Unlearned lessons from the past: an insider's view of Enron's downfall

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Abstract

Purpose – *The purpose of this paper is to capture an insider's view of the organizational culture and management practices that contributed to the downfall of Enron. In light of the current worldwide financial and economic crisis, this article aims to highlight some of the unlearned lessons from the past.*

Design/methodology/approach – *A qualitative interview case study was used for the basis of this paper.*

Findings – *This article shares an insider's (former vice president's) insights related to the practices and culture that led to Enron's unethical decisions and strategies. It discusses one man's view of the history of Enron, as well as what should have been learned and applied to the global financial industry to help to minimize or even avoid today's painful economic crisis.*

Practical implications – *Six main causes of unethical behavior for individuals in organizations are outlined, and important lessons learned are presented. The article also discusses the importance of reflecting and remaining inwardly vigilant, while outwardly thinking of and serving others.*

Originality/value – *The information for this article was based upon an original interview.*

Keywords *Ethics, Governance, Organizational culture, Leadership*

Paper type *Viewpoint*

Alan P. Warnick was the Vice President of Organization Development and Training for Enron Operations and was an insider during the years leading up to the corporation's downfall. His previous experience also includes positions as Chief Human Resources Officer for Enron Chemical and Great Lakes Chemical Corporations, General Manager of Human Resources Strategy and Change at Reliant Energy, and a consultant with Chase Manhattan Bank and American Training. Al is a senior level human resources executive with broad experience in large, multidivisional and international corporate environments. He has initiated and led many large-scale organizational change projects focused on building organizational capability. He has substantial experience in reengineering critical HR processes, working with business units to develop high impact people strategies, and realigning the mission, role, and structure of the HR function. He has extensive background in mergers and acquisitions, business ethics, culture change, and organization development and learning. His corporate accomplishments have been widely published and cited in leading professional journals and magazines, and he has been a guest speaker at numerous management meetings and professional conferences. Al is currently the interim department head and executive-in-residence in the Department of Management and Human Resources at Utah State University.

Interview

Authors

We are very pleased to be able to get your valuable insider's perspective on the individual and organizational dynamics involved in the Enron experience.

Al Warnick

I'm happy to share my experiences, observations, and learning from that experience. But based on our recent devastation in the financial services industry, we certainly haven't learned much from Enron. When I see what has gone on at AIG and other financial services organizations, it sure reminds me of what went on at Enron: a relaxation of regulations that allows people to take risks that ultimately lead to greed and corruption – but this time it is on a vastly greater, industry-wide, global scale. The huge economic pain that we currently are feeling is to a great extent likely due to systemic similar conditions that led to the Enron catastrophe.

Authors

To help us begin to better understand – and hopefully finally learn from – those similar conditions that contributed to today's global economic plight, please give us a little background on the organizational culture and management practices leading to the downfall of Enron.

Warnick

Well, Enron Corporation came together as a corporation in 1985. It was a merger between InterNorth Corporation and Houston Natural Gas (HNG). InterNorth Inc. was formed as a holding company for Northern Natural Gas, founded in 1931. InterNorth had their headquarters in Omaha, Nebraska, and they pretty much covered the central United States. Their gas pipelines went from Texas up through the Dakotas into Minnesota, and they ran one of the largest natural gas pipeline systems in North America. The merger was spawned, in part, by a corporate raider out of Minneapolis who was putting pressure on InterNorth Corporation and on Houston Natural Gas. When they merged, the company's name initially was HNG InterNorth. Sam Segnar, the president of InterNorth, became the president of the new entity.

Before proceeding, let me give you some background information that will help illustrate the abrupt cultural change when Segnar took over. Willis Straus had been a long time chairman of InterNorth Corporation and beloved by everybody. He was the ''father'' of the whole expansion from its Northern Natural Gas roots. Straus was powerful, but you would not have called him arrogant. For example, they had a dining room on that top floor of the InterNorth building – the old Houston Natural Gas building – in downtown Omaha. Any employee could eat there; you didn't have to be an executive. It was kind of an interesting egalitarian organization. Straus always had his table, but he would go around visiting with employees at any level of the company who were eating up there. Everyone loved him. When he retired, he had handpicked his successor who was Sam Segnar. Sam was not beloved by everyone as Straus had been, and in fact beloved by almost no one. Sam had been involved in the company years prior to the merger, and people generally didn't like him. He was arrogant and clearly an elitist. Interestingly, one of the first things he did was to turn that top floor of the InterNorth building into a suite only for executives, and he had his office moved up there. Everyone talked about how much money he spent putting in very expensive furniture, copper baseboards, and an amazing fireplace in his office. When Straus headed the company, it was quite an egalitarian place to work because there wasn't a lot of emphasis on status. That immediately changed when Sam Segnar became the new chairman.

