Wisconsin State Journal

OPINION

FRIDAY
MAY 26, 2006

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A10

GUEST COLUMN

Don't make your firm an Enron

By DENIS COLLINS

Ken Lay and Jeff Skilling were both found guilty of lying. They tried hard to hide their lies to shareholders and potential investors, but there were just too many of them.

Lay was found guilty on six counts of fraud and conspiracy. Skilling was found guilty on 20 counts of fraud, conspiracy, and insider trading. The government was being lenient, there were many more instances of lies to stockholders and government officials that they could have been indicted on.

According to research, we all lie. I do, and I'm an ethicist with an overactive conscience! The difference between my lies and that of a CEO of a $100 billion corporation is that a CEO is playing with other people's money.

How much is your organization like Enron? Maybe more than you would like to admit. Enron fell into the trap of many other businesses — too much debt. The company's debt problems began at the time of its creation in 1985. Enron tried to pull itself out of debt by rewarding executives based on revenue and stock price growth, not profits.

So guess what Skilling focused on — revenue and growth, not profits. Unfortunately, beginning in 1992, Skilling started padding revenue to meet quarterly targets. This made meeting future quarterly goals more difficult. Wall Street expected Enron to increase revenue by 15 percent every quarter. Fifteen percent of the previous quarter's phony revenue calculation is a bigger phony revenue calculation. This went on for nearly a decade.

How did Enron get away with this for so long? The auditors, Arthur Andersen, were quieted by $50 million in auditing and consulting revenue and a very tricky Andy Fastow. Lawyers and Enron board members were also quieted by lucrative consulting contracts.

The fraud got so out of control that in 2000, Enron reported $100 billion in revenue, good for #7 on the Fortune 500 list. In reality, according to some insiders, Enron really only had $6.3 billion in revenue. This would have been good enough for #287 on the Fortune 500 list, but that was not good enough.

The pressure got to Skilling in 2001. When he resigned, Lay found out that his pride and joy was smoke and mirrors. Enron had more than $7 billion in hidden losses, something he chose not to report on the 2001 third-quarter financial statements.

Becoming another Enron might sound ludicrous because Enron was a Fortune 500 company, and your's isn't. However, Enron was managed by fallible human beings, just like your company. What can you do about it? Plenty.

Basic solutions you can do immediately include:

- Hire employees with the appropriate values
- Make your code of ethics a living document
- Your managers must be moral role models

Not even $30 million lawyers could keep Lay and Skilling out of jail. You might as well just do the right thing.

Collins is Professor of Management at Edgewood College. His latest book is "Behaving Badly: Ethical Lessons from Enron," *http://business.edgewood.edu/behavingbadly*.