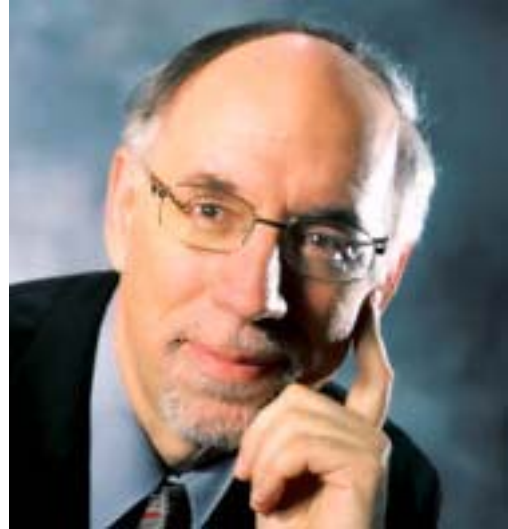


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*James R. Lucas*



# **Don't Become An Enron!**

*Make Truth And Ethics  
Your Road To Success*

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**S**o much has been written about Enron since the company imploded, and that will probably be so for years to come. But this essay isn't about Enron. Rather, this essay is about your organization. Because the simple truth is, you too could grow up to be like Enron. The seeds might already be planted to make it so.

Times are tough. Most of us want to be ethical, but we've got to deliver the results. What do we need to do to keep this ship afloat? How far will we go to make the numbers or at least to make them palatable? How lean can we go before we're not "lean and mean" but just mean? What else are we willing to do to hit the bottom line? Can we tolerate an integrity outage?

When times were "go-go," before the Enron disaster, we still had the same challenge of ethics and results, but some of the questions were different. Then it was, "What do we have to do to become a 'first mover' or to create a competitive advantage? Are we getting too excited to think clearly about these acquisitions or new business models? Can we be more creative with our financing and accounting? What else or we willing to do to hit the bottom line?"

But tough times or go-go times, we can sense the tension, we can smell the contradiction, the conflict between ethics and results. The lesson we can learn if we're not careful is that we can only get ahead — we can only keep up — if we play a little fast and loose, cut a few corners, "shave the hair" off to make things look more attractive. It's the Bobby Knight Syndrome: "He's a jerk, but he wins games and championships." The business equivalent of Bobby Knight is Enron — two self-destructive, imploding stars.

Despite the hype about Enron, it's really interesting because of the lessons it teaches that many organizations will never learn — the less obvious lessons, lessons about leadership rather than laws and ephemeral "ethics," lessons about the kinds of organizations that grow up to be like Enron.

On the main lessons — the ones that everyone is talking about — Enron is not even slightly unique. Other organizations have squandered untold shareholder wealth (think WorldCom, Lucent, Xerox, Cisco, and AT&T, just to name a few). Other organizations have hired thousands during their "go-go" adolescence and then destroyed the livelihoods of thousands during their "you mean wild living has consequences?" phase.

Organizational money used to grease political wheels? That's not even old news. Anyone waiting for auditors who consult, or analysts who are cozy

with the companies they cover, to tell the truth — we don't know what the hell these people are doing, what's the next category beyond "strong sell?" — is probably also waiting for the tooth fairy.

The board of directors? Directors may be too little involved, too "guided" by the CEO, or too mired in useless activity and being "sold" by the management team to guard anything but their own flanks. And business writers are way too focused on finding juicy examples to prove their theories to ever face the reality that the examples are mostly not what they are advertised to be (think *In Search of Excellence*, which needed a bit more searching, or Gary Hamel's rave reviews about Enron in *Leading the Revolution*). The theories often aren't that hot, either.

No, the really interesting question is not about ethics in some ivory-tower sense or about laws and structures and systems to "protect us from another Enron." The crucial question is much more elemental: Are *you* building an organization that's growing up to be like Enron?

## Enronism, Not Enronitis

Many people have referred to this problem as "Enronitis." The difficulty, of course, is that the "itis" implies a disease. It suggests that Enron didn't really have any internal drivers of its problems — it just "caught" this from something, perhaps from the boom economy or the bubbling stock market. It could happen to anyone, like a cold or the flu.

