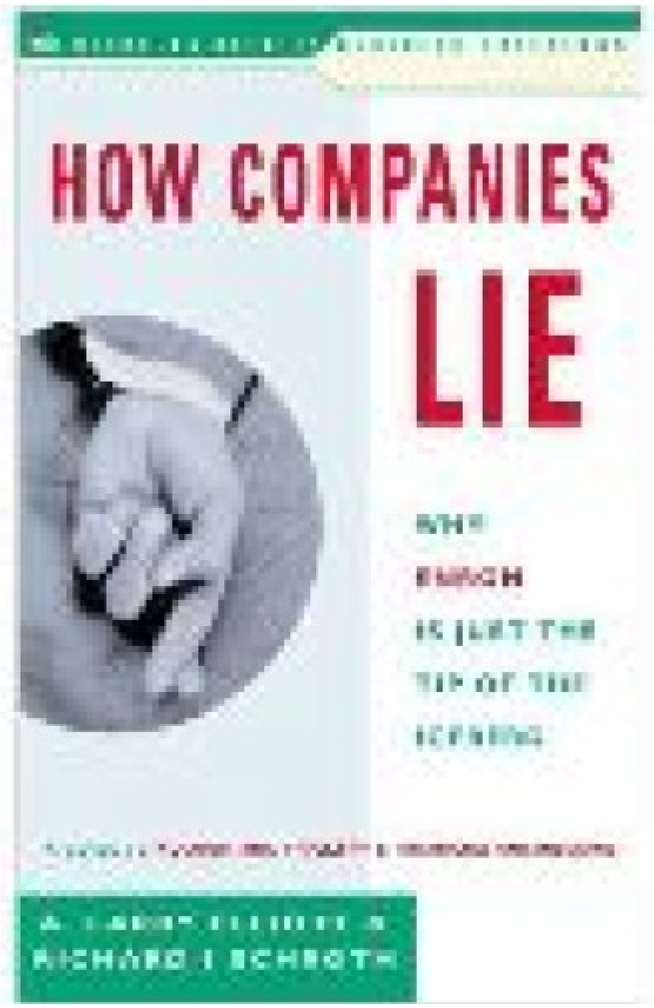
Enron, etc.

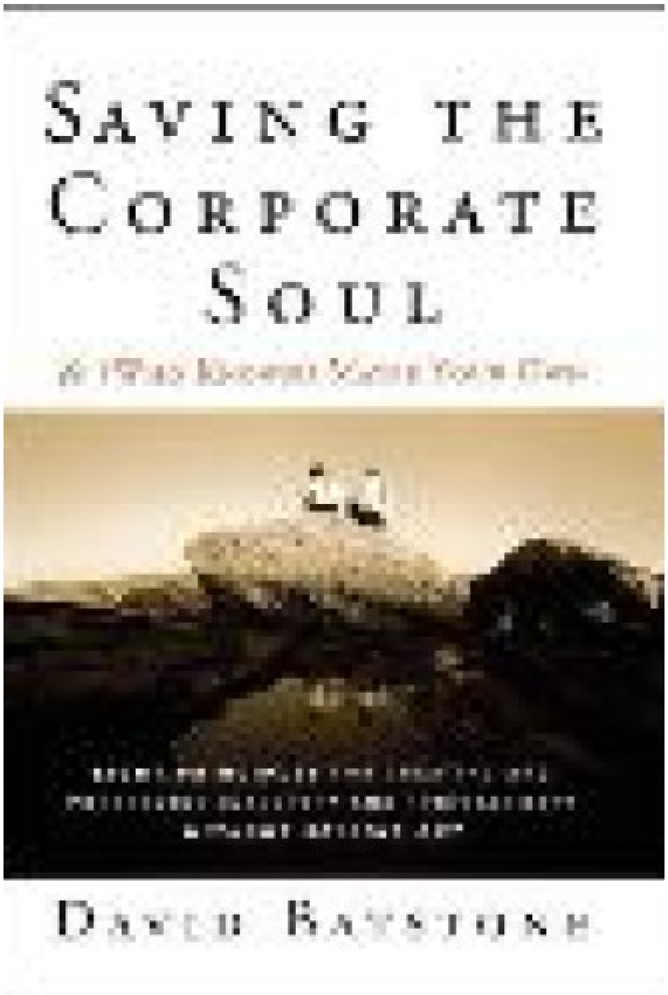
By Whitworth Ferguson III in the March 23, 2004 issue

