Enron business leadership case analysis management essay

This report includes a case analysis of Enron Corporation's business practices so that it can be identified that does its leaders are responsible for its failure or not. The strategic context of Enron Corporation is analyzed to evaluate and select appropriate processes or actions for developing the potential of managers and employees for engaging in critical and strategic thinking (e. g. involvement in decision making, empowerment, information, concern, etc). Additionally, the report also includes a discussion of emerging trends and practices in business leadership along with substantial recommendations and changes in Enron " leadership philosophy" that may have prevented its collapse. It provides all inclusive information related to Enron collapse and advanced business leadership practices that have been used to prevent firms from these kinds of collapses.

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Introduction

All firms' managers are expected to increase investor returns whilst conforming to established regulatory measures, obviating principal-agent conflicts of interest, and heightening the reputational capital. The present reporting of arrests and surrenders of top managers in U. S. evidences an increasing level of corporate irresponsibility and managerial negligence (Bryce 2004). This in turn is becoming a reason of most of firms' downfall like Enron. The increasing number of downfalls has increased companies attention towards the development of advanced business leadership practices (Boscheck 2008).

Here, in this report the business practices of Enron Corporation will be analyzed so that it can be identified that how company leaders are accountable for its downfall due to their ethically and morally irresponsible behaviour. Here, the analysis will be strengthened by evaluating the role played by the charismatic leaders, Kenneth Lay and Jeffrey Skilling in the fall of Enron Corporation. In the end, emerging trends and best practices in business leadership will be discussed that could have been recommended for Enron (prior to its fall) that may have precluded its collapse.

Critical Analysis of Enron Corporation Downfall

Enron Corporation's 2001-2002 corporate financial scandal stunned the nation and industries because of its scale and the unrelenting disaffirmations of senior managers about any information of the misrepresentations or related misconduct. The company top authorities like Kenneth Lay and Jeffery Skilling were also unaware about the financial wrongdoing of their subordinate. As well, they committed that they did nothing immoral (Boscheck 2008).

This scandal became a crucial subject of debate and examinations about firms' business leadership practices and procedure to follow prescribed ethics and business responsibilities (Bryce 2004). Throughout discussions and evaluation of top most business researchers, it was identified ' Leaders from Enron are accountable for its downfall as they were not ethically and morally responsible". The statement is quite correct and can be supported strongly.

The company scandal was not due to faulty accounting or poor regulation but it was the result of irresponsible behaviour of its managers in regard to business ethics and morals (Baker & Hayes 2005). Managers of a firm are highly responsible for its success if they operate ethically and morally but this was not the case with Enron managers and it resulted in company downfall (Seeger & Ulmer 2003). The level of this event forced businesses to focus on the development of ethical and moral behaviour among their managers as well as concentrate on the communication-based responsibilities of senior managers and development of standards for responsible leadership (Daft & Lane 2007).

The downfall of Enron can be analyzed based on the principle of responsibility as this is crucial to behave morally and ethically. This event severally affected the nation, other firms, investors, government, and regulation authorities (Bryce 2004). The company irresponsible behaviour and the distrust in corporate governance generated by it also severally affect key stock markets. The company downfall is due to the inappropriate leadership behaviour of its three senior executives that are:

Kenneth Lay (company CEO and founder)

Jeffery Skilling (company president)

Andrew Fastow (Chief financial officer-CFO) (Seeger & Ulmer 2003).

Initially, the company was transformed due to Lay. He was able to transform small, Houston-based pipeline company into an energy-trading giant due to state and federal legislation that prompted deregulation of the energy industry. Throughout his efforts and initiatives, he became able to attain huge success and several awards (Boscheck 2008). In 1996, from the Council of Economic Priorities the company received the Corporate Conscience Award. It also used to operate by integrating values like respect, integrity, communication, and excellence.

The company value statement was known as RICE but slowly and gradually its senior managers started losing their focus from these values and finally resulted in a downfall due to their misconducts. Their concentration and values were ignored in regard to the issue of profit (Sosik & Jung n. d.). The company approach and fundaments were correct in the beginning but slowly managers started thinking about profit by contradicting the company RICE code (Daft & Lane 2007).

For instance, though Enron emphasised open communication, but its acts were not persistent with company value statement as its managers used to avoid messages of resistance and opposition (Seeger & Ulmer 2003). The code of conducts made for the company was also not adopted appropriately. Its code included that employees of the company are trained to report everything that is not according to standards but this was not the case in reality as its managers hide the financial position from employees, stakeholders and general public (Bryce 2004).

