Management Communication Quarterly
http://mcq.sagepub.com/

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Matthew W. Seeger and Robert R. Ulmer

Management Communication Quarterly 2003 17: 58
DOI: 10.1177/0893318903253436

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EXPLAINING ENRON

Communication and Responsible Leadership

MATTHEW W. SEEGER
Wayne State University

ROBERT R. ULMER
University of Arkansas–Little Rock

AUTHORS' NOTE: The authors would like to thank the anonymous reviewers of MCQ *for their constructive feedback on an earlier draft of this article.*

Management Communication Quarterly, Vol. 17, No. 1, August 2003 58-84
DOI: 10.1177/0893318903253436

Although a variety of explanations are available for the recent collapse of the nation's seventh largest corporation, this analysis employs principles of communication-based leader responsibilities to explain Enron's demise. These responsibilities include (a) communicating appropriate values to create a moral climate, (b) maintaining adequate communication to be informed of organizational operations, and (c) maintaining openness to signs of problems. A variety of media reports and participant accounts are used to illustrate these failures in responsibility. Several implications for managerial communication are drawn from the analysis. The Enron case highlights specific communication obligations of senior management. It also illustrates the consequences of attending to a very narrow set of values and stakeholder concerns and the dangers inherent to radical innovation when few established rules or standards are available. The authors' analysis also calls for positioning responsibility more centrally in managerial communication.

Keywords: *leadership, responsibility, ethics, plausible deniability, accountability*

Enron's corporate financial scandal of 2001-2002 shocked the nation due to its scale and the persistent denials of senior managers of any knowledge of the deceptions or associated wrongdoing. If we are to believe Kenneth Lay and Jeffery Skilling, they were entirely unaware of the financial misconduct of their subordinates and they personally did nothing wrong. The nature of this event focused attention on the communication-based responsibilities of senior managers and suggests a fundamental disconnect between their behavior and the standards for responsible leadership.

In the following discussion, we offer an explanation for the demise of Enron grounded in the principle of responsibility. First, we examine responsibility and describe three kinds of communication-based responsibilities for leaders: (a) communicating appropriate values to create a moral climate, (b) maintaining adequate communication to be informed of organizational operations, and (c) maintaining openness to signs of problems. These, then, are used as frames for examining factors associated with the collapse of the nation's seventh largest corporation in a wave of scandals. We draw on a variety of media reports and participant accounts to argue that Enron's management failed in their communication-based responsibility to both larger social values and to their stakeholders. A number of implications for responsibility and managerial communication are explored. We suggest that Enron's demise was a consequence of a fundamental breakdown in communication-based responsibilities. With the loss of responsibility came a breakdown in accountability for actions. Moreover, Enron illustrates the consequences of attending to a very narrow set of values and stakeholder concerns and the dangers inherent to radical innovation where few established rules or standards are available. The Enron case, we suggest, also calls for a broader notion of managerial communication that situates responsibility more centrally.

COMMUNICATION AND RESPONSIBILITY

Responsibility is a fundamental concept in organizational ethics. It refers to the fact that individuals and groups have morally based obligations and duties to others and to larger ethical, moral, and legal codes, standards, and traditions (Jackall, 1988; Johannesen, 2001; Seeger, 1997). Responsibility is closely associated with freedom such that those who are free to choose to behave in particular ways are then responsible for the consequences of their behavior. This articulation between freedom and responsibility is the basis of most ethical and legal codes and for the assumption that individuals may be held morally accountable when there is reason to believe that acts were unethical. This accounting involves explaining and justifying actions and may involve a variety of explanations, interpretations, and narratives regarding outcomes (see Benoit, 1995; Hearit, 1995). Responsibility as an ethical principle, therefore, has important implications for how individuals or organizations communicate when something has gone dramatically wrong. Beyond this relationship to accountability, organizational responsibility is related to normative behavior, social obligations, effective management, and specific communication processes.

Organizational responsibility refers to obligations to operate regularly according to accepted social norms and standards (Dowling & Pfeffer, 1975; Seeger, 1997). Those organizations that comply with basic standards are able to argue that their behavior is ethical and that their operations are normative and legitimate

(Metzler, 1997). Professional codes of conduct, for example, often function in this way to create legitimacy (Frankel, 1989). Normative operation is more easily justified and may also create higher levels of organizational trust and credibility. In addition, codes, standards, and norms such as those found in accounting, advertising, or handling of dangerous waste are often formalized and enforced by governmental bodies, such as the Securities and Exchange Commission (SEC), the Federal Trade Commission, and the Environmental Protection Agency. These agencies help ensure that some basic level of responsibility is maintained by enforcing norms and standards for organizational conduct. Conversely, organizations operating outside these norms and standards do not benefit from this assumed morality.

