

THE FALL OF A WALL STREET DARLING

THE
ETHICAL
COLLAPSE
THE
BIGGEST
FINANCIAL
DEBACLE

ENRON SCANDAL



ASK WHY?
ASSHOLE
JEFF SKILLING (FORMER CEO)

IN EARLY DECEMBER 2001, ENERGY COMPANY ENRON CORPORATION, A DARLING OF WALL STREET INVESTORS WITH \$63.4 BILLION IN ASSETS, WENT BUST. IT WAS THE LARGEST BANKRUPTCY IN U.S.A AT THE TIME.

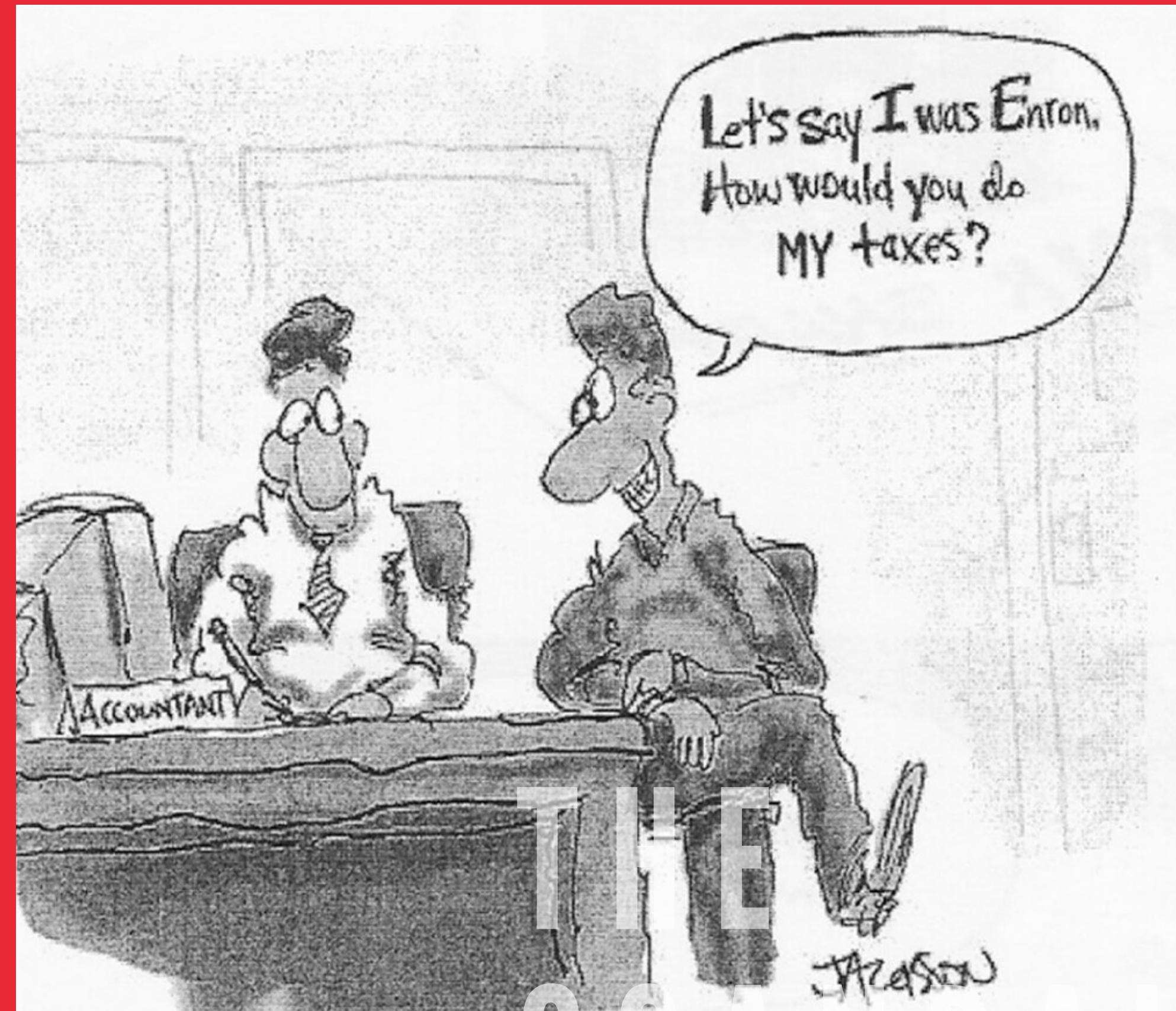
ENRON WAS FABRICATING FINANCIAL RECORDS AND FALSIFYING THE SUCCESS OF ITS COMPANY USING ACCOUNTING TRICKS AND LOOPHOLES