The company values mentioned in its statements were neither patterned by its leaders nor incorporated into its operations and due to this it confronted downfall. With appropriate leadership practices the company could have become able to resolve its troubles and issues but lack of responsible leadership behaviour encouraged its operations and processes towards bankruptcy (Boscheck 2008). In spite of following RICE values, the company leaders were operating with values associated to business success and profitability.

The company parking garage for its employees used to evidence different business virtues like bold, innovative, smart, ambitious, accomplished, adventurous, and undaunted”. Its RICE values were functioning as a public spotlight and above discussed values were functioning for insiders (Seeger & Ulmer 2003). The company’s skilled and competent operators worked in a decentralized structure with little or no supervision and due to this all managers starting deviating from basic ethical and moral values associated to business (Daft & Lane 2007).

The company operators were encouraged to find new opportunities for profits and it expanded its operations at international level with several risky and unethical enterprises. The business practices of these enterprises were quite complex and resisted established business and accounting wisdom (Daft & Lane 2007). This was due to the lack of top management support or ineffective communication at the part of its senior leaders like Skilling and Fastow.

Skilling and Fastow were not involved in company daily operations and this was the reason that Enron confronted downfall and failure. Most of the deals done by its managers were fallacious that if analyzed regularly could have been avoided by its leaders (Bryce 2004). Leaders play a crucial role in the success of a business initiative as it plays several roles like facilitator, conflict handling, innovator, communicator, organizer, planner etc (Sosik & Jung n. d.).

If a leader is involved at its most it can successfully direct a firm towards strategic change but in case of Enron its leaders were not involved significantly and due to this only its managers were operating with a sole motive of increasing profits (Nolan 2008). It was also said that Enron Corporation was having individuals that are extremely wicked, chesty and materialistic individuals and they created an environment of greed and benefit of their own rather than organisation (Koppes 2002).

The company culture was also a factor that resulted in downfall as it was infused with corruption. The development of a healthy culture and dedicated employees depends on its leaders and their effective practices (Petrick & Scherer 2003). The leaders of Enron were not as effective as required and this directed its managers towards the adoption of wrong practices that were not as per the ethical business standards. Its managers were adapted to exploiting ambiguities and uncertainties' so that market can be manipulated and company profits can be increased wrongly (Daft & Lane 2007).

This was done in California energy markets that were severally manipulated in the year 2001. With several plans and schemes, the company managers tried to aggravate and capitalize on the electricity shortages (Barsky, Catanach, Rhoades & Thobodeau 2003). The company downfall was totally due to its leaders as they were not able to communicate appropriate values. This is one of the most significant responsibilities of a company's leaders that it communicates its values in an appropriate manner so that employees can become motivated for working in that direction (Boscheck 2008).

Enron Founder, Ken Lay established company with substantial traits of an entrepreneurial organization headed by long-established entrepreneurial values. Throughout his speeches, he concentrated on the need of making radical innovation via breaking subsisting rules and revising them (Sosik & Jung n. d.). This concentration of company leader also made it easy for managers to break other rules.

In spite of directing others with active simulating or by communicating an extensive social values related to ethical and moral behaviour, Enron leaders like Lay and Skilling patterned violating conventional corporate models and systems with an aim to attain more and more wealth (Petrick & Scherer 2003). This culture of creating wealth was quickened when Jeffery Skilling took in charge of company daily operations. Through his in charge, the preliminary entrepreneurial vision was more and more driven to new points of superfluous and corruption (Western 2007).

He prompted company managers and employees towards ritualistic and indiscreet exhibits of wealth and power rather than functioning morally and ethically. Its executives were involved in wrong deeds and actions that are strictly restricted in work place (Seeger & Ulmer 2003). Lots of money were expanded on show off rather than heading its employees towards greater commitment and working in the direction of organisational goals (Nolan 2008).

All these behaviours and processes adopted by leaders developed norms and values related to abuse of power, falsehood, privilege, wealth, greediness, and rule violation (Daft & Lane 2007). These values in turn resulted in company bankruptcy due to its several wrong deals made in order to increase company wealth and profits. The inappropriate approach of Enron leaders towards company management and success encouraged others to compromise long-term stability of the company (Daft & Lane 2007).

As well, the company reports were also evidenced incorrectly as its bad debts were hidden with the help of SPE partnerships. This in turn directed towards apparent conflicts of interests while keeping debt off the books.