Additionally, responsibility implies that organizations, as parts of society, have obligations to support the general health and well-being of society. Values such as honesty, equality, and fair and equal treatment of individuals are in the best interest of society (Dowling & Pfeffer, 1975; Metzler, 2001; Seeger, 1997). Organizations are obligated to uphold these basic social values and the attendant norms of appropriate conduct. Moreover, many organizational ethicists argue that equality and fairness are simply the “right” way to behave. A “good corporate citizen” is responsible to the community, involved in the community, and works to improve and protect the community (Buchholz, 1990, p. 299). Organizations also “have a responsibility to devote some of their resources to helping to solve some of the most pressing social problems, many of which corporations helped to cause” (Buchholz, 1990, p. 299). This view of responsibility is grounded both in a drive to act in an ethically appealing manner and in a recognition that social problems reduce the organization’s ability to operate effectively.

Responsibility is associated not only with good management but also with effective management. Pauchant and Mitroff (1992), for example, suggested that crisis-prone organizations are those managed by individuals who fail to take responsibility. They argue that managers need to engage stakeholders in dialogue regarding key ethical issues. Managerial responsibility, then, “means being responsible not only to oneself, accepting one’s limitations, but also to others, accepting their limitations and perspectives” (pp. 192-

193). Responsible managers attend to the perspectives and values of stakeholders, seeking to represent their interests in organizational decisions.[1]

Moreover, "To be ethically responsible, one must engage in an external conversation with others and with self" (Pauchant & Mitroff , 1992, p. 193). In the absence of these communication processes, values remain unclear, confused, and equivocal, little consensus develops about which values are dominant in a particular context, and the probabilities of making an ethically suspect judgment and inviting criticism are significantly enhanced (Seeger, 1997). Communication is particularly important to the development of ethics. Conrad (1993) described this process:

> It is through discourse that individuals develop their own views of morality; through discourse that organizations develop and inculcate core values and ethical codes; and through discourse that incongruities within individual and organizational value-sets are managed and contradictions between the value sets of different persons are negotiated. (p. 2)

Candid, ethical communication, conversations with employees about values and ethical issues, and the communication of stories featuring core and heroic values have all been identified as important to developing ethical organizations (see Morris, Schindehutte, Walton, & Allen, 2002). Unfortunately, rather than seeking to advocate clearly and explicitly for a set of moral standards and the recognition of ethical responsibilities, many organizational leaders actively avoid discussing ethics (Conrad, 1993).

Responsibility, in many ways, is the fundamental moral principle from which other, more specific ethical frameworks flow. It concerns the basic relationship and attendant obligations and commitments that exist between an organization and its larger community, employees, environment, and stakeholders and how organizations and their leaders both act toward and communicate about these obligations. Leadership communication concerning these issues is paramount if organizational members are to understand the key issues and standards regarding moral conduct (Simms & Brinkmann, 2002).

RESPONSIBLE LEADERSHIP

A variety of scholars have explored the ethical responsibilities of leaders and argued that as representatives of organizations, leaders have both internal and external obligations (Cavanagh & Bandsuch, 2002; Johnson, 2001; Seeger & Ulmer, 2002; Ulmer, 2001; Yukl, 2002). Moreover, leadership is inherently a communication-based process involving clarifying goals and methods, motivating and persuading followers, resolving conflict, and framing meaning (see Barge, 1994; Fairhurst & Sarr, 1996; Northouse, 2001). Whether through directives, charisma, or by example, leaders play an important role in setting the direction of an organization and specifying how goals are achieved. Leaders often come to symbolize the organization and personify its operations and values (Smircich & Morgan, 1982). Leaders occupy a central role at the apex of the communication network and generally have access to large volumes of information and to the formal channels of communication. Three general forms of communication-based leader responsibilities can be drawn from the ethics and leadership literature. These include (a) communicating appropriate values to create a moral climate, (b) maintaining adequate communication to be informed of organizational operations, and (c) maintaining openness to signs of problems.

COMMUNICATING APPROPRIATE VALUES

Leaders have particular responsibilities for establishing an organization's ethical climate and moral tone through communicating values and standards and modeling desirable behaviors for followers (Simms & Brinkmann, 2002). Gini (1996) argued that "the ethics of leadership whether they be good or bad, positive or negative affect the ethos of the workplace and thereby help to inform the ethical decisions and choices of the worker" (p. 2). Leaders, their choices and behaviors, are often very visible to other organizational members and widely publicized. Followers take cues from leaders based on what they communicate and pay attention to, how they respond to crisis, their behavior, how rewards are allocated, and how they hire and fire others (Johnson, 2001). Leaders, then, are moral models, emulated by others. Simms and Brinkmann (2002) pointed out, for example, that when leaders attend only to issues of profitability and the bottom line, followers quickly come to understand the organization's real priorities and act accordingly.

