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" A fish rots from the head."
Russian Proverb

Everything Old is New Again

Conventional wisdom paradoxically tells us that even though change is constant, certain things never really change. Or even when things appear to change, they wind up coming back again. Not all of conventional wisdom is just a casual cliche, or a cosmetic bromide. Things do and can repeat themselves. Similar kinds of situations and events regularly insinuate themselves into our collective time-space continuum. And as George Santayana has so famously warned us: "Those who cannot remember the past are condemned to repeat it."

Sadly, in the field of business ethics, it doesn't require encyclopedic knowledge or a huge leap of imagination to come up with examples that substantiate Santayana's thesis. In the 1920s there was Charles Ponzi's "postal coupon scam", which in the 1970s reappeared as Robert Vesco's "mutual funds scam", which appeared yet again in the 1980s with Charles Keating in his "securities fraud scam" in the savings and loan industry. Then there's Ivan Boesky in the 1980s and the charges of "insider trading" which has been recently leveled against America's favorite "doyenne of domesticity", Martha Stewart. (Although these specific charges were dropped by the judge, Ms. Stewart was convicted on March 5, 2004 of lying, conspiracy, and obstruction of justice.) Also, let's not forget the "junk bond" king Michael Milken and his pushing the limits of financial risk-taking and the more contemporary brand of "cowboy capitalism" practiced by a number of now non-existent dot-com enterprises. And, least we forget, there's the Ford exploding "Pinto" gas tank cover-up, and the not so distant headlines decrying the accident rates of "Ford Explorers and Firestone Tires."

Of course, the most famous example of recent corporate perfidy and failure is Enron and the now defunct "white shoed accounting firm", Arthur Andersen.[1] To its dismay, Enron has become an icon of an era. It has become the poster child for corporate mismanagement, a metaphor for corporate corruption, and, a shorthand for corporate greed. Its name has become a term of derision and disdain and has spawned a new lexicon for business chicanery and failure. You can now "*Enron* people", "be *Enronish* to others," "practice *Enronomics*", "see *Enronish* sights", or "experience a failure of *Enronian* proportions". And, finally, the name Enron is now used as an umbrella term for the cadre of other corporate giants who found themselves in the public spotlight for legal and ethical failures: Tyco, WorldCom, Global Crossing, Adelphia, ImClone, Boeing, Hollinger International, Health South, and the new international scandal—Italy's Parmalat.

What Happened?

The obvious question is, of course, how did Enron transform itself from one of America's paragons to one of its chief pariahs? How can it be that Enron could literally overnight declare bankruptcy and disillusionment? How can it be that the sixth largest energy corporation in the world wind's up being vilified in the press as running a "Ponzi-watts" scheme on its customers and stockholders?[2]

Clearly, Enron's conduct, as well as its fellow-traveler in crime, Arthur Andersen, wasn't the result of a simple lack of ethical rules

and legal guidelines and requirements. Quite the contrary is the case. Next to the Hippocratic Oath, the accounting profession claims the second oldest code of ethical standards. *The American Institute of Certified Public Accountants* (AICPA), claims that its Code of Professional Conduct applies to all CPAs in both the public and private sectors. The AICPA also requires continuing education courses in accounting policy and ethics in order to remain a certified practitioner.

Arthur Levitt, former Chairman of Securities and Exchange Commission, has argued that the stock market, accounting industry, and financial industries may be the most regulated businesses in American commerce. In his new book *Take On The Street*, Levitt argues that "rules, regulations, requirements, and guidelines exist in abundance" and should be able to do the job. But, says Levitt, they are unable to do so because of a "web of dysfunctional relationships among analysts, brokers, and corporations", who are out to beat the system.[3] Business ethicist and accountant John Dobson totally agrees with Levitt's analysis. "Ethical guidelines", says Dobson," are viewed in the same way as legal or accounting rules: they are constraints to be, wherever possible, circumvented or just plain ignored in the pursuit of self-interest, or in the pursuit of the misconceived interests of the organization."[4]

