed continues to dominate the boardrooms of corporations.

Why the ethical deficit? What has gone wrong? How could Enron executives tout the Enron stock to their employees, while enriching themselves by cashing in stock options? Why didn't they comply with Enron's Code of Ethics? What lessons can we learn from this colossal corporate failure?

I propose that the most important lesson is that corporate culture matters - it can either bring prosperity or disaster to the organization, depending on whether the corporate culture is toxic or healthy. The Enron executives created a culture of greed, corruption and deception; eventually, their
house of cards collapsed because of the inevitable correction by forces of the market place.

For any corporation to be healthy and productive, it needs to be strong in four core areas: (a) financial capital in terms of investments and profits, (b) technological capital in terms of cutting-edge software and hardware, (c) human capital in terms of knowledge, expertise, and creativity and (d) social-spiritual capital in terms of ethics, relationships, meaning and purpose.

The fourth area is perhaps the most difficult to manage and most difficult to quantify and yet, no less important than the other three core areas. Enron used to own a lot of real assets and values. They were one of the leaders in technology related to gas and oil. They had hired some of the most talented workers. And yet, they have failed miserably with respect to developing social-spiritual capital.

Enron’s senior management failed to maintain a relationship of openness and trust with employees. Staff members who questioned the wisdom of some of Enron’s decisions and practices were either ignored or silenced. Senior management cared more about self-enrichment than the needs of employees. They showed little regard for meaning and ethics beyond the bottom line. There is an absence of shared vision that transcends moneymaking. Enron’s deficiency in social-spiritual capital proved to be fatal!

The social-spiritual capital is very difficult to manage because workers come from different cultures, with very different values, beliefs, habits and expectations. Yet, they all share the basic human needs for belonging, connectedness, trust, meaning and purpose, and they also share the same human weaknesses, such as selfishness and greed. The biggest challenge for managers and leaders is how to enhance the social-spiritual capital of their organizations in the global market.

The development of social-spiritual capital is closely related to organizational culture and work climate. A toxic corporate culture of greed and corruption will harm the social-spiritual capital, resulting in negative work climate of suspicion and secrecy. A healthy corporate culture of caring for the workers, community and environment will strengthen the social-spiritual capital, leading to a positive work climate of empowered and supported workers. Wong (2002) provided compelling logic and evidence that corporate culture can influence work climate and productivity.

Corporate culture

Culture typically includes the totality of socially transmitted behaviors, beliefs, attitudes, human thoughts and creations. It affects every aspect of our lives -- the way we look at things, the way we act and react and how we express our feelings.

Culture also has a pervasive impact on business practices and organizational behaviors. Harrison and Huntington (2000) have provided compelling evidence that national cultures and values shape human progress and influence economic prosperity. For example, Asian values of personal relationships and family ties served East and Southeast Asia well for over three decades but hindered their economic development in the last few years.

In spite of the pervasive influence of national culture, within each nation exist different types of organizational cultures, because the personality and philosophy of the founder/leader may also shape the culture of each corporation.

According to Reh (2002), “It is the leader’s job to provide the vision for the group. A good executive must have a dream and the ability to get the company to support that dream. But it is not enough to merely have the dream. The leader must also provide the framework by which the people in that organization can help achieve the dream. This is called company culture” (p.1).

Generally, corporate culture refers to the prevailing implicit values, attitudes and ways of doing things in a company. It often reflects the personality, philosophy and the ethnic-cultural background of the founder or the leader. Corporate culture dictates how the company is run and how people are promoted.

Leaders and managers need to understand how different types of corporate cultures may either facilitate or inhibit organizational efforts to improve performance and increase productivity. They also need to have the necessary competency to foster corporate cultural change. Cameron and Quinn
(1998) pointed out the importance of transforming organizational culture in order to adapt to changing times. They have developed an assessment instrument to identify four types of cultures, namely, market culture, advocacy culture, clan culture, and hierarchy culture.

Toxic corporate cultures

The following corporate cultures are described as toxic because they are dysfunctioning in terms of relationships and adjustment to changing times. They undermine the social/spiritual capital, poison the work climate and contribute to organizational decline.

(1) Authoritarian-hierarchical culture - The big boss alone makes all the major decisions behind closed doors. Even when the decisions are harmful to the company, no one dares to challenge the boss. The standard mode of operandum is command and control, with no regard to the well being of employees or the future of the company.

In this kind of culture, employees are to be controlled, manipulated and occasionally pacified like little children. Workers are motivated by fear rather than love for the company or passion for the work. They are expected to do what they are told without questioning. The main criterion for promotion is loyalty to the boss, rather than competence and commitment. As a result, star performers who dare to question some of the administration's decisions are sidelined or let go, while those who obey the boss blindly and who are willing be hatchet men get the nod for promotion.