In Review



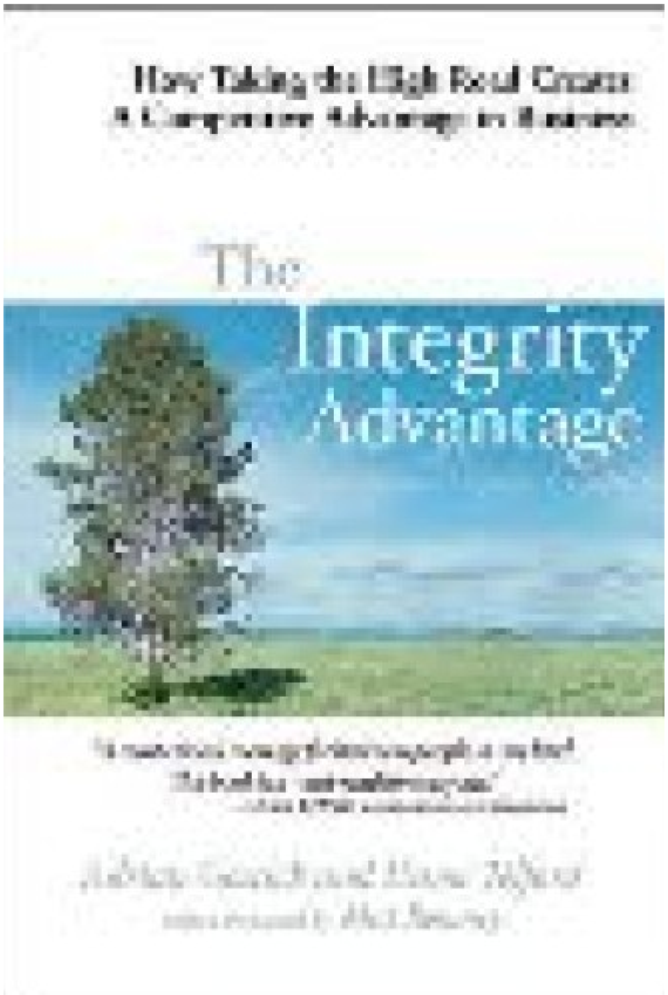
How Companies Lie: Why Enron Is Just the Tip of the Iceberg

A. Larry Elliott and Richard J. Schroth
Crown Business



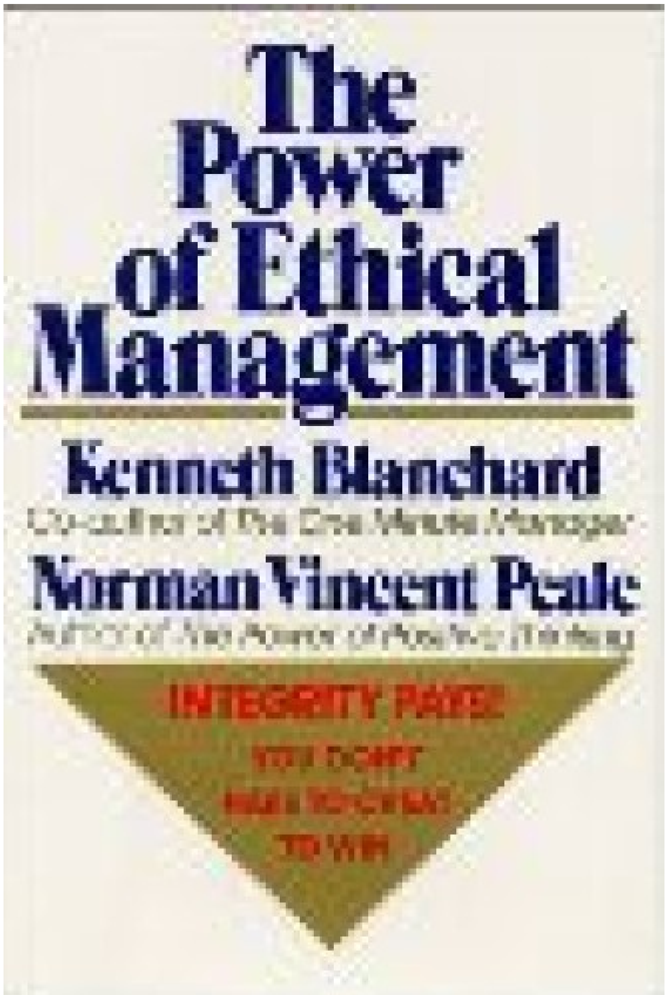
Saving the Corporate Soul and (Who Knows) Maybe Your Own