Perhaps the most obvious and simplest answer to Enron's behavior is that—"It was all about the money!" This is, by no means, a novel thesis. Money, greed, the pursuit of excess profits, power, and stuff have always been part of the human repertoire of options. As Alan Greenspan has pointed out: "It is not that humans have become any more greedy than in generations past. It is that the avenues to express greed had grown enormously."[5]

It's important to keep in mind that Enron achieved its success in the midst of the boom-days and market euphoria of the Clinton Administration. Everyone expected to make money. Everyone was making money. Enron was making more money than anyone. And apparently, although the full extent of Enron's collective as well as individual-employee culpability is yet to be fully determined, many of the folks at Enron seemed to be willing to do almost anything to keep the revenue flow growing. As one NPR commentator put it: "Behind the slick exterior of being a modern, cutting edge, money-making corporate giant, Enron made money the old fashioned way—it stole it from us! In the end, the only difference between Enron and depression-era bank robbers, was that the bank robbers used guns and masks during their stick-ups."[6]

Connected to the issue of greed, of course, is the challenge of the game itself. Clearly, a lot of the players at Enron were willing to push some of Michael Milken's theories and practices on "cowboy capitalism" to the furthest limits of logic and accountability. The former CFO of Enron, Andrew Fastow, allegedly combined many of Milkin's techniques along with deceit, circumventing the rules, temporarily changing or suspending the rules, and outright thievery to achieve his objectives. Fastow has been accused and indited for mismanaging, misappropriating, and embezzling an estimated $390 million. On January 14, 2004 Mr. Fastow pleaded guilty to two wide-ranging conspiracy charges contained in the 98-count criminal indictment that he faced. He has been sentenced to ten years in prison and the payment of a $29 million fine. The other 96 charges will be dropped only after Fastow's continued cooperation with the prosecution. On February 20, 2004 former CEO Jeffery Skilling was charged with 20 counts of securities fraud, four counts of wire fraud, ten counts of insider trading, and one count of conspiracy to commit securities and wire fraud. If convicted Skilling faces more than $66 million in forfeitures, up to 325 years in prison, and hundreds of millions in fines. Finally, on July 7, 2004 Ken Lay, founder and former CEO of Enron was indicted on eleven counts, including conspiracy to commit fraud. In a sweeping 65-page indictment federal prosecutors cast Lay as a key player in the massive fraud that brought down Enron. The government claims that although Skilling and Fastow "spearheaded the scheme" to defraud the company, Lay was not an innocent victim, and out of the loop. In fact, the government charges that at a certain point Lay "took over leadership of the conspiracy."

The first question that begs to be asked is, why? Why would someone making in excess of a million dollars a year risk his sinecure for

more? I think the answer is altogether very, very human, but, not altogether rational. It's about the thrill of the game. The excitement of the risk. The emotion and intellectual pleasure of the challenge. It's about the need to win, no matter what the odds. It's about the palpable rush of knowingly breaking the rules. It's about narcissistic illusions of invincibility. It's about feeling smugly superior to those who don't take chances. And, every time you get away with one, it's about the arrogant certainty of one's infallibility. The second question that begs to be answered, especially in Fastow's case, is why did he take so much? What was Fastow hoping to do with all that money? Did he think he would eventually be able to spend it? Did he think that in time he could drop $10, $20, $50 million on this or that without drawing attention to himself? (The same can be said of Dennis Kozlowski of Tyco. Didn't he think that his lavish spending habits and flamboyant lifestyle would draw attention to his conduct and raise questions about his propriety and character?) And even if he just wanted to "play the game" but never spend the money, how is it that he didn't realize he was breaking Tony Soprano's basic rule of thievery and embezzlement: "Don't take too much. They'll notice! That's how you get caught!"?