Leaders also should be expected to discuss explicitly issues of organizational morality in order to clarify ethical frames for followers. Simms and Brinkmann (2002) observed that "a leader communicates strong messages to his employees about his values through actions" (p. 332). One of the principal approaches used to examine the moral actions of leaders is virtue ethics. Johnson (2001), for example, suggested, "The premise of virtues ethics is simple. Good people (those of high moral character) make good moral choices" (p. 50). The virtuous person, then, serves as a model of appropriateness, credibility, suitability, and character. Because the virtuous person models ethics, those in visible leadership positions, including CEOs, can be expected to exemplify admirable and laudable traits (Gini, 1996; Leibgig, 1990; Seeger & Ulmer, 2002). In fact, the behavior of public figures, such as politicians and entertainment and sports figures, is often critiqued on the grounds that it sets a bad example for others. Moreover, organizational leaders are seen generally as playing an important function in establishing an organization's ethical climate through modeling desirable behaviors (Simms & Brinkmann, 2002).

One way in which leaders model ethics is through virtuous behavior. Johnson (2001) noted that "virtues are interwoven in the leader's inner life and affect the way he or she sees and acts" (p. 50). An articulation of moral traits or virtues emphasizes the essential moral feature or features of these traits rather than deontological notions of moral obligation, rule-based oughts, situational requirements, or contractual commitments (Slote, 1992; Smith, 1946). The virtuous person is ethically praiseworthy not necessarily because of adherence to an external or imposed moral code but due to some fundamental tendency to act consistently in an ethically commendable and admirable manner. Virtues also guide the development of more general moral codes and standards.

REMAINING INFORMED

A fundamental characteristic of responsible organizational leadership involves maintaining a close connection to and awareness of operations through monitoring. As the final authority within a system, leaders have obligations to be informed about the operation of those systems. Although leaders, particularly those in larger organizations, clearly cannot know all the day-to-day activities of their organizations, they are obligated to know about core operations and major processes. Without such information, leaders cannot supervise others and regulate and manage the enterprise. They are unable to make informed decisions or effectively critique the decisions of others. They can neither plan nor control. Mintzberg (1973) described the functional roles of managers, including interpersonal, informational, and decisional roles. Among the informational roles was the leader as monitor. In this case, the leader should be "continually seeking information that enables him to understand what is taking place in his organization and its environment" (p. 67).

Leadership functions at the apex of the organization's information system. Information seeking, then, allows leaders to detect changes, identify problems and opportunities, build organizational knowledge, and make sense of their informational environment. Trujillo (1983) described the outcome of informational role performances as "knowledgeability" or a kind of understanding "that explains how and why an organization operates as it does" (p. 91). Such understanding is fundamental to both the successful and responsible management of the organization.

Questions regarding what leaders knew, and when and what knowledge was official or unofficial, often arise following accusations of wrongdoing (Petress & King, 1990). Although leaders clearly cannot know all that goes on in their organizations, particularly with large organizations, they are responsible for maintaining a fundamental knowledge of operations and activities. In some instances, however, leaders appear to seek conditions of plausible deniability in which they can claim ignorance about some activity (Jackall, 1988; Petress & King, 1990). Such strategies are clearly unethical in their efforts to avoid responsibility by avoiding knowledge.

OPENNESS TO SIGNS OF PROBLEMS

A specific way in which the obligation to be informed is manifest concerns being open to bad news. James Lee Witt, former director of the Federal Emergency Management Administration, for example, noted that "Communication, when it's working, can help you know when a crisis is coming, sometimes early enough to prevent it" (Witt & Morgan, 2002, p. 19). Leaders are obligated to hear and attend to dissent and criticism in part because these messages may signal threats or problems that logically should be heeded (Kassing, 1997, 2000; Redding, 1985). As Pauchant and Mitroff (1992) suggested, organizations that ignore messages that signal problems are more prone to the onset of crisis. Yukl (2002) proposed that one ethical standard for leadership concerns helping organizations acknowledge problems, rather than denying them, discounting their seriousness, or providing inadequate solutions (p. 403). This openness to problem recognition is necessary for collective problem solving.

In general, however, most organizations find warnings difficult to process and disruptive to established beliefs about risk and threat. In other cases, the warning may compromise careers or company profitability. Whistle-blowers, a common source of critical information regarding impending threats and problems, are often labeled as disloyal employees and muzzled, or even fired (Jensen, 1987). They are often seen as disruptive to the status quo and a threat to the organization's reputation. In many cases, however, whistle-blowers are merely working to call attention to and rectify serious, crisis-inducing deficiencies. More generalized organizational dissent may also include warnings. Kassing (1997) suggested that dissent arises from some dissatisfaction and entails "advocating a position that differs from the organizational status quo" (p. 311). Consequently, managers often ignore or stifle dissent. These three communication-based responsibilities of leaders involving communicating values to create a moral climate, remaining informed of organizational operations, and maintaining openness to signs and cues regarding problems are examined within the context of the Enron cases.

ENRON: FAILURES IN RESPONSIBLE COMMUNICATION

The Enron case has been widely publicized as a story of corporate whistle-blowing, an example of corporate greed run amok, an illustration of political influence, and as a morality play about the relationship between accounting firms and their clients (see Behr & Witt, 2002b; Bryce, 2002; Cruver, 2002; Fox, 2003). The Enron case cost investors billions of dollars in equity, dealt a fatal blow to the accounting giant Arthur Andersen, generated a dizzying array of lawsuits, and prompted serious rethinking of SEC regulations. Enron and the distrust in corporate governance it generated also helped fuel a sharp downturn in major stock markets.