But what happened at Enron is not a disease, even though it has helped to ravage corporate America. What happened at Enron was a bad philosophy — a miserable "theory of the business," to use Peter Drucker's term. Like fascism, Nazism, communism, it is a mental model of how community life should be lived. It's an "ism," not an "itis." The "isms" always have a Utopian orientation — the good of the nation, the good of the people, the good of the community. Just let us change the rules, and exercise unbridled power, and we'll build a better world.

And so it was at Enron. They said, in effect, "We're building a different kind of company, in a different kind of economy, for a different kind of world. We're going to change all the rules — we're going to buy what has never been packaged and sell what has never been offered. We're going to create new opportunities from almost nothing, like the Dutch building land out of the sea. People won't know what we're doing — hell, we won't know what

we're doing — but they'll buy our services, buy our stock, and give us overwhelming recognition for our creativity and market power.”

Mussolini fell, Hitler fell, the Soviet Union fell, the Berlin wall fell. Brave new worlds, Utopian schemes, and bad philosophies always fall. And so did Enronism, with all its adherents. You can hear the crash.

## **Elements Of Ethical And Financial Failure**

The details of the Enron disaster are merely the form that the disaster took. But they are not the core. The core begins with the thinking that produces dysfunctional organizations. Leaders create the seeds of disaster when they build organizations that are truth-unfriendly, risk-unfriendly, mistake-unfriendly, and maverick-unfriendly.

### **Truth-Unfriendly**

All leaders and organizations are, to one degree or another, reality-impaired. We think things are one way on important questions — Why are good people leaving? Why is our market share dropping? Why is there no passion below the senior leadership team? — when in reality they are quite different. We too easily fall for the old lie that perception is reality.

The only way to correct our reality-impairment is for some brave soul to tell us the truth. It is the only way to be free, to prosper, to succeed. But who will do this? Where's the benefit to the truth-teller? An old Turkish proverb says, “He who tells the truth will be chased from nine villages”; another says: “He who tells the truth should have a foot in the stirrup.” Most people get tired of running, and just stop telling the truth.

Do you honor “whistle-blowers,” or do you silence them? Do you welcome disagreement, or do you crush it? Have you created an environment that places a premium on truth at all times and in all situations? Is your leadership team thrilled when people question strategies, goals, and projects, or does it browbeat, ridicule, and filter the hard truth? Who will blow the whistle that saves your life if everyone is expected to think the same way?

Who is willing to tell the people running General Motors that you can't reverse a decades-long slide in market share with incestuous leadership and an ongoing war with their own people? Who has the courage to question a

massive acquisition at a JDS Uniphase that is destined to cause unimaginable write-offs if times get tough — which they always do? Who is ready to be radical and tell the Wall Street analysts that obliterating the careers of tens of thousands of newly laid-off workers is not a sign of “toughness in decision-making” that should be rewarded, but rather a sign of prior wastefulness and incredibly bad management that should be punished?

Who, indeed.

Only one person out of thousands at Enron was willing to question the financial shell game. Only one was willing to do the same at WorldCom. Would any more come forward, on any issue, at your shop?

### **Risk-Unfriendly**

Through the years, I have heard many leaders exhort their people to “take some risks,” mostly to no effect. After all, why should people take risks? Why should they put themselves on the line? One U.S. president said, “Everyone has it within their power to do nothing.” Why should anyone go beyond the minimum? Why should they really care about living the values of your organization?

The worst case is where people are encouraged to take operational risks in an environment where they can’t or won’t take personal risks, where it’s easier to propose a grand new marketing scheme than it is to question marginal behavior. They soon learn that taking operational risk is rewarded as long as it works, that ethics are reduced to the lowest legal version of “make sure we stay out of trouble,” and that if anything goes wrong the only sure-fire risk is in speaking up.

In the best organizations, people are willing to take both operational and personal risk. Do you have an organization full of people willing to step up every day and take risks — to speak up and put themselves on the line as well as to take on the new and unproven?

### **Mistake-Unfriendly**

If we build a leadership team and organization that are unfriendly to the usual mistakes — things like operating errors, judgment errors, poor forecasting, try-and-fail losses, and simple human frailties — we’ve created an environment that breeds deception. People don’t generally bury the truth

about mistakes because they are dishonest; they bury it because they are smart. Why tell the truth if it will get you killed?