THESE UNETHICAL BUSINESS PRACTICES HIT HARD ON THEIR EMPLOYEES/INVESTORS AS THEY HAD INVESTED IN ENRON'S STOCKS

THE EMPLOYEES WERE FORCED TO NEVER SELL THE SHARES OF ENRON AND INFACt BUY MORE, SO THAT THE VALUE OF THE SHARE WOULDN'T FALL. WHEREAS, THE INVESTORS HAD BEEN FOOLED THROUGH THE PONZI SCHEME

THE COMPANY ENCOURAGED STRATEGIES SUCH AS SURVIVAL OF THE FITTEST, TO AGGRAVATE EMPLOYEES TO COMPETE AGAINST EACH OTHER WHICH CREATED A TOXIC CORPORATE CULTURE BY USING CORRUPTION, GREED AND DECEPTION.

THE AUDITORS AND ACCOUNTANTS, ARTHUR ANDERSEN SHRED TRUCKLOADS OF DOCUMENTS, WHICH IN ITSELF CAUSES CONFLICT OF INTEREST.



THE
SCANDAL

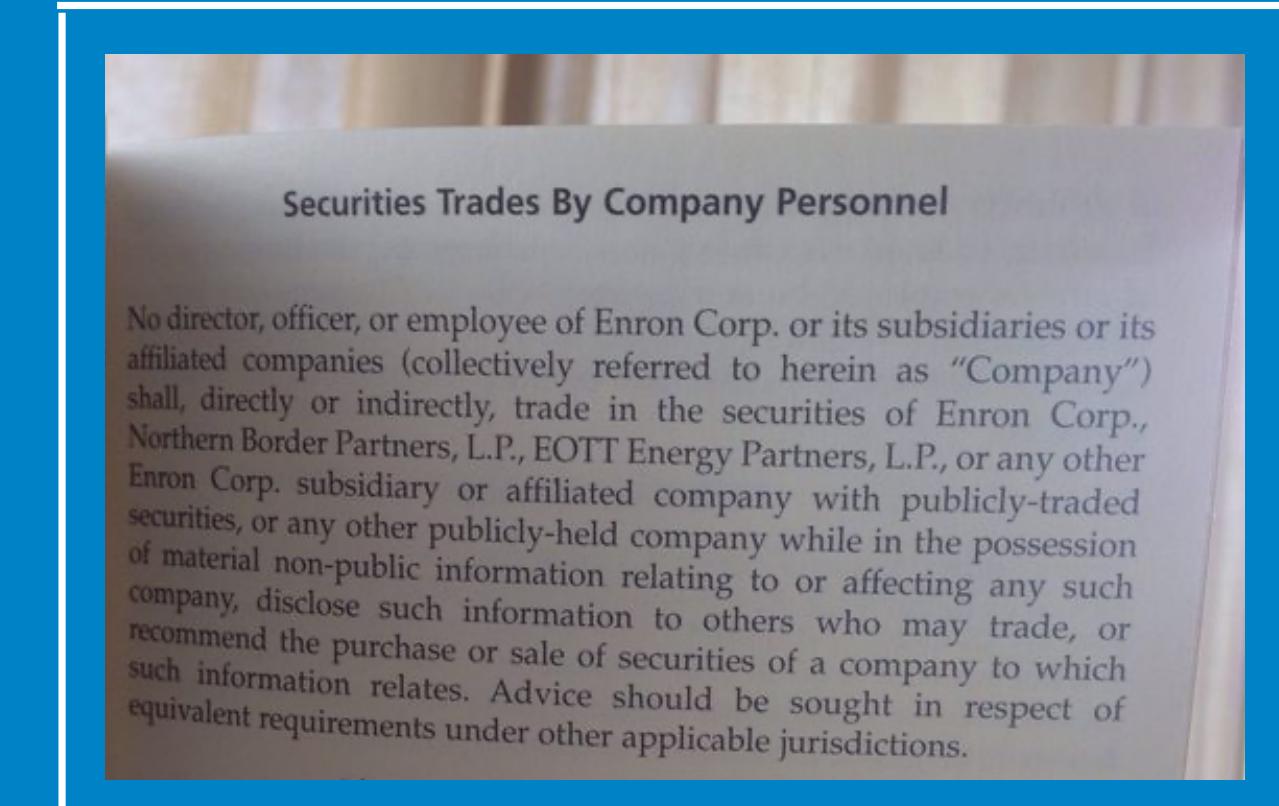


FRAMING

THE MAIN TENET OF FRAMING THEORY IS THAT A PROBLEM MAY BE SEEN FROM SEVERAL ANGLES AND UNDERSTOOD TO HAVE CONSEQUENCES FOR NUMEROUS VALUES OR FACTORS. THE PROCESS THROUGH WHICH PEOPLE CREATE A CERTAIN CONCEPTION OF AN ISSUE OR REORIENT THEIR THINKING ABOUT THAT ISSUE.