At the center of the Enron case are three senior executives: Kenneth Lay, CEO and founder; Jeffery Skilling, Enron president and heir apparent; and Andrew Fastow, chief financial officer (CFO). Lay, the son of a Baptist minister, was the force behind the initial transformation of a small, Houston-based pipeline company into an energy-trading giant. Much of Lay's success is attributable to state and federal legislation deregulating the energy industry (Fox, 2003). His record as a very successful Republican fundraiser and his close connections to political figures may have helped in the passage of favorable legislation ("The Dynamo at Enron," 2000). Lay advocated both deregulation and strategic regulation when it suited Enron's goals. His broad vision of the bureaucratic energy industry was revolutionary and included more free-market commodity trading of natural gas and electricity. Eventually, this free-market trading expanded to include a variety of intangible assets such as weather derivatives, bandwidth, and bankruptcy protection. In fact, the company came to eschew hard assets as it transformed itself into a highly diversified company.

Ken Lay also was known for his philanthropy to social as well as political organizations. Enron also touted its environmental record and in 1996 received the Corporate Conscience Award from the Council of Economic Priorities ("Enron Receives," 1996). The company also had adopted a formal statement of human rights principles in 1996. The statement emphasized obligations that "transcend industries, cultures, economies, and local, regional and national boundaries." Core values articulated in the statement include respect, integrity, communication, and excellence ("Statement of Human Rights," 1996). This value statement came to be known throughout the company as RICE:

> *Respect:* We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don't belong here.
>
> *Integrity*: We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.
>
> *Communication*: We have an obligation to communicate. Here, we take the time to talk with one another . . . and to listen. We believe that information is meant to move and that information moves people.
>
> *Excellence*: We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be. ("Statement of Human Rights," 1996)

These principles are particularly noteworthy given subsequent developments. The RICE values appeared to function largely as platitudes, discussed yet dismissed in favor of more pragmatic issues of profit. In essence, countervailing pressures for profitability contradicted the RICE code. For example, although Enron touted open communication, the company clearly did not act in a manner consistent with this statement, preferring to avoid any messages of dissent. Enron also sought ostensibly to enforce this code of conduct. The code explicitly notes that employees "are trained to report without retribution anything they observe or discover that indicates our standards are not being met" ("Statement of Human Rights," 1996). Moreover, Enron employees are required to sign a statement indicating that they have read, understand, and agree to comply with these statements. The RICE values were neither modeled by leaders nor integrated into operations. Enron was obsessed, however, with values relating to business success and profitability. The employee parking garage featured large signs on each level extolling a particular business virtue such as "bold, innovative, smart, ambitious, accomplished, adventurous, and undaunted"

(Cruver, 2002, p. 18). The result was a complex moral context with one set of values, the RICE code, functioning as a public foreground and another set functioning for insiders as background. A similar dichotomy also characterized Lay, described as "Mr. Outside," and Skilling, "Mr. Inside."

Enron had increasingly developed a reputation for a very freewheeling ethical climate more consistent with the bold, ambitious, and confident values (Morse & Bower, 2003). At Enron, highly skilled and ambitious "individual operators" worked in a decentralized structure with little or no oversight. The company encouraged experimentation and innovation but discouraged anything less than stunning success measured in profits (Fox, 2003, p. 6). These operators were encouraged to be "creative" in finding new opportunities for profits in a wide variety of markets, including natural gas, electricity, telecommunications, energy services, and even weather derivatives (pp. 5-7). This drive for profits was internationalized in South America, India, and Great Britain with a number of risky and ethically questionable enterprises. These schemes were often very complex and defied conventional business and accounting wisdom (Behr & Witt, 2002b). Most were attributed to Skilling and Fastow, as opposed to Ken Lay, who seemed disconnected from the day-to-day operations of the company (Bryce, 2002). Eventually, however, these schemes would bring down Enron, almost like a house of cards, as the fraudulent nature of many of the deals became known and the stock price plummeted from a high of $90 a share to under a dollar.

Much of the subsequent criticism of Enron's management has been scathing. Commentator Carol Devine-Molin (2002), for example, suggested, "Enron was largely comprised of incredibly immoral, arrogant, and mercenary individuals that created a milieu of sleaziness and greed." U.S. Senator Byron Dorgan, in commenting on an internal Enron report, described the company as a "culture of corporate corruption. . . . There's just so many tentacles to this story" ("Lawmakers Blast," 2002). Senator Peter Fitzgerald referred to Lay as "an accomplished confidence man" with standards even lower than that of a carnival barker (Fox, 2003, p. 2).