Kenneth Lay was the chairman of Houston Natural Gas. Now usually in a merger like this, the chairman of the company being acquired leaves and gets a lot of money from the stock and golden parachute agreements. However, in the negotiations for this merger, Lay suggested that they combine the boards of directors. He reasoned that because they had eight members on the InterNorth board and Houston Natural Gas had only six, InterNorth would still have the majority status and would still get to make all the crucial decisions. Sam Segnar thought that sounded fine, which (in later reports we heard) was a surprise to Lay. I guess he never imagined in his wildest dreams that Segnar would really go for that. After that took place then all Ken Lay had to do was to go around to the board members and find two of them who didn't like Segnar. Within one month Ken became chairman of the board. That's the kind of maneuvering that characterized Ken Lay. He was extremely shrewd and extremely bright – he had a PhD in economics. He had a lot of history with the Department of Energy because he had been employed there and was well-connected. He had lots of political connections, even with the president of the United States. One of the first things he did was to move the Enron headquarters to Houston. I think initially people at Enron thought Ken was doing well, but the attitude changed particularly when Jeff Skilling arrived.

Let me tell you a little more about Ken Lay. He really had a distorted image of himself. He thought of himself as the grandfather that everyone loved. Initially people liked him, especially compared to his predecessor. Ken did keep the elitist division Sam had created between executives and employees. He was more visionary, but kept the culture. Ken made and spent a lot of money, and everyone knew it. In the end, he received hundreds of millions of dollars. After he died his wife said that money was all gone. How he could spend that much, I have no idea. I don't think he was a gambler, because he loved money too much to be a gambler. He had endured extreme poverty in growing up, and ironically it was his obsessive hatred of being poor that greatly contributed to his downfall.

Authors

Tell us how you were involved in these companies.

Warnick

I came from the InterNorth side and had been with them for nine years before the merger. I had joined InterNorth in 1977, and in the early 1980s I became Director of Human Resources for the Petrochemicals Division, which was one of four or five operating companies in InterNorth. Mine was the head HR job in that division, so I reported to the President. After the merger in 1985, the corporate headquarters moved to Houston, and I was in one of its operating companies.

After moving to Houston we immediately noticed some interesting things. Our first impression of them Ken Lay and his leadership team was that they were big spenders. From our point of view, as past InterNorth employees, we felt that they had really quite exorbitant relocation benefits. I was actually on the committee that put the benefits plans together in 1986 and 1987. Then they sold the Petrochemicals division to US Chemicals to pay for the merger, and we relocated to Chicago. I stayed with them until fall of 1987, and then I left and took a job as head of HR for another company.

It wasn't until 1991 that I received a call from Enron saying they wanted me to come to Houston to be the Vice President of Organization Development for all of the operations. At that time they had five different gas pipeline companies and a liquids natural gas operation. I decided to accept the offer and began reporting to a man by the name of Jim Barnhart, the Executive Vice President of Administration, who reported directly to Ken Lay.

Jeff Skilling came onboard in 1990, and so he was already there when I came back in January of 1992. He was in the marketing end and reported to Ken Lay, and I was in plenty of meetings with him. Jeff, who initially was a McKinsey consultant at Enron, became a central part of Enron's huge culture shift. Because of the complete change in leadership, Enron was able to make a significant culture change that would be nearly impossible for other organizations. It was like the Anglo-Saxons being taken over by the Normans.

Authors

When you returned to Enron, what were the most immediate concerns you had as you became involved in day-to-day operations and change efforts?