Hierarchies are not necessarily bad in and of themselves. Some sort of hierarchy in terms of decision-making and responsibility is always inevitable. However, when hierarchies are used to control and abuse workers, problems inevitably occur. Hierarchies without accountability tend to have a corrupting influence on ambitious, autocratic leaders. When the boss is dysfunctional and has the power to impose his selfish, irrational decisions on others, the entire company suffers.

(2) Competing-conflictive culture - There is always some sort of power struggle going on. Leaders are plotting against each other and stabbing each other on the back. Different units and even different individuals within a unit are undercutting, backstabbing each other to gain some competitive advantage. There is a lack of trust and cooperation. People often hide important information from each other and even sabotage each other's efforts to ensure that only they will come up on top.

There is no regard for the larger picture and the overall goal of the company. It is everyman for himself. Both management and workers are obsessed with their own survival and self-interests. As a consequence, the organization is fragmented and there is a lot of waste of valuable resources because of duplications and sabotage. Such intense competition within the company creates a climate of divisiveness, conflict and mistrust. A house divided cannot long survive in a highly competitive globe economy.

(3) Laissez faire culture - There is a vacuum at the top, either because the leader is incompetent and ignorant, or because he is too preoccupied with his personal affairs to pay much attention to the company. Consequently, there is an absence of directions, standards and expectations. When there is an absence of effective leadership, each department, in fact, each individual does whatever they want. The leadership void will also tempt ambitious individuals to seize power to benefit themselves. Chaos and confusion are the order of the day. No one has a clear sense where the company is going. Often, employees receive conflicting directions and signals. Often, decisions are made in the morning only to be nullified in the afternoon. Given the lack of direction, oversight and accountability all across-the-board, productivity declines. In this kind of culture, the company either disintegrates or becomes an easy target for a hostile takeover.

(4) Dishonest-corrupt culture - In this culture, greed is good and money is God. There is little regard for ethics or the law. Such attitudes permeate the whole company from the top down to individual workers. Bribery, cheating, and fraudulent practices are widespread. Creative accounting and misleading profit reports are a matter of routine. Denial, rationalization and reputation management enable them carry on their unethical and often illegal activities until they are caught red-handed or exposed by correcting forces of the market. When management are blinded by greed and ambition, their judgment becomes distorted and their decisions become seriously flawed; as a result, they often cross the line without being aware of it. Enron serves as a good example.

(5) Rigid-traditional culture - There is a strong resistance to any kind of change. The leadership
clings to out-dated methods and traditions, unwilling to adapt to the changes in the market place. They live in past glory and any change poses a threat to their deeply entrenched values and their sense of security. Workers are discouraged or even reprimanded for suggesting innovative ideas. Their accounting, marketing and delivery systems are no longer competitive with the fast-paced technology-driven market place. Their products and services have not responded to changing market demands. Their mantra is “We have always done things this way.” As a result, the world passes them by and eventually they are left with an empty shell of the former self.

The above five types of toxic cultures are not mutually exclusive. For an example, a corporation may be both authoritarian and traditional. Similarly, a corporation can be both authoritarian and corrupt. When a company suffers from a multiple of diseases, drastic operations are needed to save it from demise. Unfortunately, not many managers are competent in the diagnosis and treatment of toxic corporate cultures.

Healthy corporate cultures

(1) Progressive-adaptive culture - There is openness to new ideas and a willingness to take risk and adopt innovations. It is a culture that adjusts quickly to shifting market conditions. It does not value the certainty of remaining the same; the only certainty it values is that the company is future-oriented and innovative. It is confident in catching and riding the waves of change.

It is a culture compatible with the entrepreneurial spirit of creativity, boldness and taking ownership. The management strives to be on the cutting edge, and encourages continuous development of workers. There is a pervasive, restless creative energy, constantly seeking and creating new ideas and new markets. The company celebrates every innovation, and every discovery. Excitement is in the air. Employees are all caught up in the adventure. This culture is the opposite of the rigid-traditional culture.

(2) Purpose-driven culture - The leadership articulates and crystallizes the purpose of the company effectively, so that there is a common purpose, a shared vision for all the workers. Everyone knows what the core values and priorities are, and everyone knows where the company is going. Workers are highly motivated, because they are committed to the same set of core values. More importantly, the overarching purpose tends to go beyond the bottom line. All great companies endure because they serve a higher purpose.

One example is Anita Roddick, founder of The Body Shop. She has a clear vision, a higher purpose for her company: The Body Shop will be an ethical, caring company, that will care about the environment, human rights, animal protection and the community. This vision is incorporated into all aspects of her corporate goals and practices.

(3) Community-oriented culture - There is a strong emphasis on collectivity and cooperation. The leadership attempts to build a community, in which people respect, support each other, and enjoy working together. Please note that this is very different from the kind of authoritarian collectivism in communist states, where the State controls the business, and everyone has to agree with and work for the State.