For Enron and its fellow partners in crime, all of these issues are a piece of the puzzle. Each, it can be argued, contributed, to a greater or lesser extent, to Enron's demise and disillusionment. However, I want to contend that hubris, money, greed, arrogance, and reckless cowboy capitalism are really symptoms, or, at best, only partial causes, for Enron's immoral and illegal pursuit of self-destruction.

Enron's failure is really a result of a total breakdown of "corporate structure' and "corporate culture" brought about by the failure of "corporate leadership". I am convinced that without committed ethical leadership, ethical standards will not be established, maintained, and retained in the life of any organization. The ethics of leadership affects the ethics of the workplace and helps to form the ethical choices and decisions of the workers in the workplace. Leadership sets the pace, communicates ethical standards, and establishes the overall vision, mission, as well as the tone of day-to-day mundane reality.

Although complex and convoluted at the operational level, theoretically the bottom line is easy to state. Leadership, whether good or bad, ethical or unethical, creates and to a large extent controls the culture, character, and choices of an organization. As Robert Jackall has pointed out, like it or not: "What is right in the corporation is not what is right in a (person's) home or...church. What is right in the corporation is what the guy above you wants from you...." [7]

At Enron, at WorldCom, at Tyco, etc., etc., leadership created a culture that pushed the envelope, a culture that encouraged and rewarded risk taking, a culture that was fixated on the bottom line and not the ethical niceties. In such a milieu, when inside organizational imperatives conflict with outside social requirements and restrictions, the dilemma is easy to resolve. In the words of Michael Hoffman, Director of Bentley College's Center for Business Ethics, "culture always trumps compliance!" I believe that the central problem of ethics in business today is not a lack of awareness, or a lack of moral imagination, or even a lack of moral reasoning, but rather the absence of positive moral leadership and the neglected development of a moral culture. As ethics consultant Mike Lambert has so eloquently put it: "Ethics is not just a class you teach or a box you check, it is a way of being. It has to be something cultural". [8]

The Culture of Moral Leadership

Even the most casual student of leadership studies knows that the discipline does not suffer from a dearth of research and theory. Ralph Stogdill and Bernard Bass, in their separate and combined works, itemized and analyzed some 4, 725 studies of leadership (magazines, professional journals, newspapers, and books) prior to 1981; and a recent study claims that there were over 132 books published on leadership during the 1980s alone. Joseph Rost believes that leadership is the most written about topic in social science and management theory in the last 50 years.[9]

Philosopher Georges Enderle has said that leadership would be simple if it only had to be dealt with abstractly, at the level of ideas. But such is not the case. Leadership is a living phenomenon. It is always a messy business

involving self, others, multiple relationships, and the strategies, theories, and techniques needed to achieve and maintain community. Because of the complexity of the endeavor, so too the complexity and multiplicity of the titles, topics, and issues that fill the literature. Articles, essays, and books have been written on: the exact definition of leadership; the differences between leadership and management; the preferred qualities of character that individual leaders should possess; and, detailed taxonomies regarding the social/psychological role of leadership and the specific jobs and tasks of the leader.

As a student of business ethics, I want to limit my remarks to the moral dimension of leadership and the specific kinds of acts that individual leaders must perform in order to set the tone of their moral agenda. Because I am not a specialist in the field, I would beg the readership's indulgence on a once hotly debated nuance in the discipline. Although the phenomenon of leadership can and must be distinguishable and definable separate from our understanding of what and who leaders are, I am convinced that leadership can only be known and evaluated in the particular instantiation of a leader doing a job. In other words, while the terms "leadership" and "leader" are not strictly synonymous, the reality of leadership cannot be separated from the person of the leader and the job of leadership. Given this caveat, I will use these terms interchangeably and argue that the primary moral task of a leader is to articulate and defend her personal and organizational values and vision (moral world view) and to create and maintain a climate of trust.

