**CASE STUDY 5**

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**Ethical Contradictions and E-Mail Communication at Enron Corporation**

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This case study examines the degree to which moral silence can negatively impact decision making in an organization, including its ultimate collapse. It addresses the difficulties of overidentification with an organization that may limit employees from raising concerns and confronting coworkers’ behaviors. In addition, it also explores how the value of profit above all else created ethical dilemmas of truth versus loyalty and the individual versus the community.

Enron Corporation’s epic failure in the waning months of 2001 has become a legendary representation of unethical corporate behavior. Numerous popular press and scholarly articles have been written about the company’s failure in terms of its questionable accounting practices, pretentious corporate bragging, aggressive business tactics, and unethical internal culture. Many articles about Enron’s failure have focused on who is to blame (e.g., its officers, board, accountants, and legal team). Other articles have focused on what is to blame (e.g., Enron’s culture, accounting norms, or lack of government oversight). In between these two positions are articles that focus on ego and greed (Stein, 2007) as motivations for the unethical behavior. We take the position that it is also important to focus on how and why such a blatant disregard for ethical behavior was able to reach the level it did at Enron. We ultimately argue that employees’ overidentification with the corporation and its values of profit and greed led them to look the other way until it was ultimately too late. Some people eventually began to question management ethics but not until it was clear to them that the company was about to collapse. The behavior of those inside the organization early on in the company’s life, then, can best be characterized by Bird’s (1996) concept of moral silence:

Although they possess moral concerns, many businesspeople do not actively and forthrightly voice these convictions in relation to their work. They do not confront colleagues who are engaged in questionable activities. They fail to speak up forcefully for their ideals. They fail to bargain as hard as they might for their convictions.… People who are morally silent fail to voice and often thereby fail to act upon moral convictions that they in fact hold. (p. vii)

Moral silence, Bird (1996) said, is often reinforced by moral deafness and blindness—or the refusal of some in the organization (namely management) to acknowledge or even recognize patterns of unethical behavior in the organization.

We examine the case through Enron employee e-mails to CEO Ken Lay, which are available in the Enron E-mail Corpus. The analysis reveals the often-insidious nature of strong organizational cultural indoctrination both in terms of praise for leadership and a failure to ask questions or challenge certain actions. An overidentification with the company’s leaders and values of profit above all else created ethical dilemmas of truth versus loyalty and the individual versus the community. On the one hand, although employees may have at least sensed that management was being dishonest with internal and external stakeholders, the overidentification created a sense of loyalty so strong they were willing to ignore these suspicions. Enron’s strong organizational culture of “Enronians,” on the other hand, created a collective sense of being among employees so much so that for many their individual thoughts and beliefs became secondary to those pushed by the leaders and culture. Tourish and Vatcha (2005), in fact, argued that Enron was a company of employees who bought heart and soul into the company’s leaders and their vision. In essence, the e-mails reveal that Enron employees engaged in moral silence, blindness, and deafness—ultimately setting the stage for the company’s dramatic and catastrophic collapse. In addition, we argue that e-mail played a significant role in employees’ ability to finally question management behavior and push back against certain value systems that led to unethical behavior.

**THE ENRON SAGA**

The Enron saga has been well preserved by journalists (Bryce, 2002; McLean & Elkind, 2003) and corporate insiders (Cruver, 2002; Swartz & Watkins, 2003), as well as documented on film (Gibney, 2006); we leave the broad story to those sources. The very brief version of the saga is this:

Enron Corporation was created in 1985 through a merger; Ken Lay was the CEO. Jeff Skilling joined a division of Enron in 1989 and became president and chief operating officer (COO) of Enron Corporation in 1996. During those years, Enron transformed itself from a pipeline company in which it developed, built, and operated electrical power plants and natural gas pipelines to a trading company in which Enron employees both speculated on and influenced the supply of energy commodities. During the Lay and Skilling reign, Enron (1) articulated respect, integrity, communication, and excellence (RICE) as its corporate values; (2) was labeled as the one of the country’s most innovative companies; and (3) grew from 7,500 to 20,000 employees. Also, during that time, Andy Fastow was appointed chief financial officer (CFO); he developed off-balance sheet deals and partnerships (i.e., special purpose entities [SPEs]) to conceal Enron’s poor cash position despite its rapid increase in stock value. The first negative press about Enron appeared in spring 2000 but was largely ignored; Enron stock continued to increase in value. By spring 2001, the press was asking, “How does Enron make its money?” In late spring, employees questioned why Lay and Skilling and other executives were selling their Enron stock; this event was followed by massive layoffs. Skilling resigned in August 2001 amid press skepticism. The next day, Sherron Watkins—the Enron executive who eventually blew the whistle on the scandal—sent a confidential memo to Lay describing the accounting problems. Lay took no action. But in the next 2 weeks, he sold $20 million in Enron stock while telling employees that the company was in strong financial shape and that the stock was a good buy. In October 2001, Fastow and his limited partnerships were exposed by the Wall Street Journal; he was replaced as CFO. In November 2001, Enron tried to merge with rival energy company Dynegy; Lay was poised to receive a $60 million parachute, but the merger failed. Enron was out of cash and declared bankruptcy on December 1, 2001; thousands of employees were fired and lost their retirement savings invested in Enron stock.

More important to this particular case is the organizational culture of Enron, which we argue was a powerful aspect in the company’s rise and fall. The company’s “cultish” culture is described next.

**ENRON’S “CULTISH” INTERNAL CULTURE**

Widely accepted as the set of artifacts, values, and assumptions that emerge from the interactions of organizational members (Keyton, 2005), Enron’s organizational culture changed as the company’s vision of itself changed. In terms of strategic vision, the change was staggering. First promoting itself as wanting to become the premier natural gas pipeline in North America, Enron later envisioned becoming the world’s leading energy company and, finally, the world’s leading company. RICE were the values Enron promoted and referred to as the organization’s code of ethics (Cruver, 2002).

With those changes (the epic nature of these transformations to the new economy is well captured by Boje [2005]), guys who worked on the pipeline were replaced with traders and other deal-making executives. With those changes, values and assumptions about business practice changed as well. For example, CFO Andy Fastow is described as having “cleverly designed a scheme” (Wilson & Campbell, 2003, p. 7) based on manipulation of accounting practices, which then required manipulation of communication within the executive suite and to the board, outside investors, and employees. Enron’s value of integrity was certainly at play. For the off-balance sheet deals, or SPEs, to work, the board was not given a full disclosure of information, subordinates were pressured to enact the questionable and speculative transactions, and auditors were paid to not reveal what they knew (Wilson & Campbell, 2003). On two occasions, Enron’s board of directors voted to set aside its code of ethics to approve Fastow’s deals, a prime example of the company’s lack of transparency in decision making.

Although touted initially as an admirable value, Enron’s value of communication eventually became suspect. Sherron Watkins (Swartz & Watkins, 2003) described how her questions about risk were not answered completely. The troubling conclusions she, as vice president of corporate development, presented in a memo to Ken Lay were met with silence from other executives and passed off by Lay with “Don’t ask me, I thought Arthur Andersen [Enron’s accounting firm] has signed off on this, I’m certain it’s been blessed, they’ve scrubbed it, and you’ll just have to ask someone other than me” (Swartz & Watkins, 2003, p. 9). Evidence later revealed that Arthur Andersen was simply a part of the larger scheme and went bankrupt along with Enron.

It is now obvious that Enron’s top executives showed only a token commitment to the organization’s RICE values (Prentice, 2003). The oft-promoted RICE values were overshadowed by a deal- and bonus-driven top management that looked the other way (Chandra, 2003; Cruver, 2002). It’s not surprising then that Enron’s culture was routinely labeled as arrogant (Chandra, 2003), aggressive, and morally flexible (Ghosh, 2008). For employees, rank and yank was a poignant reminder of this contested culture.

