

Enron: From Glory to Dissolution

A closer look at the enablers of corruption

EXECUTIVE SUMMARY

Enron is a now defunct energy production and commodities trading company which was subject to one of history's largest corruption scandals. Through severe accounting malpractices, Enron's corruption scandal resulted in a loss of 20,000 jobs and \$70 billion in shareholder value. This report helps provide an understanding of the organizational factors that facilitated such corruption.

In order to examine the drivers of Enron's corruption, the effects of leadership and culture, incentives, controls, and organizational structure in enabling unethical behaviour are explored. This is done by performing secondary research to examine these hypotheses, which is then synthesized into key findings and takeaways.

Leadership at Enron under CEO Jeff Skilling, created an extreme performance culture that prioritized stock price performance without regards for the means. This culture was reinforced by an incentives structure that forced conformity. Enron utilized its Performance Review Committee as a way of disenfranchising individuals who did not subscribe to Enron's practices. Individuals that were unwilling to engage in unethical practices received poor performance reviews and were effectively forced out of the company.

Culture and incentives had a strong effect on the effectiveness of Enron's internal controls. Enron's internal controls were largely considered to be state of the art, however because of the conflict with the pervasive culture, these controls were never enforced. Furthermore, individuals failed to raise concerns through the available control structures because they feared that the Performance Review Committee would be used to end their career at Enron. Enron also highlights a failure of external oversight measures as auditors failed to hold Enron accountable due to conflicts of interest and regulators let accounting irregularities go unnoticed due to industry deregulation.

As Enron grew, a highly functional structure characterized by high centralization, poor cross-functional communication, and many layers of hierarchy emerged. These factors contributed to intense inter-departmental competition and allowed upper management to act without scrutiny from lower levels of the organization; providing significant motivation for unethical activity.

The Enron scandal highlights the importance for managers to properly design and utilize organizational culture, incentives, controls, and structure to prevent unethical behavior. Furthermore, it shows that regulators have an important role to play in keeping organizations accountable. Finally, it warns of the dangers inherent to industry deregulation and the failures of control measures which may result due to conflicts of interest.