

# The dark side of personality and enron



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## The Dark Side of Personality and Enron

When it comes to personality testing, most tests highlight the positive aspects or traits that are considered good or socially acceptable. There is another personality cluster called the Dark Triad, which focuses on negative elements of personality. The three components of the triad are narcissism, Machiavellianism, and psychopathy. When it comes to corporate scandals, such as the collapse of Enron, these traits tend to be evident in the top executives of the company. In this paper, I will explore the prevalence of the three elements of the dark triad in the corporate executives of Enron.

### History

Enron was founded in 1985 by Ken Lay and was initially a natural gas company. As the company grew, it slowly expanded into other types of power production as well as expanding into other parts of the United States and later the world. In 1990, Lay hired Jeff Skilling from a firm named McKinsey, and by 1991 he became CEO of Enron Finance Corporation (Bio, 2015). Skilling brought with him a style of accounting called mark-to-market accounting (McLean & Elkind, 2005). Mark-to-market is based off hypothetical future value of assets, meaning that Enron could essentially use projected profits in their accounting, even if no actual money was coming in. This was the beginning of the end however. Skilling would come to hire Andy Fastow to help exploit the newly unregulated energy market. To keep Enron's stock prices high, Fastow created many different limited liability special purpose entities to cover any losses made by Enron. One of these companies he created was LJM, which actually stood for Lea, Jeffrey, and

Matthew, his children (McLean & Elkind, 2005). Fastow would eventually be fired for taking too much from the company and essentially doing business with himself.

In 2001, Skilling was named CEO of Enron and Lay stepped down to chairman. Later that year Skilling would unexpectedly resign in August of 2001 and sell about \$60 million worth of his Enron stock (McLean & Elkind, 2005). Lay would once again become the CEO, but four months later Enron would declare bankruptcy due to fraudulent accounting, failed business ventures, and risky investing. As a result, 20,000 people lost their jobs and the Arthur Andersen accounting firm (the firm responsible for Enron's accounting) was shut down (McLean & Elkind, 2005). U. S Senator Byron Dorgan accurately describes what happened to Enron best with this quote, " In the titanic, the captain went down with the ship. In Enron, looks to me like the captain first gave himself and friends a bonus, then lowered himself and the top folks down in the lifeboat, and then hollered up and said, ' by the way everything is going to be just fine.'" (McLean & Elkind, 2005).

### The Dark Triad

As stated before, the Dark Triad is made up of three personality traits. The first of these is narcissism, which is defined as " The tendency to be arrogant, have a grandiose sense of self-importance, require excessive admiration, and have a sense of entitlement" (Robbins & Judge, 2015, p. 128). Narcissists tend to be over-confident in their abilities and may believe that they are very successful even if they are not. Second is Machiavellianism, defined as, " the degree to which an individual is

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pragmatic, maintains emotional distance, and believes the ends justify the means" (Robbins & Judge, 2015, p. 128). People who are high Machiavellians can be very manipulative. Last there is psychopathy, defined as, " the tendency for a lack of concern for others and a lack of guilt or remorse when their actions cause them harm" (Robbins & Judge, 2015, p. 129).

Psychopathy is not be confused with literally being crazy, though the two are not mutually exclusive. It is possible for these three traits to overlap and work with each other. For example, it is easier to manipulate people if you also do not have any concern for them.

### Narcissism

Narcissism will be the first trait that will be explored, as it is the least prevalent amongst the other traits. A great example of narcissism shared by all of the executives is their overconfidence in their projected profits and accounting. As mentioned earlier, the mark-to-market accounting technique included projected profits. Enron executives were far too over confident in these projections in their accounting, which was a major part of the collapse of the organization. They were also overconfident about the success of many projects that the company took on. For example, they spent millions of dollars to construct a power facility in India, only to end up with the people in the area not being able to afford power any ways (McLean & Elkind, 2005). Confident that the company could brush off the loss, they all still received large bonuses.

Skilling himself had several narcissistic moments as well. One example was when he was being interviewed for the Harvard Business School. He was

asked if he was smart, to which he replied “ I’m f\*cking smart” (McLean & Elkind, 2005). At one point in a different interview he even said, “ I am Enron” implying that he is pretty much the driving force of the company (McLean & Elkind, 2005). Lastly, he could not admit when things were going wrong. Skilling’s overconfidence in himself and the company would play a huge part in the downfall of Enron.

### Machiavellianism

The next trait to be explored is Machiavellianism. Machiavellianism is the most prevalent trait of the dark triad in Enron executives. It is noted in the documentary, *The Smartest Guys in the Room*, that Enron was very good at fooling America into thinking it was highly successful. (McLean & Elkind, 2005). Not only did the American public not realize the impending collapse of the corporation, even the rank and file employees had no idea what was coming. That is just scratching the surface though. In 2000, California experienced an energy crisis, resulting in many blackouts throughout the state. (McLean & Elkind, 2005). Enron was a key contributor to this crisis. The executives of the company would use the connections they had to have power plants they were supplying go offline periodically (McLean & Elkind, 2005). This resulted in a higher demand for energy, which meant more profit for Enron. Enron was at no shortage of power either, as it was exporting energy out of the state as well.