Philosopher and leadership schollar Joanne Ciulla has argued that critical thinking and moral thinking are fundamental competencies of leadership. What she is suggesting is that by job description, leaders must and should embrace the Socratic dictum that "an unexamined life is not worth living." That is, leaders should know how to think, know what they think, and know what they value.

As I have argued elsewhere, all leadership is value and vision laden. Therefore, if ethics is fundamentally living out what we value, and/or believe in, then all leadership, whether right or wrong, good or bad, defensible or reprehensible, is moral leadership. To phrase it more accurately, all leadership is ideologically driven or motivated by a certain philosophical perspective, series of ideas, beliefs, or values which, upon evaluation, may or may not prove to be moral in a more colloquial or normative sense. However, the issue is that all leadership claims a particular point of view or philosophical package of ideas it wishes to advocate and advance. All forms of leadership try to establish the guidelines, set the tone, and control the manners, mores, and morals of the organization of which they are a part. There are, of course, some exceptions to my claim that the ethics of an organization is primarily dependent on leadership. For example, ethical ideas, standards, and values can and may originate anywhere within the structure of an organization. However, without the backing, encouragement, and support of leadership—the best of intentions and ideas will wither on the vine and not become part of the ethos and culture of the organization.

As part of the central job of all forms of leadership, effective leaders need to create and communicate a clear vision of what they stand for, what they value, what they want to achieve, and what they expect from others. I am convinced that successful leadership is dependent upon effective communication. Whether by means of training, programs, posters, position papers, codes of conduct, regulations and guidelines, incentive programs, or through mentoring and modeling, it is important that people know what a leader will and will not stand for. Management scholar, Richard Thornburgh, has argued that subordinates (employees, followers, constituents) should not be left to speculate about the values, standards, and expectations of an organization. Top leadership must offer clear and explicit signals, lest any confusion or uncertainty exist over what is and what is not permissible conduct. To do otherwise, suggests Thornburgh, allows informal and potentially subversive and inferior codes of conduct to develop by happenstance. [10] Warren Bennis in his landmark text, *On Becoming a Leader*, nicely sums up the point that Thornburgh is trying to make.

> [Leaders are] People who are able to express themselves fully. They know who

> they are, what their strengths and weaknesses are, and how to fully deploy their strengths and compensate for their weaknesses. They also know what they want, why they want it, and how to communicate what they want to others in order to gain their cooperation and support.[11]

When business ethicists speak of moral leadership in business, their normative standards, demands, and expectations are neither unusual nor extraordinary. Both business ethics and classical (traditional) ethics seek to respond to the demands of the "examined life". All of ethics begins with the recognition that we are not alone, or the center of the universe. It begins when we realize that we are by nature communal creatures, and that our collective existence requires us to continuously make choices about what we "ought to do" in regard to "others". Ethics is then nothing more than the study of our webwork of relationships with "others". It is the attempt to work out the rights and obligations we have and share with "others".

For business ethicists, the moral questions facing a person are age old, and these are essentially the same issues facing business—only writ in large script. The assertion that "business is business" and that "ethics is what we try to do in our private lives" simply does not hold up to close scrutiny. Life, labor, and business are all of a piece. They are not separate games played by separate rules. According to Dardin ethicist R. Edward Freeman, *ethics* is how we treat people face to face, person to person, day in and day out over a prolonged period of time. And *business ethics*, says Freeman, is how we treat people face to face, person to person, day in and day out, on the job—they people we work with, work for, and come to work to serve.[12]

Climate of Trust

For business ethicists, the moral culture of any business is directly connected to the quality and ethical integrity of its leadership. In American philosophical circles, that means, on the one hand, the pursuit of justice, fair play, and equity (John Rawls); and, on the other, creating a climate of trust (Francis Fukuyama and Robert Solomon.) Both "hands" are needed and necessary. In the words of Joanne Ciulla: "Leadership is not just a person or a position. It is a complex practical and moral relationship based on trust, obligation, commitment, emotion, and a shared vision of the good."[13]

In 1999 Steve Samek, a managing partner of Arthur Andersen, said something that would prove to be prophetic: "The day Arthur Andersen loses the public's trust is the day we are out of business."[14] March 14, 2002—Andersen indicted. March 15, 2002—Andersen virtually out of business. October 16, 2002—Andersen found guilty and sentenced for obstruction of justice, Andersen literally out of business, 85,000 jobs lost worldwide!