Warnick

I immediately discovered that they had a tendency to move people around a lot. They were great shufflers. I also noticed, again, that they were big spenders, which came from the Houston Natural Gas side of the merger. The InterNorth side was much more conservative in its style. Enron new leaders had big plans. For example, they came in one time saying that we were going to double Enron's stock price in a short amount of time, which interestingly they did and a whole lot more. In fact, I remember when I was still with the Petrochemical division right after the merger, one of the executive vice presidents (who came from the HNG side) came to Chicago to meet with us. He said, ''We're going to do this for two or three years and then double the stock, then we'll move on and do other stuff.'' The big reaction from us was ''Well, that's good for you. You can play with us for while, but then what happens to the rest of us after you're through doing your thing?'' Early on we felt like we were their toy until they made a lot of money, and clearly their desire was to make a lot of money!

Authors

So, were they pretty forthright about that?

Warnick

No question about it. They intended to change the natural gas industry. At that time it was a very regulated industry. It was a great place to invest your money in a slowing economy. But what Enron leaders wanted to do was lead a paradigm shift for the industry. In fact, they intended to change the whole business paradigm about natural gas. Ken Lay's vision – and he was a very visionary man – was to deregulate the industry and let the price of natural gas float with the market. His business vision was that Enron would be the first company that really got on this bandwagon while everyone else was fighting deregulation. Enron would then capture the entire market differential, which is where you can really make money. His vision was that Enron would be the first ''Natural Gas Major'' – like the oil ''majors.'' No one had thought of natural gas being in that kind of position.

Authors

Did he pull people on board pretty quickly?

Warnick

If you weren't visibly committed to the team, you were out. It was like the mafia coming in and shooting a few people just to let people know that they meant business. If you were not on the team, then you would be fired. There were some really good people, without discussion, that were fired. He would go around and figure out who was going to support his position and what he was doing – and who might give him trouble. Those who would give him trouble would be gone. That threatening culture remained until the end. It was a very cut-throat, externally-competitive, and internally-competitive culture. Many people could do very well working at Enron, and the leaders spent money very freely. The idea was that ''we're going to get rich, and you can get rich too if you join us.''

Authors

Did people from the start have concerns regarding the ethics of the culture and the business?

Warnick

Remember that we were coming from a very conservative and regulated industry, so we were very careful about not offending any regulators or government officials because they determined what the price was going to be. Therefore, Enron leaders would never think of breaking the law or doing something technically illegal. In some respects the industry was like the flock of sheep that are kind of ''fit for fleecing,'' because people generally didn't tend to think in those kinds of terms. The people who joined the company were very hard working, loyal, dedicated, and overall good folks. They were not hired to be creative and share new ideas. They were rewarded to make sure that natural gas flowed and that people got what they expected. Employees were rewarded for making contracts and delivering. Operational excellence was really the ''name of the game.''

Authors

Please talk more about Enron's reward system and what parts of that system directly led to or influenced unethical behavior.

Warnick

The reward system became even more liberal as time went on. From a reward standpoint, they decided to remove all caps on compensation. You could make any amount, and Enron prided themselves in paying above average salaries. When the industry was regulated, you didn't trade natural gas. But afterwards, people could get rich because there were no caps. The average tenure of a trader at Enron was about 18 months. They would work their fool heads off, and they were not nice people. They were not fun to be around – being nice seemed to interfere with short-term profits. You wouldn't want them as your neighbors. But, they would work ungodly hours, make their millions, and then leave. Ken Lay didn't mind if they made money because it made him money.

Jeff liked the GE model of ranking employees, so he brought that to the company. The bottom percentage of employees in perceived performance would be fired. This practice was something that also led to a very cut-throat, competitive environment. Because they used this ranking method of performance management, appearance mattered more than anything else. No one ever wanted to stay in a job long enough to see the actual results from their work. They just wanted to look like they were going to get results. They wanted to be off to the next job, so they could make the big leap. There was no accountability. You always wanted to leverage your position into something else.

Authors

How did you experience this culture change to a more internally competitive work environment?

Warnick

I immediately noticed when I came back to Enron in January of 1992 that things had changed a lot from where they used to be. At InterNorth we used to have meetings with all of the heads of human resources. The agreement was that we would be completely honest with each other and support each other. We knew that what was shared at these meetings stayed confidential because we were helping each other solve problems. When I brought up a problem, I could get great counsel and advice. It was a wonderful, supportive kind of interaction. After I returned to Enron, I went to the first of these meetings, and the difference was very striking. I still knew some of the people, since I had been gone for only four years. At this meeting I was very open and presented a problem I was having in my area and wanted ideas for solutions. After the meeting, I was immediately told by people who knew me that I needed to keep that kind of stuff to myself. They said, ''You don't realize that that information will now be shared with the people who may have something to gain by putting your boss down. That will be used against him, and then it will hurt you as a result of that.''

