

ENRON

WHY is there change (FORCES)

External forces:

- Political and legal factors: Lay lobbied persistently for deregulation in energy markets between 1997-2000; eventually achieved free market for natural gas
- Technological Factors: became involved with the internet services (EnronOnline) in the 90s when the market was emerging

Internal forces:

- New management: Lay becoming CEO in 1986 and then handing the position to Skilling in 2001
- New markets: Expanding into internet services, telecommunications and also into new countries
- New structure: 'Skilling wiped out layers of existing management and recruited hundreds of outsiders to bring in new thinking'

WHAT type (NATURE)

1. There was originally an **evolutionary** and **transitory** change, in the departure of Skilling and Lay taking over the day-to-day running of the company
 2. There is an **evolutionary** and **transitory** change due to the soaring of natural gas prices, causing Enron's stocks to drop
- There was a **planned** and **revolutionary** (systemic) change: The deregulation of the energy market was *anticipated* and led to the *organisation-wide transformation* of Enron from a producer to trader for and brought organisational wide changes

MODEL OF **PLANNED** CHANGE:

WHY (Forces):

For Enron, the need for change can be attributed to **Internal forces** - due to inconsistencies in management practices

- **Internal process problems**
- Lay not communicating clearly with employees -> a "stage managed performance", "one way", especially in wake of Skilling's departure
 - Not Clear why Skilling left
 - People did question whether there was still a rosy future

- Management too top-down -> addressing of employees in lecture-style sessions, allows for no conversation (*link to strategy & structure -> needs to be flatter, so employees have the ability to liaise with a well-known team leader to eradicate uncertainty*)

2) Management philosophy / vision / mistakes

- Emphasize too much on profit-making at expense of ethical behaviour and employee's well being
- Wave of accounting scandals were ready to implode

WHAT (Nature of change):

There needs to be a **PLANNED** and **REVOLUTIONARY** (SYSTEMIC) change to restructure and improve Enron

WHO (CHANGE AGENT)

INTERNAL change agent

Knowledge/Skills/Attitude

Kevin Lay

- Right knowledge, managerial skills and experience:
 - Previously in charge of HNG before the merger
 - had increased company assets by billions of dollars and this was before the company had become a trading company
- Right attitude:
 - Described as a “visionary”, “revolutionary” and a man who liked big ideas (ready to embrace change and explore the unknown) by his peers

Jeff Skilling

- Right knowledge, managerial skills and experience:
 - Worked at McKinsey (one of the largest US consulting firms) prior to his move to Enron
- Right attitude
- Described as a “prophet” and imbued confidence into his employees
- His vision to become the ‘stock market for energy’

Both *transformational* leaders with right knowledge, skills and attitude - were well respected by employees and both welcomed change and innovation and strived to make Enron flexible and adaptive to the surrounding environment. Employees had ‘unquestioning faith in both leaders, who were surrounded by an aura of charisma and both displayed strong ambition to drive Enron forward!

Internal Change Agent = Skilling's departure and now Lay's responsibility to steer the ship- “transformational leadership”, however, he has already proved ineffective. A change agent needs:

- Right knowledge - yes
- Right attitude – no
- Right skills – no

In fact, may be seen as part of the problem: ☹ too close to the problem and may give bias views that favours/ don't threaten his power...

External Change Agent = A possible path to take would be to make use of an **external change agent** - a consultant with:

- ✓ In depth **knowledge** about restructuring large scale organisations
- ✓ an optimistic **attitude**
- ✓ The right **skills** - leadership, communication, organisation
- ✓ **Objective** view of problem initiating change

WHAT needs to be changed?