Emerging Trends in Business Leadership & Change in Enron’s Leadership Philosophy

Nowadays business leadership is emerging as a powerful tool to handle business and develop employees that can function ethically and morally (Storey 2004). If, Enron leaders would have also followed an effective leadership approach they could have also saved the company from going to bankrupt. Nowadays number of leadership concepts have emerged that is highly relevant in today’s economy in which all firms are competing with each other. Any individual who can influence others, organisational systems and procedures are leaders.

Leaders do affect the attitudes, behaviours and values of others and similar was the case with Enron. At Enron Corporation, leaders were having wrong approach and this also made an effect on its employees and due to this they started operating unethically (Luthans 1998). The company leaders’ zeal to earn more and more wealth made it unclear to its leaders that what is an appropriate way to earn profit so that company can survive in long-run rather than short-term period.

The company failure was due to its leaders and their failure to influence others in a positive way. Enron leaders were not concerned with the control and monitoring of company day-to-day operations that were also wrong as this approach allowed employees to operate in their own way rather than turning them dedicated towards organisation's code of conduct. Enron leaders if have played their role as a strategist who is able to predict, envision, maintain flexibility and empower other they could have become able to create strategic change and resolve company failure.

Rather than following charismatic leadership approach, if its leaders had followed transformational leadership, they could have been able to develop employees with strong ethics and moral business values (Storey 2004). The company employees were not functioning responsibly and it was also due to the lack of check and monitoring by its leaders. Rather than showing wrong aims, the firm leaders should have communicated with its employees to identify some ethical ways to earn more profit and grow significantly.

The company leaders were not able to direct its employees and develop them with a sense of high responsibility. The problems confronted by Enron, was due to the lack of value-based leadership. Value-based leadership pertains to an association between leader and employees on the basis of strongly internalized ideological values. Ideological values are values relating what is ethically right and wrong. Due to the lack of value-based leadership, Enron employees were not able to identify which deal is right or wrong or it can be said that they were not concerned with this as they were prompted to earn more and more wealth.

Ideological values refers to personal moral responsibility, social contributions, altruism, business moral responsibility, consideration for honest and trust, integrity with organisational aspects, fairness and complying with set standards (Harrell 2003). By following values based leadership, Enron leaders could have become able to assert a collective vision, internalized commitment and encouragement of motives among employees that were pertinent to the company goals attainment (Daft & Lane 2007).

With this kind of leadership, Enron leaders could have also become able to make a substantial effect on employees' performance. This could also be understood with an example of organisation that needs norms and values similar to our societal institutions' like family, mosques, schools etc that also require specific values and norms (Storey 2004). Most of the present organisations like Enron are losing their basics as it has become less competitive, less motivating and directing, more unfair, less effective.

Employees are working with an increased sense of separation, disaffection, and distrust that in turn is bringing a corresponding decrease in their self-confidence, satisfaction and security (Luthans 1998). All this in turn is prompting them with lack of purpose, function without complying with codes of conduct, earning profits rather than thinking about right or wrong. All these problems also emerged in Enron due to lack of sense of responsibility and purpose that could have been resolved if its leaders would have adopted a value-based leadership.

The Enron failure evidences the significance of good strategic control and other corporate governance mechanisms that performance depends on its leaders (Daft & Lane 2007). Enron Corporation's board, its auditors, and as well as its bankers all have been partially responsible for the bankruptcy. All company leaders are responsible but still what was lacking is ethics. It is the responsibility of leaders to develop employees in a way that they can be motivated to work ethically and it can be done only when a firms leaders follows strategic leadership (Luthans 1998).

If Enron leaders also have followed strategic leadership they could also have become able to resolve issues related to morality and ethics. Strategic leadership would have furnished company leaders with an ability to anticipate, envision, maintain flexibility and empower others that was critically lacking at Enron (Sridharan, Dickes & Caines 2002). All these attributes would have allowed Enron leaders to bring a strategic change as required. Strategic leadership is multifunctional in its nature and includes managing through others, handling an all inclusive organisation rather than its functional subunits, and handling change in a way that will allow firm to operate in 21st century competitive environment (Storey 2004).

If Enron leaders like Kenneth Lay and Jeffrey Skilling have also adopted strategic leadership, they could have also become able to bring a strategic change as required throughout its worse period. By following strategic leadership, Enron leaders would have become able to anticipate its future problems due to ongoing strategies and way of employees function. Rather than thinking and focussing on specific sub-units to grow the company leaders could have become capable to handle all functions of Enron (Tourish & Vatch 2005).