Enron had become particularly adept at exploiting loopholes and uncertainties to manipulate markets and falsely inflate profits. The

California energy markets were manipulated severely in the summer of 2001. Enron sought to exacerbate and take advantage of the electricity shortages with a number of schemes, some of which involved outright fraud (Ivanovich, 2001). Exploitation of accounting loopholes involved special purpose entities (SPEs), supposedly independent organizations that in reality were set up to hide debt and further enrich those Enron executives who ran them. In many of these cases, these SPEs represented a direct and obvious conflict of interest as executives essentially negotiated with themselves as employees of both Enron and the SPEs (Behr & Witt, 2002a).

Others critics noted that Enron had developed a "culture of self-conscious greed and reward" ("Enron Cocktail," 2002). Risk taking had become the dominant value in the company. Moreover, only the very few top executives who were aware of "the kinds of wild bets Enron was placing, on everything from oil to the weather, saw how precarious the whole thing was" ("Enron Cocktail," 2002). Even these executives seemed actively interested in not knowing the details. A highly decentralized management and control structure had developed to allow operators maximum latitude in pursuing economic opportunities. It also had the benefit of creating at least an initial facade of plausible deniability when things began to fall apart (Behr & Witt, 2002b).

Communicating Appropriate Values

The Enron founded by Ken Lay had many of the hallmarks of an entrepreneurial organization guided by traditional entrepreneurial values. These included aggressive growth and rapid exploitation of new opportunities and technologies (Morse & Bower, 2003). Lay's values primarily concerned aggressive and radical innovation in a mature, heavily regulated, and inefficient industry. Lay touted this view in speeches and in publicly advocating for industry deregulation. In many ways, Enron's principal entrepreneurial impulse was about radical innovation via breaking existing rules and rewriting them (Seeger & Ulmer, 2002). This impulse, perhaps, subsequently made the breaking of other rules easier. Online energy trading, for example, was one of Enron's principal innovations. Lay argued that a technologically driven innovation such as this was fundamental to increasing efficiency in a way that would benefit both consumers and the environment. Rather than fulfilling his responsibilities by actively modeling or communicating a set of broad social values associated with ethical and moral conduct, Lay and later Skilling modeled breaking established corporate models and methods in the pursuit of wealth. This normative breaking of the rules and pursuit of wealth was significantly accelerated when Jeffery Skilling took over day-to-day operations.

Under Skilling, the initial entrepreneurial vision was increasingly driven to new levels of excess and eventually corrupted into a self-serving ethic of greed. Anything judged as "narrow-minded traditionalism" was derided, and innovation and creativity were pursued as ends in themselves with little regard for questions of profit and loss (Behr & Witt, 2002b; Cruver, 2002). Old business thinking, involving bricks and mortar, capital investment, and ownership, was openly ridiculed by Skilling as were many traditional methods of business operation and control. Moreover, Skilling and other executives modeled ritualistic and conspicuous displays of wealth and power (Morse & Bower, 2003). The Enron parking lot was filled with costly luxury cars. Top executives became well known for their sexual exploits ("Enron Cocktail," 2002). The Houston suburbs sprouted million-dollar Enron homes. The company brought a live elephant into company headquarters for one meeting and hired a troop of acrobats to perform at another (Fox, 2003, pp. 92-94). Lay used the company jet to ferry his daughter home from school in Europe. Skilling was arrogant and publicly dismissive of critics. The close connections between Enron executives and President George W. Bush and Vice President Dick Cheney were well publicized. These behaviors and processes helped model and privilege norms and values regarding abuse of power, privilege, deception, wealth, greed, and rule breaking (Johnson, 2002).

Skilling continued to push operators and executives toward increasingly more risky deals, obviously compromising the long-term stability of the company. In addition, bad debts were increasingly being hidden in the SPE partnerships that created obvious conflicts of interests while keeping debt off the books. Several of these arrangements were worked out and overseen by CFO Andrew Fastow and involved obvious deception as well as conflicts of interest (Bryce, 2002). This was consistent with a larger pattern of secrecy and outright deception common at Enron. Skilling was also actively seeking to downplay his knowledge of Enron's activities, reportedly approving deals without paper records and giving increasing authority to operators while demanding always-higher profits (Behr & Witt, 2002a, 2002b). Fastow, with the tacit, albeit poorly documented, approval of Skilling, increasingly sought to account for Enron's financial status in ways that hid losses and inflated profits (Bryce, 2002).

Skilling modeled values of greed and excess and a view that standard notions of right and wrong and traditional business principles simply did not apply. Fox (2003) described a number of instances in which the established rules and norms of business operation were bent or simply broken. Enron was working at the edge of established regulations and norms. Established accounting procedures and rules simply had no provisions for the kinds of trades Enron was making. No one, for example, had ever envisioned trading weather derivatives or using the Internet to trade energy. The company, under the direction of Skilling and Fastow, took advantage of this equivocality to inflate its position. Trades, for example, were often recorded at full value as revenue rather than according to the simple profit that was made. Energy was sometimes bought, sold, and then bought back in order to inflate revenues.

