The lesson of Enron: Even nice guys can lie

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PEOPLE CLAIM THAT FORMER ENRON CHAIRMAN Ken Lay is one of the nicest guys in the world. He grew up in rural poverty as a Missouri farm boy. His father was an ordained Southern Baptist preacher and Lay internalized these values.

So where did this nice religious farm boy go wrong, precipitating one of the biggest scandals in U.S. business history? He slowly traveled down a slippery slope that bottomed out.

Back in 1985, Enron came out of a merger with too much debt. Lay hired Jeffrey Skilling to deal with the problem, who in turned hired the best and the brightest.

Unfortunately, Lay, who avoided confrontations, did not hold his very competitive star employees accountable to Enron's widely acclaimed Code of Ethics. Beginning 1992, nine years prior to the company's tragic implosion, Skilling and Andy Fastow did whatever they could, including padding revenue, to surpass quarterly revenue targets.

How did Enron get away with this for so long? Skilling and Fastow controlled the company's performance appraisal system. Loyalists willing to do what it took to meet revenue targets were promoted and received lucrative bonuses. Those unwilling to support the unethical bullies were bypassed.

As for the auditors, lawyers and board of directors members who should have been keeping watch, they gave Skilling and Fastow the benefit of the doubt. Each oversight mechanism benefited from either lucrative consulting contracts or stock options. This culture discouraged efforts to discover or reveal the truth.

The pressure finally did get to Skilling, who suddenly resigned in August 2001. Lay returned as CEO and learned that Enron had more than $7 billion in carefully hidden losses.

Then the nicest guy in the world faced an earth-shattering ethical dilemma. Should he announce: (1) $7 billion in losses and risk financial collapse, (2) $2 billion in losses to match Wall Street expectations, or (3) $1.2 billion as recommended by some key executives? He chose option #3, which was a lie.

Enron, like every company, was managed by fallible human beings, capable of ethical lapses. What can you do about it? Plenty.

- **Hire employees with the appropriate values**
  When you hire people, you hire their ethics as well. People bring their perceptions of right and wrong with them to work. Job finalists should be asked to tell stories about the ethics of their previous employer and respond to several ethical dilemmas that highlight real-life scenarios at your workplace.
- **Make your code of ethics a living document**
  Provisions within an organization's code of ethics must be consistently, and publicly, enforced to make them meaningful. Employees should be surveyed annually on how well the company is "walking the talk" as part of employee training and development workshops.
- **Your managers must be moral role models**
  Employees receive cues for appropriate behaviors directly from their managers. If a manager sacrifices ethics to accomplish a short-term goal, then employees will do likewise. Managers must encourage and listen to employees reporting unethical activities at work and respond appropriately.
- **Set attainable work goals**
  Work goals should be challenging, yet attainable. Some employees will find unethical ways to achieve unattainable work goals to protect their jobs or receive a bonus or promotion.
- **Conduct holistic performance appraisals**
  In addition to financial performance, you should measure an employee's contribution to product or service quality, customer satisfaction, and satisfaction of other employees. Organizational ethics are enhanced when employees making ethical decisions are financially rewarded and promoted, and those making unethical ones are dismissed.
- **Conduct an ethical compliance audit**
  Ethical risks must be identified and managed. Managers can create a culture that automatically rejects unethical behaviors by applying total quality management analysis to ethical deviancies, and then implementing the remedies.

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

Prof. Collins's latest book is *Behaving Badly: Ethical Lessons from Enron.*