Ken Lay, being the chairman of the company had his own motives as well. During the California energy crisis, he was manipulating the FERC (Federal Energy Regulatory Commission) to essentially sit by and not do anything.

Lay was using the energy situation to manipulate state politics. Governor Gray Davis's reputation was greatly damaged by the crisis, which was Lay's intention (McLean & Elkind, 2005). That was not the only manipulative thing Lay did however. He would often use the excuse of not being responsible for things he did not know, despite being told that very thing earlier (McLean & Elkind, 2005). When the company was rapidly heading toward collapse he had also instructed the company's accounting firm, Arthur Anderson, to shred all financial documents, all while reassuring people that everything was fine.

Ken Lay is not the only one to show the Machiavellian trait. Jeff Skilling was very manipulative as well. The first example is the introduction of mark-to-market accounting and his manipulation of that. Skilling was good at keeping employees in the dark about what was happening to the company too. When analysts would call him with questions, they would usually believe what he told them (McLean & Elkind, 2005). This can also be related to an experiment conducted by Stanley Milgram that essentially concluded that people are obedient to figures of authority (Patten, 1977). Skilling, being the CEO, would often not be questioned if analysts were uneasy about what he told them to do. He also convinced many employees to invest their retirement money in Enron, and people who did not invest in Enron stock options were treated like outsiders (McLean & Elkind, 2005). Ironically, while he was telling employees to invest in Enron, he was selling his own stock, since he knew what was coming. Even at the point when Skilling left Enron, he knew the company would be able to survive for about a year before it collapsed. He believed this would give the appearance that the collapse was not his doing.

Two other people displayed Machiavellian characteristics in Enron as well. One of them is Lou Pai. Pai was very successful and was known to do whatever it took to get the job done, even if it meant doing something that was not necessarily legal (McLean & Elkind, 2005). He also left Enron with the most profit, while leaving his division to collapse. Andy Fastow is another Machiavellian type person in the Enron scandal. Schepers states that, "it is suggested that high Machiavellians would be more likely to exploit loosely structured elements of situations" (Schepers, 2003, p. 341). This fits perfectly into Fastow's character, because he was hired to exploit the newly unregulated energy market at the time. He also manipulated the market using his own companies, such as LJM, to hide Enron's losses and boost its profits. To sum up Machiavellianism in regards to Enron, "Machiavelli thought that our inability to recognize the early warning signs of corruption was the great enemy. The corruption would not be recognized until it had taken such a hold that it might be too late for an effective remedy" (Galie & Bopst, 2006, p. 246).

### Psychopathy

Psychopathy is the second most prevalent trait of the Dark Triad in Enron executives. Psychopathy also works well with Machiavellianism since it is easy to manipulate people when you do not care how your actions affect them. A commonality amongst many of the executives is the fact that they clearly did not care about the thousands of employees lives that they had ruined. The California energy crisis serves as a great example for instances of psychopathy as well. None of the executives seemed to care about the fact that they were forcing power outages on thousands of people for their

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own personal gains. It was even said that some of the higher up employees at Enron were “pleased” when wildfires (California being prone to wildfire) would burn down power lines used by competitors and potentially create a need for energy from Enron. (McLean & Elkind, 2005).

Each of the executives has their own examples of psychopathy as well. For example, early in Ken Lay’s career, during what was called the Valhalla incident, he refused to fire several employees for illegal actions they had done to generate revenue because they were keeping the company afloat (McLean & Elkind, 2005). Had those employees been discovered, things could have turned out much worse for employees for the entire organization, more so than if the company had simply gone under. When Fastow was discussing his firing over what happened with LJM, he agreed to talk to the media and said, “I don’t care what you write, just don’t make me look bad” (McLean & Elkind, 2005). This is a perfect example of him not being concerned other people and only himself. When Enron collapsed Fastow also agreed to testify against the other executives in order to secure a lesser sentence for himself.

Skilling has the most instances of psychopathy. He was a gambler; he would make risky investments with no concern for the potential the consequences they would have on the company and employees (McLean & Elkind, 2005). As mentioned earlier, he had no concern for all the employees’ pensions he was ruining when he continued to encourage people to invest in Enron stock while he knew the company was on the decline. He also introduced a PRC (Performance Review Committee) Process for performance review. This process allowed employees to review each other. Skilling would simply fire

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the lowest ranking employees on a regular basis in what some employees referred to as “rank and yank” (McLean & Elkind, 2005). Lastly, when talking about the California energy crisis he had made a joke comparing California to the titanic saying, “When the titanic went down at least the lights were still on” (McLean & Elkind, 2005). This truly shows his lack of concern for the people that he was plunging into darkness.

## Conclusion

When it comes to personality, not all traits are considered positive or socially desirable. There is a personality group called the Dark Triad, which focuses on over confidence and arrogance (narcissism), manipulative qualities and pragmatism (Machiavellianism), and lack of concern or remorse toward others (psychopathy). These three traits tend to be evident in executives of corporate scandals. In the case of Enron, Ken Lay, Jeff Skilling, and Andy Fastow all demonstrate the prevalence of these elements of the Dark Triad in their manipulation of the company and market, their lack of concern for employees, and over confidence in their abilities to successfully manage their company.

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