This in turn would have helped company to develop a sense of responsibility among its managers and other employees rather than insecurity. With the development of strategic leadership, Enron leaders could have become able to manage knowledge and establish and commercialize innovation (Luthans 1998). This leadership approach also assist in constructing a framework through which company stakeholders like employees, customers and suppliers can execute at their highest level.

Without strategic leadership a firm confronts several negative outcomes both internally as well as externally. A firm may confront issues like lack of ethics and moral, lack of confidence and productivity among employees, panic among stakeholders about firms' safety and future (Storey 2004). Similar was the situation of Enron and due to this it finally confronted failure. All these issues could have been resolved, if its leaders have worked as strategist.

Strategic leadership would have facilitated Enron leaders with an ability to effectively manage company operations and maintain high performance in long-run. It would have also appropriate Enron top management with a willingness to adopt changes in accordance to change in business environment. Throughout their determination to success, development of strategic leaders would have allowed Enron managers with an ability to make ethical decisions whether whatever is the situation and whatever is the level of uncertainty.

This business leadership approach would have also facilitated Enron leaders with an ability to anticipate the affect of company decisions on internal systems that in turn is essential to predict chances of success. It allows company managers to work as organisational resources. The determinations and activities of strategic leaders appropriate them as a source of competitive advantage for firm. By appointing strategic leaders, Enron could also have become able to resolve its issues related to developing ethics among employees, determining the strategic direct ion, handling the company's resource portfolio, sustaining an effective organisational culture etc.

With the development of strategic leaders Enron could have been able to determine the strategic direction that includes development of a long-term vision and as well as development of dedicated employees (Zandstra 2002). This was the most critical issue that directed the company towards its failure. If, its leaders would have developed a vision for long run, they could have been able to direct their employees to attain profit with ethical means.

The ideal long-term vision would have served Enron with a core ideology and an envisioned future. The core ideology motivates employees to work by following company heritage that in case of Enron was missing. The envisioned future inspires company employees to think beyond their expectations of attainment and necessitates substantial change to realize future (Storey 2004). All these aspects need to be managed for directing employees towards ethical practices. All these aspects related to strategic leadership could have helped Enron in its critical situation when all employees were behaving on their own to make extra profits rather than thinking about what is right or wrong for company (Lussier & Achua 2009).

Strategic leaders are also able to develop a high performance culture and empower others that were significantly needed for Enron as its employees were operating in a low performance culture (Harris & Hartman 2001). The environment or culture of a firm is the most important aspect that resists required change and similar was the case with Enron as its culture was less welcoming with the rise of Skilling. Skilling's extreme concentration was on the bottom line and making Enron successful at any cost. This approach changed company culture from high-performance to low performance (Lussier & Achua 2009).

In spite of this, the company leaders should have worked as strategist that focus on the development of more and more high performance culture. The strong corporate culture could have improved Enron performance by appropriating internal behavioural coherency (Storey 2004). With this, the Enron leaders would have also become able to develop clear and definite set of principles and values that in turn would have assisted in the development of strong and cohesive culture (Senior 2010). Throughout appropriate strategic direction and cohesive culture strategic leaders also become able to develop trust, honest, respect, integrity, responsibility, accountability and high quality relationships among all organisational members.

With the help of above discussion of trends and practices emerging in leadership, it can be said that the development of appropriate leadership could lifts a firm’s vision to higher previsions, arouses its employees functioning to higher standards and builds their personality beyond normal restrictions. The significance of leadership for Enron could also be understood with the fact that it is a key modifier of an organization’s behaviour.

Conclusion

Subsequent to the detailed analyse of Enron business practices, it can be concluded that its failure was due to the inappropriate approach of its leaders. Enron could have able to resolve its position but lack of concentration of its leaders direct it towards short term approach rather than adopting a long-term approach. The company leaders were not able to direct and influence others in a positive way and this in turn directed company employees towards unethical business practices. If company leaders have motivated its employees in a right way, it would have been possible to resolve company issues that conducted it towards failure (Tourish & Vatch 2005).

The illustration of emerging trends and practices of business leadership evidences that how Enron could have resolved its internal system related issues. It was not so difficult for Enron leaders to develop high-performance culture but their wrong approach towards attaining high profits directed it with the development of low-performance culture.