**Enron’s Rank and Yank Culture**

One of the first things Skilling did when he was named president was to implement Enron’s Performance Review Committee (PRC), otherwise known as “rank and yank,” and “bag ’em and tag ’em” (Bryce, 2002, p. 127). In the PRC, associates were responsible for evaluating their peers, which caused a great amount of distrust and paranoia among employees. In contrast to the more traditional 360-degree performance review, the bottom 15% to 20% of evaluated employees were let go. Even more humiliating, the reviews were conducted in a public forum in which many employees were sent to the “redeployment” office or “office of shame” where they looked for work in other (often new) Enron divisions (Swartz & Watkins, 2003). According to Sims and Brinkmann (2003), Enron’s reward system established a “win-at-all-costs” focus in which aggressiveness and greed were core values. The company’s leadership promoted and retained only those employees that consistently helped boost the company’s profits, with little regard to ethics. Beyond the push for high performance, dissent was discouraged, and employees did not dare question management’s decisions (Bryce, 2002). This set up an atmosphere where employees lacked the ethical courage to step up and speak out against what they recognized as potentially unethical behavior.

Despite the level of apprehension or uncertainty employees felt in this aggressive, fear-laden culture, many still felt extreme pride and loyalty to the company and its leaders, especially Ken Lay (see Trinkaus & Giacalone, 2005). Enron was one of the largest companies in the United States, and to many employees, it seemed invincible. One employee told the New York Times the following:

You either got with the system or you were out the door. You could feel the excitement at 6 a.m. You walked in the door and got energized, all those creative juices flowing. You worked with the best, the most brilliant. It was a great, great company. (Bragg, 2002, pp. 15–16)

Simultaneously, Enron employees heavily invested in Enron stock (both as investors and in their retirement accounts) saw the increase in their accounts even when the tech stock bubble of 2000 burst. For some, employee loyalty may have been enhanced by their new wealth. As we discussed at the beginning of this case, this played a role in setting up the truth versus loyalty dilemma. Not only was loyalty strong because dissent was discouraged but also because of the handsome rewards for ignoring any kind of dishonesty.

Not surprisingly, many employees referred to the company’s culture as nothing short of cultish. In particular, the charismatic leadership of Ken Lay and Jeff Skilling had many employees star struck and in awe. “There was a compelling and totalistic vision, and intellectual stimulation aimed at transforming employees’ goals while subordinating their ethical sense to the needs of the corporation” (Tourish & Vatcha, 2005, p. 475). How did Enron do this? Its leaders promoted a common culture, which was maintained by punitive means (Tourish & Vatcha, 2005). Thus, a conundrum existed: Enron was an organization that was supposed to be integrated by its RICE values (see Seeger & Ulmer, 2003) but in reality, was driven by aggression, competition, and greed.

**E-MAIL MESSAGES FINALLY SHOW DISSENT**

The compelling and totalistic vision is evident in e-mail messages from employees to Ken Lay earlier on in the company’s life when the stock price was soaring. It is clear in these messages that employees either bought wholly into the culture of greed or were too afraid to question it given the oppressive culture. Most of the messages during this time—from the beginning of the database in 1997 until Jeff Skilling’s departure on August 14, 2001—are mundane, business-related e-mails with little emotion or discussion about the company itself. The e-mails that do show emotion or discuss the company are in praise of it or Ken Lay. Here are some examples:

“I am proud to be a part of this team and look forward to many years of prosperity and success.”

“Without your guidance and direction and the many employee-based programs you have initiated, I would not be where I am financially today. I am looking forward to retirement without concern for me or my family’s future.”

“Here in my group, and all over Enron, I see people working hard while some even go above and beyond. I am in my mid-thirties and will speak for so many in saying THANK YOU for your hard work, great planning and sacrifice made in the early years long before we came here to enjoy all the extra benefits provided. My family and I, along with so many others, appreciate the rewards you provide for hard work.”

There is a stark contrast, however, in the language used in e-mails to Ken Lay after August 14, 2001—the day Skilling resigned. E-mails from that day until the company’s demise reveal employee dissent and a great deal of emotion in the form of anger, sadness, and desperation. In many of these messages, employees talk specifically about ethics. Here are some examples:

“The ‘portfolio problem’ is not loss of value, rather lack of values—people need to get some personal values that are worth a damn!”