Wow, had the corporation changed! That was when it just really struck me how different things had become.

Authors

We heard that Jeff Skilling and Ken Lay really believed that they were operating ethically during those years. How can that be the case?

Warnick

I do think they believed they were operating ethically. I really believe that Ken Lay, up until the day he died, thought he was ethical. He had a PhD in economics and was the son of a Baptist minister, and he had a basic understanding of ethics. But he really thought that what they were doing was creating a new business model. Someone I know personally was in a meeting with Ken Lay and Jeff Skilling, and this individual heard Jeff say to Ken, ''If you will let me do what I know how to do, I will make you richer than you can possibility imagine.'' Now it is important to understand from Ken Lay's background that he grew up poor and he hated being poor. Money, and making a lot of it, was not only attractive to him, but it seemed an obsession. From that point on, Jeff Skilling had anything he wanted, and he was enabled in a way that he could do no wrong. Ken Lay's primary role in this ethics scandal was as an enabler. The real architect of what went on was Jeff Skilling. He pushed for ''mark-to-market'' financing, which was the key to everything else. I think that one thing was the key to the downfall of the corporation. The SEC did approve it, so what he was doing then was not illegal. Has anyone ever required the SEC to account for that decision? For Jeff, Ken, and the corporation, how things appeared officially on paper was the most important thing. That's what mattered, but this was a very superficial level of judgment.

Authors

Did the typical employees understand what was happening?

Warnick

I don't know about the regular employees, but at my level – the VP level – we all knew in 1992 what was going on. Although many of us weren't financial people, we all knew; we all said to ourselves – ''This is a house of cards.'' We knew that it wouldn't take much to blow all this over. In fact, I remember that there was a big celebration when they got the SEC approval. Jeff knew that if they got SEC approval he could do all of the other things he wanted to do. Jeff showed tremendous increase in revenue and theoretical profits, but the word around was that we never really made any money in the trading process. A lot of money was flowing, but we knew we weren't making money.

I think it is interesting that although we knew what was going on, it seemed that they always had an answer for everything. The two stock answers to our concerns were the SEC has approved it, and our auditors say we are operating by appropriate standards. There was a lack of true accountability in the culture. To my knowledge, they never advocated or asked us to do something illegal. Yet, there sometimes seems to be a fine line between what is legal and illegal. There is a gray area. Enron leaders would take all of the gray as being white, and they would come right up to the edge of black before they would say ''It's illegal.'' You would never do that in the old traditional InterNorth or in the natural gas regulated culture in general. You would always keep that buffer. You didn't even want to be in the gray. Jeff was the architect of it, and Ken Lay was the enabler. Both of them were movers and shakers, and they considered this to be the ''new business model'' that they were creating.

Authors

Did people still leave early on because of their ethical concerns, even though Ken and Jeff seemed to have justifications that satisfied many?

Warnick

Oh yes. Many left, and in fact that is why I left. We knew years prior what was going to happen. Yet, we couldn't voice our concerns openly. If we voiced it openly, we would not be around the next week. There was a threat, and it wasn't a veiled threat either. You had plenty of evidence. It was a culture of threats, and people knew. We knew what was going on, so how did Jeff Skilling and Ken Lay *NOT* know it? I don't know what was in their hearts. I've thought a lot about how someone like Ken Lay, who genuinely felt he was an ethical individual, could end up doing such unethical things. It ought to scare all of us. You can justify your actions so fast, and I think that's what Ken did.

Ken and Jeff were actually some of the genuinely brightest and most gifted people I have ever met. But I've decided that the smarter you are, the more capable you are of unethical behavior. I believe that competence can be a key factor contributing to unethical behavior. Ken Lay was a visionary, and Jeff Skilling was a guy who loved power. I think Jeff always knew exactly what he was doing, and he thought he would get away with it. It was interesting to watch as Enron saturated markets as they were trading on everything. They were trading futures on the weather! The logical thinker in me would have to say, where does this all end up?