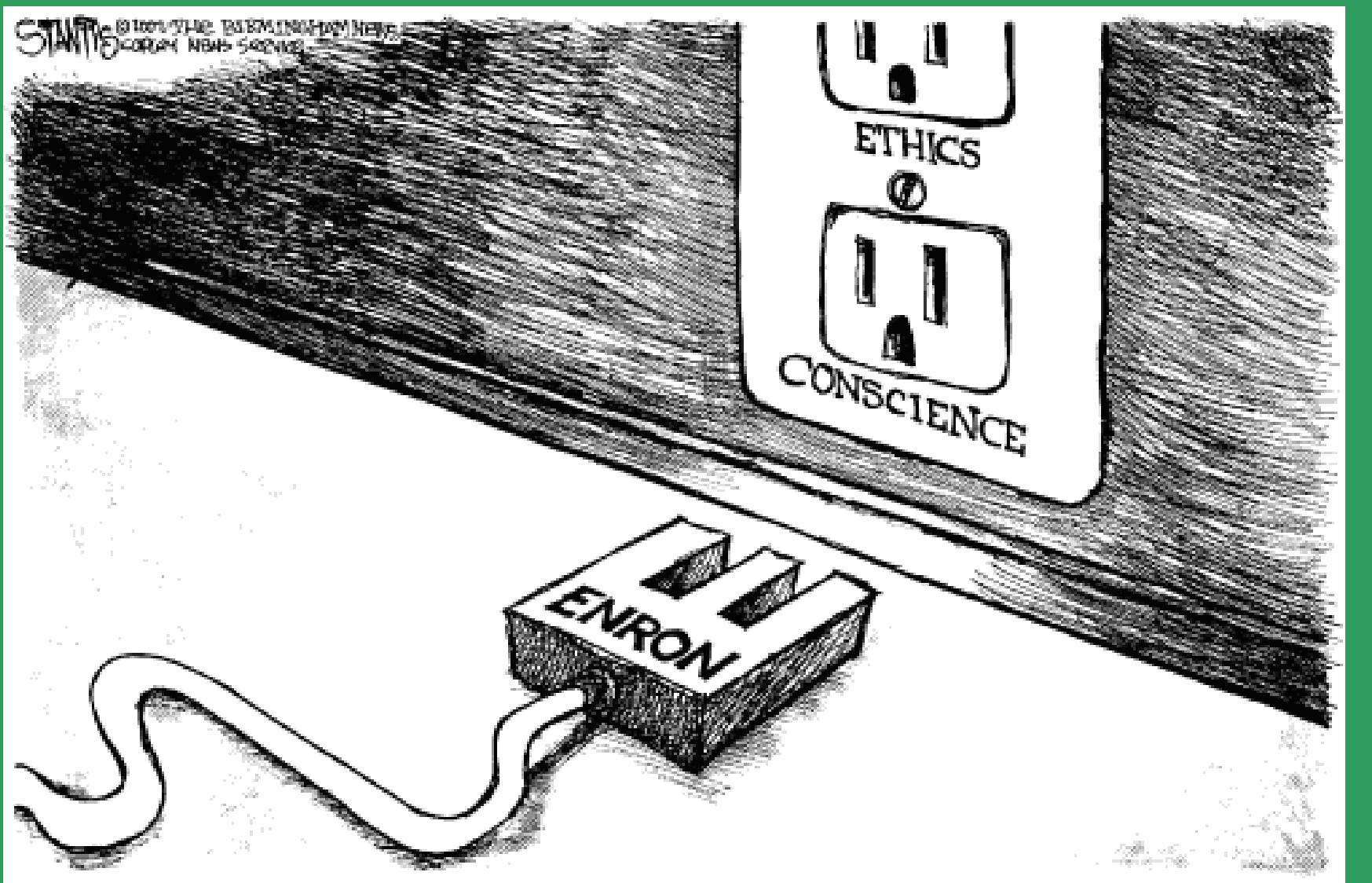
3 DIFFERENT ANGLES

- ENRON CEO KEN LAY WROTE A PUBLIC STATEMENT SAYING THAT ENRON "BELIEVES IN CONDUCTING BUSINESS AFFAIRS IN ACCORDANCE WITH THE HIGHEST ETHICAL STANDARDS"
- AT THE SAME TIME, TIM BELDEN, A KEY ENRON EMPLOYEE IN ITS ENERGY TRADING GROUP, NOTICED THAT CALIFORNIA'S "COMPLEX SET OF RULES...ARE PRONE TO GAMING."
- ANOTHER EMPLOYEE ADMITTED, "THE ATTITUDE WAS, 'PLAY BY YOUR OWN RULES.' ...THE ENERGY MARKETS WERE NEW, IMMATURE, UNSUPERVISED. WE TOOK PRIDE IN GETTING AROUND THE RULES."



ACCORDING TO THIS PAMPHLET, NO ONE IN ENRON COULD TRADE IN ENRON OR RELATED STOCK

LEVELS OF ANALYSIS



PERSONAL: THE SOLE AIM OF KEN LAY AND JESS SKILLING WAS TO MAKE AS MUCH MONEY FOR THEMSELVES FOR WHICH THEY MANIPULATED TO A HUGE EXTENT UNTIL THE BUBBLE BUST.