“I noticed how little confidence the top executives at Enron had in this company when they sold off hundreds of millions of dollars in stock between November and February. Many of us see that as the beginning of the moral bankruptcy at the top of Enron.”

“I believe ultimately justice will come to fruition. Reputations have been destroyed which in my opinion is more important to any amount of money or financial gain. Without integrity a person has nothing!”

“For the first time in 22 years of service for Enron I’m ashamed to admit that I work for Enron! I have lost all respect for Enron Senior Management and agree with the Financial Analyst when they say that Enron Senior Management cannot be trusted. Ethics and Morals are either something everyone else needs to have except Senior Management or somewhere along the way Senior Management started believing the end justifies the means.”

In other messages, employees show extreme anger and disrespect toward Lay. One e-mail, for example, signed as being sent by “Just another fucked over employee” said, “I particularly like your adherance [sic] to the core values—you ‘respected’ us, you ‘communicated’ brilliantly with us, you’re fucking us over was ‘excellent’, your ‘integrity’ was without question.” Another message also taunted Lay over the company’s values statement:

Every month in our team meetings we go over Enron’s vision and values and describe what each one means to us. Little did we know that we were the only ones paying attention to what they stood for. Can you tell me what each one means to you right now? RESPECT? INTEGRITY? COMMUNICATION? EXCELLENCE? I am trying to keep my head up when people ask me what happened, but it is getting harder all the time. I have stopped trying to defend you and the others that are involved.

**VENTING OVER E-MAIL**

Given Enron’s internal culture—one that demanded an unemotional drive to succeed and an unquestioning loyalty and trust of the company’s leaders—the content of some of the e-mails toward the end of the company’s life cycle are remarkably emotional. E-mail as a communication medium provided an outlet for Enron employees to vent their frustrations and question the company’s ethical shortcomings. In this sense, e-mail served as an actor in the Enron network, capable of changing the ongoing interaction within the network among employees and management. Actor-network theory (Latour, 2005; Law, 1992) posits that objects, such as e-mail, when used in organizational life are all a part of what makes the organization and the communication what they are. Thus, e-mail has the power to both stabilize and change networks and relationships just as human actors do. In reviewing hundreds of e-mails in the Enron database, it is clear that employees did not express heightened emotion via e-mail during Enron’s prosperous times. The medium, then, was in many ways responsible for the actions of the human users as they attempted to cope with the company’s problems. The Enron database gives us a glimpse of the effect that technology has on human users. Thus, employee e-mails to Lay were depositories for emotions but also acted in combination with employees, who first accepted and enhanced the culture then later challenged it. Yet, as the data from the Enron Corpus show, while e-mail had previously not been used for such purposes, employees eventually used e-mail as a tool enabling them to buck these cultural tenets and finally begin to publicly discuss the unethical behavior that had thus far been ignored. The irony is this: If the employees had felt empowered to use e-mail to Enron’s top management to express their opinions and emotions from the beginning, the company might very well have survived. In the sense of social networking and commenting on Enron’s culture, e-mail serves as an enabling agent for employees not only to express themselves but also to share important ideas and concepts that could improve operations and make things more ethical. Diesner, Frantz, and Carley’s (2005) research on the corpus demonstrates that e-mail exchanges peaked during the August 2001 (the same month Jeff Skilling resigned) period of the company’s crisis and that the number of people involved in these exchanges also increased. They concluded that the patterns suggested that subcultures had formed and that “previously disconnected people began to engage in mutual communication, thus strengthening the cohesion of the system” (Diesner et al., 2005, p. 214).

**ORGANIZATIONAL OVERIDENTIFICATION**

Cheney and Tompkins (1987) argued the following: “Many an organization has been ‘shipwrecked’ because of an unshakable commitment to an otherwise unwise course. Overidentification with a course prevents the navigator from seeing other courses, other options” (p. 11). Cheney (1983) said organizational identification occurs when employees make decisions with the organization as the primary concern—above their own individual interests. It could be argued that an overidentification among employees with the organization and its course is, in part, what led to the “shipwrecking” of one of the world’s largest companies. This identification came about as a result of certain discourses in the organization that prevented both leaders and employees of the company from seeing other courses or options.