Let's pause to ask a fundamental question. What exactly did Enron/Andersen do wrong? From a legal point of view, they abused, mishandled, and illegally mismanaged their *statutory* and *fiduciary* responsibilities to their stakeholders. From a philosophical point of view, the same essential answer can be given. Enron abrogated *statutory* and *fiduciary* responsibilities to their stakeholders. Although the answer seems the same, it is and it isn't. To paraphrase the immoral words of President William J. Clinton, it all depends on what you mean by the word *fiduciary*! In business circles, *fiduciary* is used as a synonym for financial obligations and duties. It is commonly understood to mean, "money is owed" or that "financial obligations exist." In fact, in Latin, the root word for *fiduciary* is *fidĕre*, and it does not literally mean money, *pecunia*, or finances, but rather, it means "to trust" or "the act of trusting another". So in fact, Enron/Andersen did fail to fulfill their *fiduciary* duties. They broke their bonds of trust with us, and, consequently, we no longer have confidence or trust in them.

Francis Fukuyama, in his important work, *Trust: The Social Virtues and the Creation of Prosperity*, argues that trust is the precondition for prosperity and economic well being. For Fukuyama "trust is the expectation that arises within a community of regular, honest, and cooperative behavior, based on shared norms on the part of other members of that community."[15] Robert Solomon, in his equally important book, *Building Trust*, believes that trust is not only the linchpin for business and commercial

arrangements, but that it is the sine qua non condition for all interpersonal and social relationships. Like Aristotle, Solomon argues that trust is the basis of any decent community. At the simple level of survival and stability, people must be able to trust one another in politics, commerce, and battle. Without trust, says Solomon, neither is prosperity nor peaceful polity possible.[16]

Although we are at times cynical, careful, and prudent about what and who we decide to trust, in fact, argues Solomon, life would be impossible or at the very least unbearably tedious without a modicum of trust in our day to day activities.

We generally trust the products we buy; we thoughtlessly stake our lives on them (cars, pharmaceuticals, packaged foods, airlines, parachutes, bungee cords). We trust people who serve us, often without checking their credentials. Do most of us ever look at our doctor's or dentist's professional degrees? How do you know that the waitress did not spit in your soup or drop your sandwich on the way from the kitchen? How many people double-check the pills dispensed by their pharmacists? How do we know in an emergency that we haven't hired the Three Stooges as our electricians and plumbers...?[17]

What trust boils down to is confidence in the character of another in regard to predictability, reliability, dependability, integrity, and regularity. Trust is a form of freedom. It frees us to seek change; to be open to complexity; it allows us to explore new directions, possibilities, and alternatives; it allows us to experiment and express ourselves in our relationships.[18] Although trust always has its limits and always involves risk, trust frees us from the need to continuously recheck, rethink, and reanalyze every decision and action that we make.

Fukuyama tells us that without trust, we lose the "social capital" or "social glue" necessary for any and all relationships and interactions.[19] In general, Solomon agrees with this metaphor but wants to argue that the concept of "social capital" is a dynamic and not a permanent relationship. He asserts that like the concepts of "ethics" and "leadership", "social capital" and/or "trust" is a verb (an action word) and not simply a noun (a naming word).[20] For Solomon "trust", "social capital" is not a given. It is a product that must be built one step at a time. It is not static or inert; it is something continuously done; it is the result of a sequence of decisions and actions.