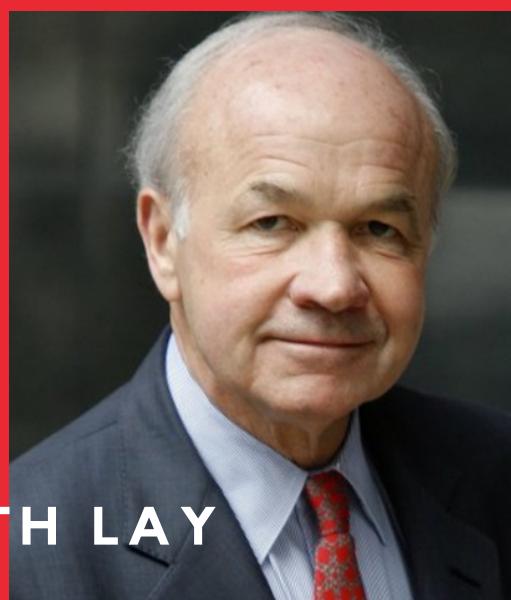
ORGANIZATIONAL: THE LEADERS FOSTERED A TOXIC WORK CULTURE THAT PERMEATED UNETHICAL BEHAVIOR OF THE REST OF THE EMPLOYEES (FOR INSTANCE NO ONE QUESTIONED WHY, BECAUSE OF THE HUGE SALARIES + BONUSES).

SYSTEMIC: THE BIGGEST FLAW IN THE LEGAL AND REGULATORY STRUCTURE WAS THE FACT THAT ARTHUR ANDERSEN WAS BOTH THE ACCOUNTANT AND THE AUDITOR. THERE IS ALSO A HUGE CONFLICT OF INTEREST WHEN ENRON CAN ISSUE A BLIND CHECK AND BUY THEIR OWN AUDITORS. BEING ABLE TO MANAGE THE PENSION FUNDS RESERVED FOR EMPLOYEES COULD BE USED TO THEIR ADVANTAGE WHEN IN NEED, WHICH IS EXACTLY WHAT THEY DID.

LEADERSHIP

LEADERSHIP

TRANSFORMATIONAL LEADERSHIP: BURNS (1978) DEFINES TRANSFORMATIONAL LEADERSHIP AS THE LEADERSHIP STYLE THAT CHANGES SIGNIFICANTLY THE LIFE OF PEOPLE AND THE SOCIETY IN WHICH THE LEADER OPERATES.