The e-mails in the Enron database provide a unique opportunity to see the identification process at work in situ, or as it occurred, while at the same time providing insight as to how communication technologies contribute to the process. It also provides insight as to how employees’ organizational identification may change over time. Employees’ e-mails to Ken Lay clearly demonstrate a change in how they referred to the company once they realized the company and its values were not only unethical but were contributing to the company’s demise. The messages from this time period praising Ken Lay, for instance, could indicate overidentification—messages containing phrases such as “Thanks to you my financial position far exceeds what I had ever thought would be the case,” “Without your guidance and direction… I would not be where I am financially today,” and “THANK YOU for your hard work, great planning and sacrifice in the early years.” In this sense, they are identifying with Lay on the level of messianic leader in a manner that Tourish and Vatcha (2005) argued is indicative of cults. By contrast, the e-mails toward the end of the company’s life reveal a dis identification with the organization and its leaders. Messages with phrases like “trust was misplaced and worth nothing,” indicate a move toward identification with ethical values over monetary values. This move becomes even stronger in the messages dealing almost solely with metaphors of ethical values, such as “People need to get some values that are worth a damn!” “Reputations have been destroyed,” “Without integrity a person has nothing,” “Morals are either something everyone else needs to have except senior management” and “moral bankruptcy.” These messages indicate a disidentification with the company’s profit-driven goals, but also with the company’s leadership.

**MORAL SILENCE, DEAFNESS, AND BLINDNESS**

We argue that an overidentification with the company’s values of profit and greed is what led to moral silence, deafness, and blindness among Enron management and employees. This overidentification set up the tensions discussed earlier of truth versus loyalty and individuality versus collectivity. Employees in many ways did not want to see the truth as a result of their extreme loyalty to Enron, its management, and value system. Can an employee tell or ask for the truth at the same time he or she acts loyally toward the company? At what point does the organizational collective negatively influence individual morality and courage? These tensions set up the recipe for moral silence, deafness, and blindness as Bird (1996) defines it. There are several contributing factors, according to Bird (1996), for moral silence, deafness, and blindness. Moral silence involves avoiding any kind of action against unethical behavior. Moral deafness involves an unwillingness to listen or an inattentiveness when approached about unethical issues. And moral blindness includes failing to see problems and the ensuing consequences of unethical behavior. It is clear that Enron employees engaged in moral silence on a number of levels by not speaking up earlier about obvious unethical behavior. We could also argue, however, that employees also engaged in moral deafness and blindness given the lavish rewards they received for engaging in questionable behavior in the name of profit. Certainly, Ken Lay engaged in moral deafness when he ignored warnings from Sherron Watkins. There are also signs that he engaged in moral blindness, by failing to see or acknowledge Andy Fastow’s questionable SPEs. Conditions for moral silence, deafness, and blindness involve three main factors (Bird, 1996): (1) cultural, (2) individual, and (3) organizational. Cultural factors include “a dominant economic philosophy of rational self-interest” (Johannesen, 2002). That philosophy was one of greed at Enron. Indeed, many have argued that Enron’s management and employees engaged in ethically suspect behavior because of that culture of greed at Enron. Individual factors include fear or feelings of vulnerability or lack of control over situations. It is possible that employees took no action earlier on, because of the performance review committee, and Enron’s ability to squash and penalize dissent. And finally, organizational factors do include the penalizing of dissent as a reason for not coming forward or questioning unethical behavior.