RESPONSIBILITY TO BE INFORMED

In addition to modeling and privileging values associated with greed, Enron's leaders failed in their fundamental responsibility to be informed about company operations. As described earlier, a part of the Enron culture involved very high levels of decentralization. Individual units and employees were allowed to operate without direct supervision. The parameters of their independence would be extended further if they were making money. This highly decentralized and empowering management style was developed by Lay early in his career and carried to extremes at Enron under Skilling. Enron was flattened from 13 levels of supervision to 4 (Fox, 2003, p. 82). This flattened structure, Skilling argued, was necessary to promote the kind of rapid new business innovation on which Enron prided itself. In practice it meant little oversight or control and few reviews of decisions. One Enron executive later described Skilling as "recklessly inattentive to the fundamentals" (Witt & Behr, 2002, p. A1).

This radically decentralized structure had the additional benefit of reducing the leaders' level of direct knowledge. When subordinates and traders were given the authority and freedom to execute multimillion-dollar deals with little or no oversight, management simply lost track of company operations. A former SEC chief enforcement officer would later describe this as a kind of "willful blindness" whereby executives actively avoided troublesome knowledge (Witt & Behr, 2002). Emphasis was placed on stock values almost to the exclusion of all else. Skilling reportedly eschewed the paperwork associated with these deals, to the point of approving them verbally without even taking notes about what had occurred or making copies of the approved contracts. These actions were explained on the grounds of creating innovation by moving more quickly. They also had the additional benefit of ensuring that no paper trail could be used to determine accountability should a deal go bad. Lay, too, was described by his subordinates as not wanting to know either the details or the problems (Behr & Witt, 2002b). As Lay increasingly functioned as "Mr. Outside" he became less informed about operations. Although it may be argued that Lay's only fault was in being inattentive and incompetent in his supervisory duties, he clearly failed in his responsibility to be informed. Skilling, who was much more fully involved in daily operations and decisions as "Mr. Inside," later claimed in congressional testimony that he was "not aware of any financial arrangements designed to conceal liabilities or inflate profitability" (Behr & Witt, 2002b). In essence, the highly decentralized structure and inadequate communication regarding company operations to senior executives created an elaborate frame of plausible deniability for senior executives.

OPENNESS TO SIGNS OF PROBLEMS

An important part of the Enron story is a set of norms severely restricting the flow of negative information. Rather than creating a climate and set of conditions in which problems and concerns could be identified and attended to, Enron executives created the opposite. This culture of secrecy and "no bad news" was necessary to continue to inflate stock values. Any hint of negative information was quickly squelched. Skilling, for example, during a public meeting called a stock analyst an "asshole" for suggesting that company financial statements were incomplete (Cruver, 2002). Other employees described an unwitting collusion that developed as people learned to acknowledge publicly only the positive. Probably the best example of this norm regarding negative information involved Sherron Watkins, the now-celebrated Enron whistle-blower. Watkins, who worked for CFO Andrew Fastow, wrote an anonymous letter to Ken Lay expressing serious concerns about the company's accounting practices and public financial position (Morse & Bower, 2003). She was particularly nervous about the SPEs and the financial risk they created. Eventually, she met with Lay in person to express her concern. She reported that Lay acknowledged her concerns and promised to look into them (Behr & Witt, 2002b; Cruver, 2002). Eventually, Lay hired an outside law firm to investigate and concluded that some restatement of earnings would be necessary. Despite the fact that Watkins's warning seemed to have had at least a positive, albeit very limited, impact, Fox reports that the company did attempt to fire her (Fox, 2003, p. 251; Morse & Bower, 2003). It appears that the potential for even more negative publicity won out. Watkins was transferred but did retain a position at Enron.

The failure in being open to problems and the prevailing Enron culture of no bad news also functioned to create self-censorship and self-persuasion. Weick (1988) described these conditions as a kind of unwitting collusion or stunted enactment, whereby followers can neither recognize nor attend to certain kinds of information. In this case, Enron employees seemed unable to come to grips with the mounting losses and obvious deception. Even as the evidence of inevitable failure became increasingly clear, employees still repeated the Enron mantra and bought more company stock (Cruver, 2002). The interpretation that Enron was a model of business success and innovation so dominated that any information inconsistent with this was simply ignored. Major investment firms and business schools also shared this interpretation, recommending

Enron stock to clients and touting Enron as the model of new business in MBA case studies. The company was regularly cited as among the most innovative by the business press. In fact, one of the earliest outsiders to recognize and call attention to the company's problems, Houston-based Paine Webber broker Chung Hu, was fired for advising his clients to sell Enron holdings (Witt & Behr, 2002).