David Batstone
Jossey-Bass



The Integrity Advantage: How Taking the High Road Creates a Competitive Advantage in Business

Adrian Gostick and Dana Telford
Gibbs Smith



The Power of Ethical Management

Kenneth Blanchard and Norman Vincent Peale
William Morrow

Pity the poor business executive. Three years of a soft economy would have been challenge enough for even the most astute, but add in arrests, indictments, investigations and even “perp walks” and it’s a wonder that more corporations haven’t closed up shop. As a recent issue of the *Economist* observed, “Corporate leaders are having a rotten time. They are regarded with cynicism and mistrust everywhere. In America, the bosses of big companies command only slightly more respect in public opinion polls than used-car salesmen.”

The collapse of Enron, WorldCom, Tyco, Global Crossing and Arthur Andersen, and the huge payouts to top officers, have dominated the headlines over the past two years. Every time we thought we had heard it all, along came yet another scandal involving lots of money and lots of denials of wrongdoing. The prevailing attitude in corner offices seems to be “grab all the money you can while you can, and don’t worry about little things like ethics, morals or the law.”

CEO salaries have gone up precipitously in just one generation: 30 years ago many a CEO would have considered himself amply rewarded by an annual salary of $100,000, along with a car, a country club membership and a few other perks. Now, top CEOs look at $100,000 as meager compensation for a week’s work. Competition has escalated for positions offering the richest pay packages, aided and abetted by similar trends in professional sports and entertainment. These days a salary of $10 million isn’t enough, three or four houses aren’t enough, and a private jet is just the beginning of a string of perks. As riches glow ever brighter, it seems inevitable that for a growing number of executives ethical and legal boundaries would become shadowy.

Not surprisingly, a steady stream of books scrutinizing the behavior of corporate executives has followed in the wake of the scandals. Most of these are predictable, offering neither significant insights into the reasons for corporate misbehavior nor suggestions for new and better ways to delineate legal and ethical boundaries. But a few are worth perusing.

A. Larry Elliott and Richard J. Schroth use Enron as a template for what has happened to major corporations. Elliott and Schroth are corporate consultants intimately familiar with Fortune 500 companies. They believe that, as a result of the booming economy, a new management science not taught at business schools has arisen over the past decade: “managed mendacity.” A business culture that encourages taking any road to greater profits, including those that are illegal or unethical, has overtaken many of the largest, most prominent companies, Elliott and Schroth argue.

Top executives create an organization’s culture not by words but by actions. If those farther down in the ranks perceive that the chief executive officer and his senior executives condone virtually any behavior that will result in greater revenues and profits, a culture of “succeed at any price” will quickly prevail. Managed mendacity can be found in virtually every industry and every business, Elliott and Schroth contend. “The same processes are in play whether books are being cooked, tobacco executives are testifying that nicotine is not addictive, the airlines are telling you that flights are really on time and that security is being improved, or Ford is telling you that those Explorers are safe."

Elliott and Schroth argue for "transparency": a company's actions and all its financial statements should be not only accurate, but clear and easy to verify. They make a strong case for greater government regulation, especially by the federal Securities and Exchange Commission, as well as more stringent oversight on the part of corporate boards of directors. They suggest that companies take a lesson from the printing found on the right-hand mirrors of most cars and label their annual reports, "Caution: this company may appear more capable than it is." But Elliott and Schroth have little confidence that, without being pushed, top executives will make significant changes in their corporate cultures.