I've always thought it is interesting that individuals could continue to think they were acting ethically when such negative things begin happening around them. Their success – or appearance of it – led to enhanced egos, a sole focus on money, and an increased lack of morals. By the end, there were reports of expense report inflation, off-balance sheet deals, accounting cover-up, misleading the public, self-dealing, chasing the big bonuses, insider trading, wild parties, and even theft. All of the signs were there years prior, so it is still amazing to me that they somehow couldn't see it.

Authors

You bring up an important point: how could they be truly visionary, as you call them (particularly Ken), and at the same time not see or at least acknowledge that the house of cards would soon be crashing down around them.

Warnick

Again, they saw this as the new business model. That's at least my characterization of it. From Jeff Skilling's point of view, assets were a hindrance. They had no stomach for operation – no patience for operating anything! It wasn't fast enough; they were interested in changing the corporation into basically a trading company with no assets. That would have been perfect from their point of view. I think they felt they could always stay ahead of the market. There was this big wave back then, and they thought they could be fast enough to maneuver around it. We could see what was happening.

I think a part of it was self-deception that led them to not admit what was going to happen. I also think there was an addictive quality to this. People wonder how alcoholics or gamblers can't see what is going to happen to them down the road, but sometimes they really can't because they deceive themselves. I think that's another side of the addictiveness, and I think they were blind to it. They were visionary to a certain point, but money made them blind. They rationalized to themselves and others that the all was OK since the auditors said they were following acceptable accounting practice. Those of us who were not accountants or auditors would say, ''Arthur Andersen is there, and I guess that's what they say, so that should to be good enough for me.'' But it never felt right – never. I always got answers, but never felt satisfied with those answer. It was a competitive, cut-throat place to be, so people couldn't challenge and then stay. It was not a fun place to be.

Authors

Tell us more about the organization's culture changes you saw when you came back to Enron in the early 1990 for the last time.

Warnick

Remember, this type of environment was a huge cultural shift in a relatively short period of time, particularly for the InterNorth side of the organization. Think about the commonly held notion among management scholars that it takes five to ten years to change an organizational culture. This was moving very fast. It was when I came back in 1992 that I noticed the closed culture. No one dared speak the truth. Remember that Jeff brought the GE model of ranking employees to the company, and it was one practice that led to the cut-throat, competitive environment I spoke of earlier. You would never share any information with someone else for fear of them being ranked higher than you. I watched this happen; people would literally find something out and they wanted to be the first to get into the bosses office to tell them. They wanted to get the credit. After two years as the VP of OD I just couldn't take it anymore. As I said, it was not hard to see during my first week back in 1992 that things were not right. Once you've been outside the culture for a little while and you come back, I think you see more clearly.

Authors

Did that closed culture spread into all levels of the company?

Warnick

Sure. It's like any culture. It was just the way we do things. The culture was one where first, appearances mattered most, and second, if you could beat someone there with the idea then you felt rewarded. Remember, the movement of people was huge. If you stayed in a job a year or two, that was a long time. What you would do, in order to get promoted, was to appear to have made a difference. You wanted to have things that showed you did. This was a part of the culture – the show, ''big splash'' kinds of stuff. You wanted to get attention and to be noticed. Those who didn't care for it eventually left.

Authors

It seems like the culture changes in part resulted from some strategic changes made by top executives that were probably implemented through HR, such as the change in rewards as you mentioned.

Warnick

Yes. As I have considered the strategic changes, particularly in HR, from the time I was there in the 1980s until the time I returned in the 1990s as a VP, I think there were a number of transitions that led toward ultimate unethical behavior within the organization. Jim Street, the Sr VP of HR at the time described it to me. In the 1980s Enron recruited engineers and other employees from mid-level schools, and when I returned in 1992, the company was recruiting MBA's from top schools in the country. The initial culture seemed to value loyalty and technical competence, but when I returned they valued deal-makers more than anyone else. Originally they measured performance through standards, and in the 1990s they were measuring performance by comparing employees to each other. In the 80s rewards to employees were based on business success, but when I returned I found that rewards were focused primarily on deal value. Finally, in past years an employee's reward size was always limited, while in the 1990s, the reward size became unlimited. Enron leaders strategically made these decisions to make it possible for Enron to ''succeed'' in the way they envisioned – to make money.

Authors

It sounds like this was not a developmental culture where managers and leaders tried to develop others.