- Structure: Current tall structure -> ineffective communication -> uncertainty in lower-levels about what is going on -> needs a flatter structure
- Strategy: too focused on profit-maximization at expense of employee WB and ethical responsibilities; also too diversified -> need refocus and realign
- Power: currently confined at top -> need more delegation and empowerment of lower-levels to increase responsibilities and participation, morale and productivity
- Communications: One-way, top-down communication not effective/participative
- Culture: change 'cut-throat' culture to one that is more rewarding than punitive

HOW: Type of intervention

One-off (systemic, revolutionary)

UNFREEZING: aim to reduce resistance to change

- Lay should firstly, as Chief leader, rebuild trust in employees such that employees would support his decisions (can do this by breaking barrier between himself and employees, e.g. visit employees in workplace in-person, showing care for their well-being, clear up any rumours or misunderstanding)
- Educate and communicate change plans to employees (e.g. Organisation-wide meeting)
- Participation (e.g. make sure there is an actual Q&A session of after meeting/conference)
- Facilitation and support (e.g. provide consultations to employees who are concerned about change and fear losing their jobs- Gary)

- Redefine areas of authority/ realign staff profiles (clarify new roles/responsibilities so employees know what is expected of them after change; make it seem that they have increased responsibilities due to the change)
- Negotiation (e.g. change allocation of reward systems to further induce employees to change)

CHANGE

FREEZING: ensure permanence

- Enforce changes through its norms/practices: ensure its strong culture remains aligned with new system

Ongoing (adaptive, evolutionary)

Since Enron needs to constantly innovate and remain competent, may require ongoing change

- Evolutionary and planned: adaptive
- Constant innovation to take advantage of opportunistic market trends: growth in retail energy, broadband services all provide Enron with opportunities to expand (p3)

MONITOR results, feedback?

Needs to constantly monitor organisational effectiveness to assess success of change

- Enron's stock prices
- Public reviews: regarded as "one of the best companies in the world"
- Employee survey regarding their feelings and attitudes
- client and stock trader's feedback

SIX SILENT KILLERS & ORGANISATIONAL FITNESS PROFILING

SILENT KILLERS	EVIDENT AT ENRON	ENGAGING & CHANGING (OFP)
SK 1: Too top-down senior management style	Decision-making confined at the top: <ul style="list-style-type: none"> • no one knows what is happening when Skilling leaves • "we're not getting any sensible information from our managers" 	✓ TRANSPARENCY IS KEY: Managers need to engage staff and effectively communicate to them all information available to clear rumours and reduce resistance to change ✓ INCREASE PARTICIPATION: allow employees to participate in DM process- can help uncover the

	<ul style="list-style-type: none"> employees have no participation in decision-making “employees not encourage to communicate upwards”; “no one questioned authority” else lose bonus! (p.7) 	hidden barriers to change- by encouraging feedbacks and questioning (through rewarding and praising them for such behaviour)
SK 2: Unclear strategies and conflicting priorities	<p><u>Unclear future direction</u></p> <p>Evident that employees are uncertain about the future prospect of Enron: “a lot of people did privately question whether there still was a rosy future for Enron” (p. 8)</p> <ul style="list-style-type: none"> Robert (p.9): states that Enron indeed needs to communicate a clear plan for the future that employees are willing to work towards to. Departure of a key leader (Skilling) left Enron with an uncertain strategic path to take. Also reflected in how Lay was less confident on stage without Skilling by his side. “Making money at all cost” is ambiguous and placing fresh MBA grads in charge of portfolio/ decisions appears questionable as they lack experience... risky? Too diversified: engaged in too many areas- > lack focus <p><u>Conflicting priorities</u></p> <ul style="list-style-type: none"> “Phantom equity” forces teams to compete for resources (staffs) rather than work together for the organisation as a whole 	<p>CLARIFY & COMMUNICATE STRATEGIC DIRECTION</p> <ul style="list-style-type: none"> ✓ Enron should re-focus its core business and set a clearer vision that a strategy can be built around on ✓ Establish a mission statement (outlining clear, concise strategic plan) that all members agree upon ✓ Need ensure communicated org wide <p>SOLVE CONFLICTING ISSUES</p> <ul style="list-style-type: none"> ✓ Need to correct bottom-up nature of teams benefitting from phantom equity: managers need to be aware and responsive to the adverse effects of such initiative- allow on-floor managers to regularly touch base with teams and record their progress ✓ Reason for unethical accounts reporting attributed to overemphasis of making money. Therefore, need address this root problem by changing its internal systems to one that places ethical behaviour first. Enron has to ensure that its espoused values are aligned with actual behaviour (ensure strict accounting policies to gain trust within the organisation and with external stakeholders) by implementing punishments on those who break the rules. Lay has to show strict commitment to this