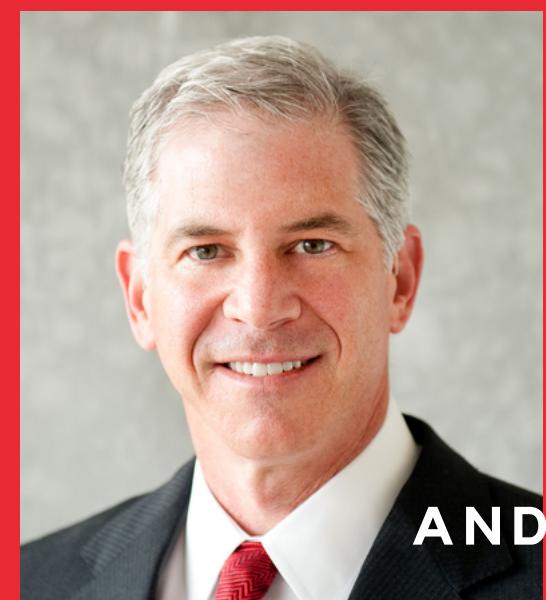


KENNETH LAY

JEFF SKILLING



ENRON'S DOWNFALL IS ATTRIBUTED TO QUESTIONABLE ACCOUNTING PROCEDURES, BUT SINCE SENIOR LEADERS WERE RESPONSIBLE FOR DRIVING THESE TACTICS, POOR LEADERSHIP IS ALSO TO BLAME.



ANDY FASTOW

KENNETH LAY SHOWED THE SIGNS OF BEING A TRANSFORMATIONAL LEADER FROM THE START OF HIS CAREER. THROUGHOUT HIS CAREER, HE HAS BEEN A SUPPORTER OF FREE MARKET AND FERVENTLY ADVOCATED DEREGULATION OF ENERGY MARKET. HIS PASSION FOR DEREGULATED ENERGY MARKET AND THE RESULTING PROFIT TO BE MADE OUT OF IT IS SAID TO CLOUD HIS ETHICAL JUDGMENT WHEN HE WAS AT THE HELM OF ENRON.

UTILITARIAN POINT OF VIEW: A FOCUS ON CREATING THE IDEAL OUTCOME FOR THE GREATEST NUMBER OF PEOPLE IS AT THE ROOT OF THE UTILITARIAN APPROACH TO BUSINESS ETHICS. UTILITARIAN ETHICS CAN BE USEFUL IN DECISION-MAKING, HELPING YOU IDENTIFY AN ETHICAL SOLUTION THAT WILL RESULT IN THE MOST GOOD. LIKE OTHER PHILOSOPHIES, HOWEVER, IT CAN BE SUBJECTIVE, AS IT REQUIRES YOU TO DEFINE WHAT "GOOD" REALLY MEANS

IS BUSINESS BLUFFING ETHICAL?

ECONOMIST ALBERT Z. CARR

"I REMINDED MY FRIEND THAT MILLIONS OF BUSINESSMEN FEEL CONSTRAINED EVERY DAY TO SAY YES TO THEIR BOSSSES WHEN THEY SECRETLY BELIEVE NO AND THAT THIS IS GENERALLY ACCEPTED AS PERMISSIBLE STRATEGY WHEN THE ALTERNATIVE MIGHT BE THE LOSS OF A JOB"

THE MAJOR POINT OF MR. CARR'S THESIS WAS BASED ON AN ANALOGY: HE CLAIMED THAT BUSINESS WAS LIKE A GAME THAT OCCASIONALLY REQUIRED SPECIFIC STRATEGIES TO WIN.

SIMILAR TO BLUFFING IN POKER, CERTAIN STRATEGIES COULD BE AGAINST THE PLAYERS' PERSONAL MORAL CODES. HOWEVER, THESE ACTIONS ARE JUST AS "ETHICALLY JUSTIFIABLE" WITHIN THE BUSINESS CONTEXT AS COMPARABLE POKER STRATEGIES ARE.

ACCORDING TO THIS PERSPECTIVE, SUCH CONDUCT HAS NO MORE BEARING ON A PERSON'S MORAL CHARACTER THAN DOES POKER BLUFFING.

JEFFERY SKILLING ONCE SAID, "I'VE NEVER NOT BEEN SUCCESSFUL AT BUSINESS OR WORK...EVER!"



THANK YOU FOR
LISTENING!