Few things get talked about more, or handled as badly, as mistakes. The main mistakes that cripple or kill organizations are the ones that get hidden and distorted instead of admitted and analyzed. There were probably dozens or hundreds of people at Enron who smelled the “uglies” and could have brought them into the open, if they had the slightest sense that the response would be reasonable and they wouldn’t be demolished for their own contribution to the problems.

Are your people free to admit their own mistakes? Are they free to tell you about yours? Do you acknowledge and accept and embrace and celebrate honest mistakes? If not, Enronism is only a heartbeat away.

### **Maverick-Unfriendly**

In most organizations, mavericks — people who are willing to speak up, provoke, challenge, experiment, be different — are annihilated. They don’t “get it.” They aren’t “team players” (“team player” is defined as someone who won’t rock the boat, rather than as someone who loves the boat so much he or she is willing to say it is leaking). They aren’t “like us.”

Great organizations know that they need a blend of unity and diversity. More, they define unity as “focus on the same vision, mission, and shared values” rather than “looking, thinking, and acting the same way.” They define diversity as “ability and opportunity to think differently,” not just “faces of different colors.” Most organizations are not great organizations. They unify around groupthink and have diversity only on paper.

What do you do with mavericks? Obliterate them? Push them to the side? Tolerate them? Or do you welcome them, honor them, and celebrate their arrival?

Any organization that overcomes its own reality-impairment and internal dysfunction must become friendly to truth, risk, mistakes, and mavericks. No organization can assure itself of ethical survival if it hates the truth, penalizes risk, buries mistakes, and crucifies mavericks.

And any oversight system that attempts to protect shareholders, employees, the public, or anyone else had better find a way to address these hierarchical leftovers of the Middle Ages.

## The Warning Signs Of Enronism

If you don't want to grow up to be like Enron, there are some definite warning signs along the path. Some of them are:

1. **Arrogance** What happens when we think we see what no one else sees? That we get it but our customers or investors don't? That the management team sees a future that those down the line are too ignorant or uncaring to comprehend? Arrogance is always founded on ignorance, a prime cause of the descent into the abyss. Organizations that breed a sense of excellence will usually succeed, often in a fabulous way. Organizations that breed a sense of superiority will usually fall, often in a fabulous way.
2. **The discovery of a new business model that can't be explained** Every business generation sees them: the new-new ways to run a business. There is certainly a place for innovation in business models, but any idea that can't be explained to an intelligent outsider — frankly, that can't be explained to an intelligent child — is probably destined for disaster. It's way too easy for innovation in a model to lead to innovation in ethics, truth-telling, and accounting. President Harry Truman said, "The only thing new in the world is the history you do not know." Few "new" business models are really new, and even fewer actually work.
3. **Growth as goal** What has growth as its main reason for existence? Cancer. We're reminded again and again that we have to "grow or die," but what about the reality that we can "grow and die"? Having growth targets as part of a comprehensive mission is not a bad thing. Intelligent and ethical growth is a good thing, but growth as goal leads to unrealistic expectations and desperate behaviors. What will we do — what will we have to do — to make those relentlessly increasing expectations, like numbers that are way beyond "stretch"?

Probably, for example, add a lot of people whom we won't need when the train derails. Any organization that does five-figure layoffs should start the process with the CEO and senior mismanagement team, because they are incompetent and inhumane. If the key question we're asking is, "What do we do to grow 20%?" rather than "How do we grow 20% without destroying lives and wealth?" or "What's the most

we can grow and still look at ourselves in the mirror in the morning?” — then Enron is filling up our rearview mirror.

