

Bernie ebbers and scott sullivan

Business, Accounting



What power bases did Bernie Ebbers and Scott Sullivan rely on to get away with accounting fraud? The power bases are legitimate power, reward power, coercive power, expert power, referent power. Case Study Bernie Ebbers built WorldCom Inc into one of the largest telecommunication firms. Yet he and CFO Scott Sullivan have become better known for creating a massive corporate accounting fraud that led to the largest bankruptcy in US history. Two investigative reports and subsequent court cases concluded that WorldCom executives were responsible for billions in fraudulent or unsupported accounting entries.

How did this mammoth accounting scandal occur without anyone raising the alarm? Evidence suggests that Ebbers and Sullivan held considerable power and influence that prevented accounting staff from complaining, or even knowing, about the fraud. Ebbers' inner circle held tight control over the flow of all financial information. The geographically dispersed accounting groups were discouraged from sharing information. Ebbers' group also restricted distribution of company - level financial reports and prevented sensitive reports from being prepared at all.

Accountants didn't even have access to the computer files in which some of the largest fraudulent entries were made. As a result, employees had to rely on Ebbers' executive team to justify the accounting entries that were requested. Another reason why employees complied with questionable accounting practices was that CFO Scott Sullivan wielded immense personal power. He was considered a "whiz kid" with impeccable integrity who had won the prestigious "CFO Excellence Award." Thus, when Sullivan's office asked staff to make questionable entries, some accountants assumed

Sullivan had found an innovative and legal accounting loophole. If Sullivan's influence didn't work, other executives took a more coercive approach. Employees cited incidents where they were publicly berated for questioning headquarters decisions and intimidated if they asked for more information. When one employer at a branch refused to alter an accounting entry, WorldCom's controller threatened to fly in from WorldCom's Mississippi headquarters to make the change himself.

The employer changed the entry. Ebber's has similar influence over WorldCom's board of directors. Sources indicate that his personal charisma and intolerance of dissent produced a passive board that rubber-stamped most of his recommendations. As one report concluded: ; The Board of Directors appears to have embraced suggestions by Mr. Ebbers without question or dissent, even under circumstances where its members now readily acknowledge they had significant misgivings regarding his recommended course of action. ;