A community-oriented culture goes beyond team building and aspires to create an authentic community in which every worker is treated as a valuable member. Community building is more extensive than team building. It requires that members from different work groups treat each another in a positive, supportive way in order to boost morale. Such a community requires collaboration and communication throughout the organization. Management involves and empowers all staff members in a combined effort to improve efficiency and productivity, such as required by Total Quality Management.

For teamwork to be effective, team building training becomes an important part of personnel development. Typically in team building, groups are created in each work area and group members interact and work together to identify and resolve issues that affect individual and group performance. Guidelines are provided for interactions among team members. Team members work together in a mutually supportive atmosphere. Team members know the role they play in achievement the end goal.

To create a sense of community, management need to provide a trusting and safe environment, in which workers are free to express their ideas rather than try to “fit in” and please the managers. The
emphasis on community building also creates a climate of cooperative problem solving and a willingness to share information and expertise. In such a company, there is a healthy acceptance of diversity and a willingness to listen and to learn from others. A community-oriented culture is just the opposite of a competing-conflictive culture.

(4) People-centred culture - There is a genuine caring for each worker in the organization. Everyone is valued and validated, regardless of their positions in the company. The organization cares for the whole person - body, soul and mind in terms of recognizing workers’ basic needs for learning and growth, for belonging and being connected, as well as the need for meaning and spirituality. Each worker is encouraged to develop his or her full potentials, personally and professionally. Such a culture will create a climate of mutual respect and genuine civility.

Organizational care for employees is based on organizations’ deep-seated core values and practices. The focus is on meeting workers’ needs, promoting their best interests, and valuing their contributions (Liedtka, 1996, 1999). It involves setting up the necessary infrastructure to facilitate caregiving, such as providing support systems, and employee assistance and development programs.

People-centred organizations which embrace the core ideology of caring may have different ways of expressing its core values (Collins and Porras, 1994; O’Reilly & Pfeffer, 2000), nevertheless, caring needs to be implemented on a consistent basis. For example, HP’s core ideology of ‘Respect and concern for individual employees’ and 3M’s core value of "Respect for individual initiative” are incorporated in all aspects of organizational practices. Herb Kelleher of Southwest Airlines is another example. He treats every employee as a valuable member of the team. As Chairman and CEO, he has created a positive climate of safety, trust, and respect.

The above four cultures are positive, because they create a positive work climate, which is conducive to productivity and job satisfaction. They contribute to high-performance without explicitly linking reward to performance. The ideal company should possess the attributes of all four types of healthy corporate cultures.

Cultural transformation

Culture matters a great deal. Toxic cultures can kill a company loaded with money and talents. Positive cultures can make a less endowed company grow. Cultural transformation is necessary in order to turn a failing company into a profitable one.

Any experienced consultant should be able to identify the predominant corporate culture based on observations, interviews, climate-surveys and internal company communications. However, it would be better if managers and leaders are competent in assessing their own corporate culture and know how to transform it.

Generally, it is very difficult if not impossible to implement cultural transformation, until the senior administration is willing to undergo training and make drastic changes in how the company is run. Cultural transformation needs to start from the top.

Schein (1990): “the unique and essential function of management is manipulation of culture” (p.317). Unfortunately, most business schools do not provide training in cultural transformation. Such training should include (a) assessment and diagnosis of present corporate culture, (b) strategic planning and intervention with respect to organizational restructuring, leadership retraining or change of leadership, (c) management and implementation of cultural change, (e) developing and articulating the new vision, (f) adopting new standards, policies and practices across-the-board, and (g) on-going dialogue and information sharing with the clear and unmistakable message that things will be done very differently.

When the culture remains toxic and the climate negative, talented employees, who are always in demand, will go elsewhere. Similarly, good workers will choose to work for a company with a healthy corporate culture. Consequently, organizations with a toxic culture gradually bleed to death.

One fundamental truth is that all components in any organization are organically connected, such that their optimal functioning depends on their relationship with each other and with the organization as a whole. Similarly, all organizations are organically connected with the community and larger society. In other words, managers need to have the CC competency to manage the delicate
balances of a complex of relationships between different stakeholders.

Good managers need to be cultural architects, who are able to transform and shape organizational culture so that it will stay healthy in spite of turbulent social changes. Too many corporate managers are well trained in "hard", quantifiable, technical skills, but very poorly trained in "soft" skills, such as empathy, communication, validation, conflict management, and community building. Current interest in emotional intelligence is a good start, but competence in culture management requires a lot more than EQ.

Ethos of the market and profit margin naturally dominate business corporations. Drucker (1995) has identified the worship of a high profit margin as one of the deadly sins in management in a time of change. We need to reclaim the ethos of community to counteract the mentality that profit at any cost. We need to care for the physical, emotional and spiritual needs of employees. Ultimately it is the human system that is responsible for the success or failure of the organization.

Reference


Reh, F. J. (2002). Lessons learned from Enron: Say "No" to "Yes-men".