4. **A narrow view of profits** Like happiness, shareholder value can't come directly. Increased shareholder value is a by-product of value-adding (play the current game better) and value-creating (play a different game) by employees, contractors, partners, suppliers, and everyone else who has a smidge of commitment to the organization. Shareholder value is a summary measurement of how well we are providing “profits” to everyone who can make a difference. What ROHI (Return on Human Investment) are you giving your employees? Why should they invest their creativity, passion, and commitment in your organization?
5. **The “chain of command”** In some ways, this is a perfect metaphor for the majority of organizations. People are held by a chain of command that allows only for open communication downward which is seldom delivered, anyway. There is no upward communication. Truth gets filtered, problems get filtered out, mistakes get buried, and hard-to-sell opportunities are left unborn. When we set up a structure that leads to “think at the top, do at the bottom” rather than powersharing, to massive reporting systems rather than mutual trust, to leadership by policy and procedure rather than shared vision and values, and to a system of “watchers and watchees” rather than true freedom, we can hear Enronism whispering in our ear.
6. **The wrong question on openness** Instead of asking the Enronish question, “Is there any reason to share this with our people?” great organizations ask, “Is there any real reason why we shouldn't share this with our people?” When we spin news with ourselves, how can we not create a culture of spin with everyone else? How can our people make informed decisions if they're not informed? How can they help us make money if they don't know how we make money? How can they keep us from insanity if we hide the symptoms?
7. **Unfettered competition** Many organizations preach teamwork and cooperation but reward dog-eat-dog competition between individuals, teams, and departments. Where is the incentive to cooperate in your organization? Is there voluntary cross-pollination of ideas between business units, functions, and positions, or is it us vs. everyone else? Some organizations, like Enron, use the relentless forced ranking, the monolithic bell curve that turns most employees into “average,” the “up or out” drumbeat of a Roman man-of-war. All great competitors

learn to compete against themselves, against the best they are capable of doing, and not against people who could help them be great. What kind of competition are you selling in your organization?

8. **Unfettered consensus** No idea, as presented, is worthy of consensus. Most organizations are crippled by groupthink and paving over differences. Great leaders know they have to manage consensus so it doesn't get out of hand. We have to put formal "devil's advocates" on every project and team. We have to refuse to move forward until every question and doubt is on the table. We have to insist that every report have a section that talks about the uncertainties and fears and differing perspectives. What are you doing to make sure you don't have too much harmony in your place of business?

If you have any of these signs in your organization, get out the broom. If you're an investor and you spot any of them, hide your wallet.

## **A Few Steps You Can Take To Avoid Enronism**

There are steps leaders can take to inoculate themselves from Enronism. I'd suggest starting with:

### **Make truth the priority.**

We can get used to not hearing the truth. Make your number one priority developing the organization's ability to face, understand, and define reality. Develop a theory of reality that really corresponds to your marketplace and the needs of the people inside and outside of the organization. Wipe out the idea that hard news and mistakes and problems are better buried than exposed. Fire consultants and other professionals who won't tell you the truth, whatever it is and no matter how much it annoys you. The old proverb says, "You will know the truth, and the truth will make you free." Nothing but truth ever makes people, organizations, or nations free.

### **Ask the right questions.**

If you understand that perception is not reality, help your people modify their perceptions to align with reality. Encourage people to ask you the tough

questions. Create forums for people to actually do it. Use anonymous surveys, hot lines, interviews of employees by outsiders — anything you can think of to create safe places for very unsafe truths. We've all heard that "knowledge is power," but in most organizations it is power when it is hoarded rather than when it is shared. Find ways to ask your people what they know that is hard to share, and relentlessly penalize clamming up.

### **Replace empowerment with powersharing.**

Empowerment is better than command/control, where all power is located at the top. But empowerment still says, "I'm the king or queen, and you're not. But I'm a benevolent monarch, so I'll trickle some of my power (usually meaning responsibility and accountability without authority) to you." Powersharing defines power (as in physics) as *the ability to get work done*, recognizes power as a tool rather than a goal, associates power with adding value rather than with position (vice president) or function (the purchasing department), and uses power to liberate rather than to dominate. Leadership is very much about getting power out of the wrong hands and into the right ones. The mission is to get everyone who is strong and ethical fully into the game, to create (in Richard Rhodes' descriptive phrase) "a community of independent men and women freely cooperating."

### **Focus on the right kind of control.**

For the most part, control is an illusion. The classic management functions — planning, organizing, directing, and controlling — are wonderful and useful when applied to projects and processes and horrible and useless when applied to human beings. Great leaders focus on self-control by mutually agreeing on the results to be achieved and the framework (including the values) that will put clear and useful boundaries around the work. They leave the day-to-day decision making alone. The alternative? The boss replaces the real customer as the customer-in-fact, and everything gets bent toward satisfying this internal controller.

### **Penalize destruction.**

At every level, make sure that you and your leadership team do "thy patient no harm." Really penalize destruction at every level: the organization's

destruction of shareholder wealth (why do most organizations only get religion about cost-cutting when times are bad?); formal leaders' destruction of people's passion, creativity, and commitment; and everyone's destruction of human dignity. Eliminate leaders who browbeat people, because you know that leaders who cow people also cow the truth and cow achievement.