DISCUSSION AND IMPLICATIONS

The downfall of Enron has been explained in a variety of ways, some complementary and some competing. Jeffery Skilling, for example, suggested that the crash was analogous to a run on the bank whereby the investors simply lost confidence due to bad publicity and malicious rumors. Several observers have described Enron as a high-tech Ponzi scheme—an elaborate fraud built on illusionary profits (Behr & Witt, 2002b; Cruver, 2002). Johnson (2002) attributed the collapse to a series of fundamental ethical lapses by Enron's leaders. These include abuse of power, excessive privilege, deceit, inconsistent treatment of internal and external constituencies, misplaced and broken loyalties, and irresponsible behavior (pp. 7-10). Fox (2003) framed the Enron demise as a "fable of what happens when a company starts to believe the spin and hyperbole about its success" (p. 307). The Enron public relations machine's endless output of good news and spin became so overwhelming that management could not see the problems. The *Washington Post* described Enron as "a fundamentally self-destructive institution, a house of cards, where human error and a culture of ambition, secrecy and greed made collapse inevitable" (Behr & Witt, 2002b). Although each of these interpretations is plausible on some level, each is inadequate to explain the extreme aberrant behavior and fundamental loss of control at Enron and the fact that so many observers, both inside and outside the company, were caught off guard. The Enron collapse at its most fundamental involved a systemwide breakdown in the most basic forms of communication-based responsibilities.

Breakdown in basic supervisory systems and managerial oversight meant that, quite simply, no manager was fully informed about subordinate activity nor responsible for subordinate behavior. In essence, management abdicated its communication responsibilities to such a degree that leaders were both uninformed about organizational operations and unaware of the signs of impending problems. Moreover, those values that management activity communicated and modeled for unifying members and guiding their actions were rooted in greed and hubris rather than in any ideology or even larger sense of social or normative obligations. Other values, such as the RICE principles, were mere platitudes and were supplanted by the real Enron values of ambition, wealth, and power modeled so effectively by Enron executives.

Several implications emerge from a responsibility-based examination of the Enron demise. First, this discussion illustrates the importance of three specific communication responsibilities for leaders. These include the obligations to communicate appropriate values, to be informed about organizational activities and operations, and to attend to the signs and cues regarding the company's problems. A number of other investigations have suggested that leaders are obligated to set an appropriate moral tone. Simms and Brinkmann (2002) examined, for example, John Gutfreund's role in moral decay at the investment company Salomon Brothers. Johnson's (2001) investigation of leadership ethics similarly indicated that leadership plays a primary role in setting the ethical tone of the organization. This examination of Enron reaffirms this role for leadership and suggests that leaders are obligated both to model and to communicate appropriate ethics and standards. Congruity between a leader's behavior and statements regarding values may be particularly important to setting an appropriate ethical climate; incongruity may signal problems.

In addition, leaders are fundamentally responsible for being informed about the operations of their organizations. Even in an era of decentralization, diversification, and self-managing teams, leaders have a responsibility to keep themselves informed and remain engaged in organizational operations. At Enron, the mantra of success constantly touted by Lay and Skilling was so powerful as to mask the organization's real status. By intent, self-deception, carelessness, incompetence, or by a combination of all four, management was fundamentally uninformed. Ken Lay, for example, may have only been guilty of being uninformed and incompetent in his oversight duties (Eichenwald, 2003). Nonetheless, he failed in this fundamental communication-based responsibility. It appears, however, that at least some senior Enron executives employed strategic amnesia along with efforts to outrun their responsibilities by leaving the company before the deception became public (Jackall, 1988). Skilling, in particular, appeared to manipulate strategically his public knowledge of events so as to avoid accountability. In either case, this analysis suggests that plausible deniability is one product of an inadequate communication system.

Finally, leaders are obligated to be open to bad news, dissent, warnings, and problem signs. A significant body of work in information distortion in upward communication has established the tendency of subordinates to withhold negative information when levels of trust are low (Jablin, 1979). Responsible leadership creates an atmosphere of trust and establishes structures of communication so that dissent can both occur and be acted on (Kassing, 1997; Seeger, 1997). The ability to receive and hear messages of dissent and warning is a self-reflexive feedback mechanism. Organizations that lack this capacity can be expected to have a reduced ability to self-regulate and correct problems.

With the failure in responsibility at Enron came a breakdown in accountability. Kenneth Lay and Jeffrey Skilling have both publicly argued that they did not know about the wrongdoings at Enron and thus cannot be held culpable for the ethical and legal lapses. They blamed the accounting firm of Arthur Andersen, legal firms that had served as consultants, and their subordinates. Although the argument that top executives were entirely unaware of corrupt practices does not seem plausible, it complicates the process of determining who will be held accountable for the outcomes at Enron. Moreover, the Enron case illustrates that in some circumstances, avoiding knowledge of ethical or legal wrongdoing allows managers to avoid accountability. Top management's active avoidance of the details regarding organizational operations may even be a sign of larger ethical lapses. It also may be possible to suggest that those Enron employees not in leadership positions also failed in their responsibilities, including in their obligation to call attention to problems. Although all employees might be expected to operate in a fundamentally ethical manner, formal leaders have a substantively broader set of obligations. Leaders, because they occupy the apex of a formal communication system, are obligated to be informed. Not only do they set the moral tone and ethical climate, they also model values and by their behaviors signal what is important (Johnson, 2001; Simms & Brinkmann, 2002). Moreover, employees often risk retaliation when they point out problems and deficiencies.