Warnick

Interestingly, there was actually a disdain for training and learning. They just wanted to go out and hire the resource they needed right now. They didn't have patience for the development of people. When someone was no longer needed, they let them go. Enron believed that you don't develop people, you hire them. You don't develop things, you buy them. We bought our competence. I remember talking to my boss one time, the chairman of all of the operations, and I said, ''We need to do some business practice benchmarking if we are really going to improve and get where we need to be.'' His reply was ''Why should we do that? We can't learn anything from them.'' I thought to myself, ''Here I am, I'm the Chief Learning Officer of this corporation, and you are telling me we don't have anything to learn. What am I doing here?'' For me that was the straw that broke the camel's back. There was an arrogance in this organization that was hard to describe. They really believed that nobody could teach them. The hype was that we were the teachers, we were the leaders, and we were the innovators. It was definitely not a learning organization, and I was hired as the head of learning! Can you imagine my challenge!

Authors

Please talk more about your job for those last two years at Enron after you returned in 1992.

Warnick

When I came back to Enron as vice president of Organization Development, my charge was to instill a new formal culture and vision. The vision was that ''Enron will be the first natural gas major, the most innovative supplier of clean energy worldwide for a better environment.'' Their three values were:

1. ''Your personal best makes Enron best,'';
2. ''Communicate – facts are friendly,''; and
3. ''Better, faster, simpler.''

The second value was the one everyone looked at and said, ''Yeah right!'' Facts might be friendly, but contrary opinions at Enron were not. Everyone really lived by the ''Better, faster, simpler'' value in everything. My charge was to incorporate that vision into the culture, which we called ''vision to reality.'' We created and implemented a lot of initiatives, and I thought we did some very good things. For example, we developed a program to train internal change agents. These were people in various jobs, so their change responsibility was in addition to their regular jobs. The presidents or vice presidents of each of the companies or divisions would nominate two people every six months for a training period. These had to be people who already embraced the vision and had potential to be a vice president sometime in their career. It became a very prestigious thing to be a part of this. These individuals started getting promoted at a phenomenal rate in the organization. If you got nominated to that – it was your ticket to the future. It was really a unique kind of model. Of course we did regular training activities too, however, that was downplayed because Enron really wasn't interested in training people.

Authors

What specific events, if any, led to your decision to leave Enron?

Warnick

I led lots of initiatives, and one was a big initiative to look at alignment of strategy in the corporation. When I first returned to Enron, I immediately noticed that there was a tendency on the people side to implement leading kinds of practices like skill-based pay. There were all kinds of best practices being used, and when we would talk to managers in Enron about how these practices related to where we were trying to take the company, they would say they had no idea. I knew we needed to work out alignment issues. So, I went up and visited with a well-known strategy consultant. I had ideas about how I thought we should move forward, and this consultant knew the research around these issues. He gave me some pointers and told me I was on the right track. Yet, I found Ken, Jeff, and others didn't care about having practices aligned with their vision. They didn't care about operations. They really only cared about Jeff's model to create revenues and the corresponding increase in profits, at least on paper. When I realized that I really couldn't help the company strategically and that they didn't want to be helped, I just couldn't stay.

Authors

What are some lessons learned from your experiences?

Warnick

There are several lessons at various levels. First, in terms of running a corporation, sound accounting and business principles are there for a reason. Enron was able to do what it did because it convinced – at least Ken and Jeff did – a lot of people that they had the new business model. Well that business model was only paper thin and blew up. There are lessons to be learned there, that good sound business principles, true and tested over time, are still true, whether others believed them or not. We could sense there was something wrong, and this is why I left my VP position at Enron after only two years.

Another major lesson I learned from these experiences is that we really don't know where the future is going to be. We need to be open and vigilant, and we can't afford to move ahead in blind overconfidence. The leadership at Enron had an unfounded faith in themselves. They believed they could create anything, and they would worry about the future when they got there. They really thought they had the world by the tail.

I also learned that if you ever think you don't have something to learn, you are in big trouble. Once you get to that point that you discount feedback, and then stop getting feedback, then you lose contact with reality. This is what happened at Enron. They were off into their own world. They really had lost contact with reality, and they didn't want to know anything different. In hindsight we can see it pretty clearly and say. ''Sure, they should have known this,'' but from their point of view they were blazing trails. They didn't want to look back at the past, and they didn't want others telling them what they couldn't do because they felt they'd already shown they could. It all looked good from their perspective of blinded arrogance.

Authors

This sounds very narcissistic.