### **Ensure that boards of directors add value rather than illusion.**

Most boards give the illusion of wisdom and protection without delivering the goods. People who join boards to pad their resumes, owners and entrepreneurs who load boards with their buddies, not-for-profits who focus on diversity at the expense of even minimal competence, all contribute to board folly. If boards are really going to do something useful, the first thing they need to do is to make hearing the truth their number one priority. This means selecting its own members rather than be filled with the CEO's cronies (which has been said by numerous people who have studied board governance). It means getting past the chain of command (very appropriately named) and the CEO's fine-mesh filter, and making "What are our possible illusions and follies?" an agenda item at every meeting. The board should set its own agenda, which should always start by creating a forum for truth (e.g., "Who down in the bowels would the CEO most like us not to talk with privately? Get them up here").

The CEO should be given clear expectations and restrictions rather than support and allegiance, and automatically fired if the size of the permanent workforce needs to be cut by a large percentage ("You mean you couldn't see this coming by a factor of two?"). All operating officers, from the CEO down, need to be eliminated from board membership. The CEO should be the servant of the board rather than its guide, because the board isn't there to catch the CEO's vision — it's there to catch the CEO's lunacy.

Too many — most — board meetings are composed of salesmanship shrouded by advance filtering ("You can't say that to the board!"). Finally, the board needs to make time to do these other things by giving up its useless and farcical duplication of internal operating committees. Have your board bring in outside truth-tellers, rather than trying to find it all by themselves. One Fortune 1000 company that I know had a policy of admitting no "outsiders" to its board meetings. Brilliant.

I smell Enronism.

### **Make a declaration of independence.**

Every organization has a bevy of people — accountants, auditors, lawyers, consultants — who should be able to see objectively. Much of the time, they do. The problem is telling the truth after seeing it, which is tied to the more basic problem that these groups are making their living off the organization (hardly conducive to “independence”). Auditing should be separated from consulting, but that won’t get the job done unless the audit is required to get information from mavericks and anonymous outlets and get off the bland mix of superficial analysis and nitpicking number-crunching in order to expose major problems.

Lawyers need to tell us what is decent and ethical and not just legal, and not give us 100 reasons not to do a good thing because of “legal complications” and miss pointing out the poison because it doesn’t seem to violate a known law. Consultants should be required to give us the bad news in every report, probably in a section designated for the purpose so it can’t be dodged — in other words, they need to be given ongoing permission to say what perhaps no executive really wants to hear. Peter Drucker uses the term “management insultant.” Any board worth its salt would want to know just how many management *insultants* are on retainer and would want to hear from them in an unvarnished, unscripted way on a regular basis. And analysts who tell the public to “hold” while they tell their major clients to “sell” should get twenty-to-life at Leavenworth.

### **Don’t trust stories that hype companies.**

Business literature — if that isn’t an oxymoron — seems to thrive on stories about companies that prove the wonder of some new approach. But examples only illustrate, and can never prove, anything. This is especially dangerous when the writer is an outsider who isn’t intimately involved with the company (or at least intimately aware of what they are doing) and doesn’t point out all of his or her potential blind spots or problems with the company. All of this gets compounded by the rage over benchmarking and best practices, which often replaces building something unique with an attempt to copy our way to greatness. Some writers said, “But Enron fooled everyone else too!” Maybe they should stop writing until their nonsense detectors are more fully developed.

There are certainly other things you can do to avoid being on a local or national magazine cover for opposite reasons just few years apart, but this short list should keep you from an Enron-like press pendulum.

## Being Strong — *And Ethical*

To a great extent, avoiding growing up to be like Enron is about avoiding the temptation to believe the lie. It is about creating and sustaining channels and forums for telling the truth. It is about everyone who relates to the organization in any way — outsiders, insiders, and outside-inside links (like the board of directors) forcing the organization to tell itself the truth, a vital precursor to telling the truth to anyone else.

And to a great extent, it is remembering that organizational life is not an either/or situation — *either results or ethics* — but a both/and — *results and ethics*. Being strong and being ethical are only opposites to small and petty minds.

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