**SUMMARY**

As artifacts of the day-to-day communication in Enron, e-mails from employees to Ken Lay illustrate how an organizational culture can perpetuate and sustain unethical and even illegal practices. The oppressive culture is evident in that there are few e-mails questioning management’s practices until the unethical behavior was publicly revealed. And, despite the e-mails shown here, and reports of other e-mails that were apparently deleted from the Enron Corpus (see Boje, 2005), warnings about improprieties in accounting and concerns about the degradation of Enron’s values were largely ignored in favor of profits and power. Beyond this, the e-mails reveal the often-insidious nature of strong organizational cultural indoctrination. Even as the company was collapsing around them, many employees continued to praise both Ken Lay and the espoused corporate values, which were no longer being enacted. Other e-mails to Ken Lay, however, reveal a rising subculture of employees that not only questioned the company’s leadership and lack of values but expressed an unusual display of vitriolic emotion.

Employees in both subcultures could arguably be characterized as delusional. E-mails from the loyalists revealed their continuing commitment to and belief in Lay as a leader. Even if Enron employees were not aware of the few negative press stories, their vested interest in Enron stock, which was rapidly plummeting, should have suggested that something was wrong. In essence, the e-mails reveal that Enron employees also violated the RICE values. They portrayed unfailing respect for leaders, lacked the integrity to address the violation of moral and ethical principles, failed to communicate by not asking questions, and allowed themselves to be subordinated to the excellence of others. They were “distracted from truth seeking” by allowing themselves to be economically manipulated and swayed by information asymmetry (Boje, Adler, & Black, 2005, p. 52). The e-mails provide a rare look at upward communication during times of crises and, in particular, help explain how a company’s culture can become so dominant as to blind employees to larger issues that could challenge their own personal ethos.

**DISCUSSION QUESTIONS**

1. What are employees’ obligations in dealing with unethical issues in the workplace?
   1. When dealing with unethical issues in the workplace, it is up to the employees to speak up about it. This could be something as simple as going to HR, or even going to the press to expose the corruption going on. Regardless, it is up to the employees to speak up and whistle blow.
2. What is management’s obligation to employees when they are confronted with potential unethical behavior in the workplace?
   1. A manager’s obligation when confronted with unethical behavior is to put a stop to it. This could mean firing an employee or holding a meeting to address the actions taking place. The manager has to handle the situation, eliminate it, and then address any repercussions that may arise in the wake of handling the situation.
3. What systematic issues need to change in order to stop unethical behavior as a result of corporate greed and corruption?
   1. Transparency is a huge issue regarding corruption. This has been seen through Enron, Theranos, Activision Blizzard, and many other companies. If leadership has to be transparent to the public, employees, and the board, they are less likely to have corruption. Transparency about salaries also will help with corporate greed. There needs to be a system of checks and balances for all positions within a company.
4. What role do communication technologies play in Enron employees’ ability to communicate with management about unethical issues?
   1. Communication technologies played a huge role in the situation at Enron. They were exposed through emails. Employees are also more likely to use an anonymous report line than to confront someone in person. When employees are able to feel safe and free from negative repercussions, they are more likely to report unethical behavior.
5. Can employee action against unethical behaviors such as those at Enron make a difference in a culture so entrenched in greed as it was at Enron?
   1. Employee action could have made a difference, even in toxic cultures such as Enron. Employees could have exposed the corruption publicly. They could go to the press about what was going on. Employees could have also reached out to board members, stakeholders, and anyone else they could. Employees could have staged a strike until there is a plan in place to address the toxic culture.
6. If employees had been willing to question management earlier on, could it have made a difference? If you were an employee, how would you expect the values of respect, integrity, communication, and excellence to be enacted? Would your expectations be different if you were a member of management?
   1. If employees feel comfortable questioning management, it can help eliminate a lot of issues. This means there is no culture of fear of repercussions. Employees should be able to speak up about concerns, and management should take those concerns into account. I would expect to be respected, both as a human and as an employee. I would expect open and honest communication with management, even if it includes something the other party does not want to hear. I would expect management to have integrity and strive for excellence, then I would do the same.
7. Thinking of your current and past work experiences, how willing would you be to write an e-mail to the CEO, president, or founder of the organization about some problem you observed in the company?
   1. I would be very willing to write an email to C-suite leadership. At my company, they all have been incredibly welcoming and open to all employees. During meetings, everyone is respected and allowed time to speak if they want. I know that if I had a concern, I could write an email or schedule a meeting, and my concern would be heard by management.