The case of Enron also illustrates the consequences of attending to a very narrow set of values and stakeholder concerns to the exclusion of all else. Senior Enron managers privileged profits, stock values, and personal wealth even over more traditional business values such as profitability. In doing so, they created a powerfully distorting organizational culture of “Enronians” unable to see outside a set of very narrow and limited interpretations. Although popular business literature often extols the virtues of clear focus, other perspectives such as stakeholder theory suggest that leadership requires balance (Deetz, 1995; Freeman & Gilbert, 1987; Ulmer & Sellnow, 2000). Similarly, Weick (1979) suggested that a variety of perspectives may be necessary to match the larger environment. In essence, organizations that privilege only a very narrow set of values lack requisite variety and may risk the sorts of extreme distortions experienced at Enron.

This case also points to the problems of working at the boundaries in new areas without established standards and norms. Enron was a young company working in very innovative ways to create new markets. Few traditions or standards were available, and even these were often rejected as out of date and irrelevant to the new kind of trading business Enron had created. Traditional business controls were rejected in favor of very general internalized processes of unobtrusive control (Tompkins & Cheney, 1985). This highly equivocal context called for interpretive frames and sensemaking devices for determining what was right and wrong, acceptable and unacceptable. Enron leaders failed to provide such frames, suggesting that the only important values concerned profits, wealth, and greed. A number of investigations have suggested that breaking rules is easier in these contexts. Morris et al. (2002), for example, suggested that these highly innovative, entrepreneurial contexts often “encourage or justify ethical compromise” (p. 333). Leaders of highly innovative and entrepreneurial organizations should be attentive particularly to communicating and modeling appropriate ethics and values and ensuring that they are informed about operations. The risk of falling onto ethical decay may be particularly great for those entrepreneurial organizations that place a premium on innovation and breaking the rules and that rely on internalized processes of unobtrusive control.

Finally, the Enron case calls for a broader notion of managerial communication that situates responsibility more centrally in understandings of management and in management practice. Responsibility, perhaps because it is so fundamental to organizational relationships and processes, is often overlooked in contemporary inquiry. Rather than attending to responsibility as a set of instrumental and morally based duties and obligations, the focus of much inquiry is on strategies, processes, and functions of effective managerial communication. Responsibility, however, concerns both the functional communication obligations of managers as well as their moral duty to communicate in ethically appropriate ways. Responsibility is also limited, however, by its general nature. Specific leader obligations and duties must be operationalized in ways that privilege some values and stakeholders over others. Although the very general nature of responsibility limits its utility as a precise ethical framework, it does have broad albeit general utility as a standard for managerial communication.

CONCLUSION

It is ironic that both the meteoric rise of Enron and its stunning fall have the potential to generate important lessons for managers. In some ways, the scope and complexity of the Enron collapse makes it difficult to generate specific lessons. The Enron scandal may be seen as merely part of a larger ongoing cycle of business scandal followed by tightening of standards followed by yet more scandals. To promote learning, the fall of Enron must be interpreted and explained. Among other things, Enron has important lessons to teach regarding the communication-based responsibilities of leaders: to communicate and model appropriate organizational values, to be informed about organizational operations, and to create conditions that allow for the recognition, communication, and resolution of problems. These standards for responsible leader communication may help other organizations avoid the fate of Enron.

NOTE

1. Although a complete discussion of stakeholder theory is beyond the scope of this analysis, it is important to recognize the variety of views associated with this model of organizational ethics. Stakeholder theory generally seeks to identify those groups or constituencies to whom an organization is responsible. Stakeholder theory most often emphasizes the diverse needs, values, and interests of various groups and the resulting tensions or contradictions. Managers, accordingly, must determine how to balance or prioritize stakeholder interests. One view (e.g., Deetz, 1995; Harrison & Freeman, 1998) suggests that such balancing is possible, though not necessarily easy. Much of the management literature, however, takes the position that management must privilege the demands of those stakeholders who are central to the long-term viability and profitability of the enterprise such as stockholders and customers. Rarely are the interests of low-power or more marginal groups emphasized (Agle, Mitchell, & Sonnenfeld, 1999; Frooman, 1999; Markus & Goodman, 1991; Mitchell, Agle, & Wood, 1997). In this latter sense, doing the “right” thing is sometimes critiqued on the grounds that it compromises long-term viability. Responsibility to a more diverse set of stakeholders, however, may also allow the organization to build a positive image, and reputation and networks of support that may actually bolster long-term viability.

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Matthew W. Seeger is a professor of communication at Wayne State University. His research focuses on communication and crisis and organizational communication ethics. His work has appeared in the Journal of Business

Ethics, Journal of Applied Communication Research, Communication Studies, Communication Research Reports, Communication Education, *and* Communication Yearbook.

Robert R. Ulmer is associate professor of speech communication at the University of Arkansas at Little Rock. His research focuses on communication and leadership, ethics, and crisis management. His research has appeared in Journal of Applied Communication Research, Management Communication Quarterly, Journal of Business Ethics, *and* Communication Yearbook, *among others.*