

Enron: Culture

Definition of culture: Culture is a system of shared meaning within an organisation about the organisation its purpose, its members and how they should behave. These include values, philosophy and basic assumptions and beliefs that are shared by the members. Culture is a set of shared understanding and new members must learn to be accepted into the services of the firm.

Terminal values are desired outcomes people try to attain. Instrumental values are desired modes of behaviour.

Summary

- Culture of innovation:
 - “Most innovative company” 5 years in a row
 - Ability to embrace uncertainty
 - Invented radical new business concepts
 - Charismatic/visionary/revolutionary leadership
 - “Intensely stimulating environment”
 - Cut staff and recruited young talent for new thinking/ideas
- Culture of “best practice”:
 - On list of best companies to work for
 - Extremely high level of employee talent
 - High quality management
- Cut-throat culture:
 - “Make money at all costs”
 - Had to endure a punishing workload
 - values of risk taking, aggressive growth and entrepreneurial creativity which is not balanced by a genuine attention to corporate integrity and the creation of customer rather just shareholder value

Identify culture

- **Observable symbols**
 - Rituals/ceremonies: major spectacles using theatrical costumes and settings; rode on an elephant to promote India ventures: stage with audio
 - **Physical layout**
 - Most employees had a goatee, or were clean cut
 - Outdoorsy look
 - All employees wore the same blue shirt
 - Enronians like a members of the same “club”
- **Communication patterns**
 - Particular terms/language:
 - Skilling and Lay stressed growth and increasing stock price, “come to shore”, “metrics” instead of “build consensus” and “numbers”
 - Nicknames
 - referring to traders as “Storm Troopers”
 - “Aggressive” nicknames for executives e.g. Rebecca Mark “Mark the Shark”
 - Nicknames of employees “Enronians”: best and brightest in the world
 - Employees in top category called “water-walkers”
 - One way communication: top-down
 - Major presentations/spectacles on stage by leaders

- **Practices and behaviours**

- No criticism feedback opinion
- Recruitment process:
 - Second interview: “Super Saturdays” - interviewed for 50 minutes by 8 different interviewers (intense)
- Employees “Enronized”
 - fierce competition, no loyalties (no family) other than Enron
 - 80 hours of work per week is normal
 - Blind loyalty
- Performance appraisal: “rank and yank” ranked twice a year into A, B or C
 - C have to improve or be fired, almost impossible to get out of C
 - 15% fired regularly
 - No seniority-based salaries, highly leveraged compensation in the form of huge cash bonuses, stock option, expensive trip

- **Values, assumptions, feeling and beliefs**

- High performance
- Consistent message: employees were the brightest and the best and *lucky* to be accepted by Enron
 - On evangelical mission, they are contributing to the society
 - Leads to blind loyalty
- Skilling hired young people because they didn’t mind long hours, did not question authority and did not care about things being kept as they always had been
- Employees who performed were compensated well
 - if you were smart enough and tough enough to work at Enron, you deserved to live like last year’s Oscar winner
- Competitive and low cohesion: each employee for himself “if I step on a guy’s throat and he doubles my compensation, well I’d stomp on the guy’s throat”
- Corrective feedback stifled - employees need to be consistent with their leaders

Theories of Culture

<p>Integrationist</p> <p>(Strong) Organisations have uniform cultures. A single, uniform strong culture is better</p>	<ul style="list-style-type: none"> - Dominant strong culture: innovative, being the best and cut-throat culture organisation - consensus throughout organisation - Top-down mgmt and communication: Ken Lay dictates the culture through his procedures ex: punishing employees who speak out (fear) <ul style="list-style-type: none"> • questions/critics about authority/illegal business practice not allowed - Clear boundaries of in and out: exclusive, like a “club” to be a trader at Enron - Extremely strong organisational commitment - loyalty to Enron is first and foremost - blind loyalty (believe Enron is best condition, and nothing wrong happening) - Manage to create right culture: selection (rigid recruitment), reward and punishment (reward when consistent with culture A/C) <ul style="list-style-type: none"> • Culture as deliberate strategy by Enron’s management: create and sustain a culture of high performance and competition, employees had to survive tough recruitment process and endure a punishing workload and intense work hours • Supports high turnover rate: easily fired, high remuneration <p>Advantage: A single, uniform strong culture is better</p> <ul style="list-style-type: none"> - A functionalist theory: culture influences effectiveness
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Enron: Ethics

Ethics: Question about morality – wrong or right

Unethical behaviours

- **Discourage ethical behaviour:** severe punishment for not being obedient
 - o Ethical behaviour are:
 - interpersonally difficult: impossible to challenge a superior
 - personally risky: whistle blowing may lead to marginalisation in a group or even job loss
 - o “Enron created an environment where employees were afraid to express their opinions or to question unethical and potentially illegal business practices. (p7) because the rank-and-yank system was both arbitrary and subjective, it was easily used by managers to reward blind loyalty and quash brewing dissent.”
 - o “Employees were not encouraged to communicate upwards and certainly not in the form of negative information. Criticism of the company was not tolerated. No one questioned authority and anyone who queried accountancy practices was likely, at best, to be reassigned or lose a bonus”
 - o Blind loyalty and unhealthy balance of interest of each individual: employees were “Enronized” so that they would “compete fiercely among themselves and to leave all other loyalties, including family, behind
- Encourage and tolerate **unlawful behaviour**
 - Award system simply reward ppl with best profitability (no other criteria – ethics)
 - Result: *Andrew Fastow – the chief financial officer who was later found guilty of fraud – received over \$2 million dollars in bonuses in a single month in 2001.*
 - Did not appear to be big news
- **Behaviour that damages the organisation:** putting own interests ahead of an organisation’s
 - As employee only care about personal gain
 - “If I’m on the way to my boss’s office to talk about the compensation, and if I step on a guy’s throat, he doubles it, well I’d stomp on the guy’s throat.”
- **Lying, cheating**
 - “There was an unwritten rule ... ‘no bad news’. If I came to them with bad news, it would only hurt my career”
 - California politicians accused Enron of manipulating market prices for natural gas. California consumer groups also accused Enron of price-gouging during California's power shortage.
 - These included falsifying financial data, bribery, tax avoidance, energy price manipulation and borrowing money without any intention of paying it back (Johnson 2003). Some were jailed. Shareholders and employees lost millions of dollars.
- Organisation’s Action Against Unethical: **Ethics codes and policies**
 - o BUT inconsistent with their actual values and decisions

Causes of unethical behaviours

- **Structural factors:**
 - o **Value:** Profit at all cost: These new traders, according to Gary Hamel, “were bold, hungry, and creative” and their challenge was to make money – at all costs. Traders were “assigned to a territory and/or a specialty, but their real assignment was simply to find ways to make money”
 - **Creates unethical norms:** normal to engage unethical actions