> Trust is not a medium but a human virtue, cultivated through speech, conversation, commitments, and action. It is never something 'already at hand'; it is always a matter of human effort. It can and often must be conscientiously created, not simply taken for granted.[21]

Trust is something we do. It is an option, a choice. It is something that we make, create, build, maintain, and sustain with our actions, promises, commitments, emotions, demeanor, and integrity.

Without a network of trusting relationships, when we fail to make and honor commitments to one another, we render our lives unstable, uncoordinated, and perhaps unlivable. Trust implies a reliance on, or confidence in, some thing, some process, some person. In the absence of trust, our most routine, everyday interactions are suddenly in doubt. As Sissela Bok so succinctly phrased it: "When trust is destroyed, societies falter and collapse."

For Solomon, the trust factor in regard to civility and community applies to commerce as well. Leaving aside market forces, bad products, and incompetent management, what makes most corporations falter, says Solomon, is a breakdown of ethical standards and the failure of trust. Solomon contends that creating trusting relationships and maintaining ethical standards is neither an excessive burden nor a business disadvantage. Rather, they are part of the very ground rules of business, and, as such, key to business survival and success. In this equation of ethics and trust, the special role of leadership is critical, says Solomon. Leaders must be those who establish an "ethical agenda", exemplify "the art of trusting", and inspire "trust in others."[22]

Think about it. Our economic system rests on trust. When mistrust abounds and ethical behavior is lax, the system is damaged. In such a milieu, says David Mamet in his screenplay *The Spanish Prisoner*, we are forced to behave in a manner that directly contradicts confidence, prosperity, and propriety: "Whenever you do business with anyone, assume you're in an

adversarial relationship and that they are out to cheat you." *En Garde!*

Conclusion

Before Richard Grasso's hasty departure from the New York Stock Exchange (after the disclosure of his reportedly $140 to $185 million pay packet), he was fond of repeatedly exclaiming, "For every Enron, there are 1,000 Exxons."[23] He is, of course, probably right. Even with the subsequent failures at WorldCom, ImClone, and Global Crossing as well as the hundreds of lesser companies who have recently admitted to reporting bogus earnings, Grasso, must be right—at least statistically! Or, so I hope!

But putting numbers aside, isn't part of the issue here one of perception and image as well as names, numbers, and ranking in the Fortune 500? Doesn't the present debacle trigger some very basic questions? Doesn't this present crisis lead us to ask ourselves: Can anyone be trusted? Does anyone have integrity and actually practice what they preach? And, what's happened to the notion that leadership should be an attempt to serve the needs and well being of the people they lead?

As I said at the beginning of this essay, Enron and its fellow travelers are only the most recent examples of corporate business failure in regard to ethics, trust, and leadership. There have been others in the past, and, undoubtedly, there will be others in the future. Nevertheless, the magnitude and depth of Enron's perfidy is, to say the least, shocking. John Brennan, Chairman and CEO of the Vanguard Group, has suggested that Enron has perhaps forever changed the public's perspective of "business as usual" in the corporate world. Before Enron, he said, accountants were sacred guardians of financial truth; CEOs were celebrities and visionaries (not recently arrested defendants doing the "perp walk" on the evening news); and, corporate boards actually exercised real control over the companies they directed. Sadly, nobody believes much or any of this anymore![24]

For me, the lesson of Enron is a that mistakes, mismanagement, and, yes, malevolence, are part of the human condition. There is, I think, no permanent cure for any of this. Enron serves as a reminder: Leadership like ethics and trust do exist as a body of knowledge; but they only truly exist when practiced face to face. Like medicine—leadership, ethics and trust are "lived experiences": Learn one, do one, teach one—and so, pass it on.

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[17] *Ibid.*, 18.

[18] *Ibid.*, 9.

[19] Fukuyama, *Trust*, 25.

[20] Solomon, Flores, *Building Trust*, 77, 87, 88.

[21] *Ibid.*, 87.

[22] *Ibid.*, 145.

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