David Batstone, executive editor of *Sojourners* magazine, shows considerably more faith in the individual. In the second of his "eight principles for creating and preserving wealth and well-being for you and your company without selling out," he too argues for transparency: "A company's business operations will be transparent to shareholders, employees, and the public, and its executives will stand by the integrity of their decisions."

Batstone's focus on transparency gets at two issues that made Enron's situation so troublesome: the complexity of its transactions suggested that executives were deliberately attempting to hide actions they knew were fraudulent; and its top executives were eager to deny any knowledge of what their underlings were doing. If these trends continue, the Sunday morning prayer of confession may need rewording:

> Almighty God, I may or may not need your mercy, for I am neither admitting nor denying that I have transgressed. For I would come to you with a penitent and contrite heart, if I were guilty of sin, which I am not saying I am, and I am not saying that I am not. I may have turned from your love and your path, but I am confident that any such allegations made against me will in time be proven unfounded. For all these sins which I may or may not have committed, forgive me, even as I deny any specific need for forgiveness. Wash me clean and restore in me a right spirit, notwithstanding the fact that my present spirit may require neither washing nor restoration. Amen

While Batstone covers familiar ground, he makes the important but often overlooked point that a corporation does not exist by itself but is part of a larger community. Both the company and its staff have a collective responsibility to the larger society within which they operate. A company can still make a profit even as it seeks to be an honorable and responsible corporate citizen. The dean of management gurus, Peter Drucker, made this same point 50 years ago in his classic *The Practice of Management*: “If we want to know what a business is, we have to start with its purpose. And its purpose must lie outside of the business itself. In fact, it must lie in society since a business enterprise is an organ of society.”

Batstone picks up on another of Drucker’s prescient observations. Drucker stressed that executives who think that businesses exist solely to make a profit have put the cart before the horse: “Profit is not the explanation, cause or rationale of business behavior and business decisions, but the test of their validity.” Profit is the result of a successful business strategy, not the overarching goal.

Organizations of every size should have souls that can be easily discerned by the public, Batstone stresses. The soul of a company should not be the result of a creative public relations campaign; rather, it should be the collective result of the souls of every individual within the company. When senior executives create a culture that is without a strong ethical or moral foundation, the company will have no discernible soul.

Most employees don’t go bad overnight. Adrian Gostick and Dana Telford stress this point in their short, insightful book. “The erosion of a person’s integrity is rarely quick. . . . It usually occurs as a gradual slipping of standards that is hard to spot—and hard to stop—until it reaches a devastating end.” If top management works to create an ethical culture, the whole barrel is unlikely to go bad even if there are a few rotten apples. Gostick and Telford set forth a series of steps managers can take to create a healthy culture that has both soul and conscience.

In a time when so much has gone wrong with business ethics, perhaps we need the advice of a classic, *The Power of Ethical Management*, written in 1988 by Kenneth Blanchard and Norman Vincent Peale. This pithy book would make an excellent resource for a sermon series, as well as for a study group. It lays out “five principles of ethical power for organizations.” The first principle gives us a good description of an ethical organization: “Our organization is guided by values, hopes, and a vision that helps us to determine what is acceptable and unacceptable behavior.” Or, to put it in Batstone’s language, “our company has a soul.”

In an intensely competitive global economy, creating an organizational culture that stresses the importance of ethical behavior may seem like an impossible task. Those who want to behave ethically and morally may be told not to worry about cutting corners, because, after all, “everyone else is doing it.” As Stephen Carter has written, it isn’t simply a matter of understanding right from wrong and learning what the rules are; every employee also has to learn the “rules about following the rules.” The culture created by top executive officers makes very clear to employees which standards can be stretched and which must be followed. As any professional athlete will tell you, it’s a penalty only if the referee catches you.

Unethical, immoral or illegal behavior is neither new nor limited to the for-profit sector. We’ve seen it in charities, churches, schools, hospitals—everywhere. And we cannot assume that every company has “profit at any price” as its motto. These books are full of examples of companies both in the U.S. and abroad that pride themselves on having a strong ethical and moral culture.

Any of these books might be used to help a group consider how, in our highly competitive global economy, we should interpret Jesus’ teaching, “Whoever is faithful in a very little is faithful also in much; and whoever is dishonest in a very little is dishonest also in much” (Luke 16:10).