	<ul style="list-style-type: none"> Seems to be conflicting interests between profit-maximisation and social corporate responsibility: Code of Ethics stating that Enron should uphold integrity by being honest seems to conflict with its goals to be seen as the “best” by outsiders -> led to adjusting accounting figures 	(don't just ignore it!), otherwise employees will continue with undesired behaviour.
SK 3: Ineffective senior management	<p>Especially when things start to go wrong:</p> <ul style="list-style-type: none"> Skilling leaves and everyone has questions that are left unanswered Lay seems to lose his confidence and charisma as leader Lay seems to only be looking out for himself and shows no concern for employees wellbeing: (E.g. ignored Vice-president's memo regarding accounting scandals; around the same time when he gave speech, he was cashing in on as many Enron shares as possible) <p>Implicit “no bad news” rule</p> <ol style="list-style-type: none"> 1. implies <i>management by avoidance: whatever management worried about hearing, lower-levels worried about telling - > vicious circle of poor vertical comm.</i> 	<p>Lay should foster a closer relationship with lower-levels managers and employees to regain their trust before proceeding to make further changes. Show his care and concern, to subdue their fears and reduce their anxiety, especially in this time of uncertainty.</p> <ul style="list-style-type: none"> - Without employees on board, any change is regarded as ineffective: 7s framework (a well-planned out strategy cannot be implemented without support of staffs) - HOW? Regular visits to employees personal workspace, casual talks, lunch with them

<p>SK 4: Poor vertical communication</p>	<ul style="list-style-type: none"> • Implicit rule: “no bad news” culture prevents employees discussing issues/concerns to managers (hinders upward comm.) • VICIOUS CIRCLE: increase cynicism in lower-levels; realize inability to communicate barriers to change results in passivity-> lose commitment to do everything they can for the business success -> problems not solved by implemented change -> top-management introduce new goals and strategies without addressing this problem -> root problem of ineffective communication not solved -> cycle repeats 	<p>REMOVE BARRIERS TO COMM:</p> <p>Requires an upheaval of the culture so that people do not fear speaking up about issues. Lay needs to address concerns of his employees and admit faults within Enron</p> <ul style="list-style-type: none"> ✓ Can be done by having regular meetings with bottom-level staffs ✓ Having Lay actually approach bottom level employees to regain their trusts ✓ Reward or publicly praise employees for contributing ideas/opinions to encourage more upward flow of communication
<p>SK 5: Poor horizontal coordination across functions, business or borders</p>	<ul style="list-style-type: none"> • Uncertainty about what is happening outside own department • Skilling unaware of EnronOnline until later stages 	<p>Horizontal communication needs to be improved and try to shift the focus on individual performance to team performance to encourage teamwork and coordination</p> <ul style="list-style-type: none"> ✓ Team-based Rewards ✓ Org-wide celebration on Enron anniversaries/achievements ✓ Regular training programs involving members from different departments working together ✓ Matrix structure: such that it is necessary for different departments to coordinate (interdependence) ✓ Focus on end result- customer/client, not the departmental outputs

<p>SK 6: Inadequate down-the-line leadership skills and development</p>	<p>No information available to lower level employees and those who had the skills to recognise problems arising were quieted or left.</p>	<p>In order for change to be successful, those delegated with the task to implement change (sub-change agents) such as the on-floor managers should be trained to ensure change is implemented as planned and that it is sustained. Can be achieved through:</p> <ul style="list-style-type: none"> • Educating and <i>training</i> managers to develop leadership skills • Increase their <i>commitment</i> to change: so employees also encourage to go on board as they “follow the leader” and also increases the legitimacy of the change. In fact, as implied by Robert (p.10), employees seem to trust their department managers more than Ken (“I’d rather hear the news from my manager anyhow. I don’t know that it’s up to Ken to explain all of it”)
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