Warnick

Yes, very narcissistic. John Kotter has commented that if you look at history, great leaders tend to be very self-confident people. They have a huge capacity to remain steady and make decisions under stressful conditions when other people are falling apart. But this confidence never moves into arrogance, and they are often described by others as having a humble attitude and open to learning from mistakes. When I look at what went on at Enron I am struck by the arrogance of the leadership, who basically believed that their visionary new business model allowed them to not have to put up with the restrictions that the less visionary rest of the business world had to abide by. As Kotter (2003) says, we don't find this same self-centered nature and arrogance with the great leaders in history. So another important lesson for each of us is to consider to what degree we believe we are privileged and ''above the rules'' that others are still subject to. If this is how you feel, you're in real trouble.

There is a wonderful article in the *Academy of Management Executive* (Kroll *et al.*, 2000) on Napoleon's downfall, providing leadership lessons on hubris and arrogance. It is amazing to think that Napoleon in 1812, as emperor of France, king of Italy, and master of the European continent, led his army numbering over 500,000 men to conquer Imperial Russia. And in December of the same year less than 20,000 of his army would make it home alive. Napoleon's hubris that contributed to his downfall included the same elements that led to the unethical behaviors and eventual downfall of Enron: narcissism, a series of great successes, an uncritical acceptance of accolades, and feelings of exemption from the rules. These elements can then turn confidence into arrogance, move people toward reliance on a simplistic formula for success, and lead to a failure of leaders to properly acknowledge impending threats and face changing realities. Now, if there was ever a company founded on hubris, it was Enron.

Authors

From your experience and insights, can you summarize your thoughts on what causes unethical behavior in individuals and organizations, and then give some recommendations on how we can try to avoid and guard against sowing the seeds of unethical behavior?

Warnick

Absolutely. After years of reflection and considering the important work of others like Kotter and Kroll et al., I believe that there are six main causes of unethical behavior for individuals in organizations. These include competence leading to success, increasing arrogance from past success, addiction to praise and status, faulty reward systems, self-deception, and the enabling behaviors of others. These are the core causes of ethical downfall – and they certainly fit the case of Enron. I also believe that history will prove that these causes have been sparked and spread like wildfire across companies throughout the financial services industry, contributing significantly to our very recent economic disasters.

I also believe that there are some very real strategies that individuals and companies today can use to guard themselves against even the beginning steps toward unethical behavior. First, you must continually reflect on your own experiences as individuals, groups, and organizations. You can't learn from experiences unless you reflect on them. And as you reflect, to be able to learn you must be humble and open to the possibility of your being in error and needing improvement. Second, you should always listen to naysayers. In fact, some of your most valuable friends and associates will be those who you can trust to tell you the unvarnished truth about yourself and your ideas, no matter how painful. Third, leaders and managers should transcend personal interests, and always model responsible behavior that is in the long-term best interest of the organization and society. Fourth, you must not compromise your moral values under the pressures of competition or popular acceptance, but always stand strongly for what is right. Finally, all individuals should look beyond themselves and give service to others, maintaining an attitude of helpfulness and a concern for others' well being. It is especially when people become selfish and self-centered that unethical behaviors emerge, often even when individuals are not consciously aware of what is happening. This lack of awareness was true of Ken Lay. I knew him well enough to know that he saw himself, until the day he died, as a very ethical person.

We must reflect and remain inwardly vigilant, while outwardly thinking of and serving others. In organizations it is so important that leaders in particular remember these strategies because they drive the organization culture, and the culture in turn drives behavior. An ethical culture is developed and maintained through both the words and actions of its leaders. We now are beginning to see, with the recent debacle of the financial services industry, how the lack of regulatory vigilance can allow greed, deception, and corruption to spread beyond a few organizations' borders to infiltrate an entire industry and profession. I believe that in the recent collapse of the financial services industry – somebody was deceiving somebody. Like with Enron, things were going great, and then came the great collapse. This doesn't happen without some kind of manipulation of corporate results to make things appear better than they are. Enron was the master of financial manipulation. We should have learned. I'm amazed that there has not been a call for the heads of responsible leaders, as we heard at the fall of Enron. We must truly learn from Enron and apply this learning at all levels of practice in the profit and non-profit, private and public sectors. As George Santayana (1932) once wrote, ''Those who cannot remember the past are condemned to repeat it.''

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