

## **A Case Study on Ethics in the 21st Century & the Enron Effect**

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### **Abstract**

*Kinicki and Kreitner, (2009) stated that each individual has an exclusive set of characteristics, drawn from “personality, values, moral principles, history of reinforcement, and gender.” Essentially, a person’s innate nature and personal history shapes their ethical framework, which means that individual is never a ‘blank slate’ as it were. However, it is important to note that this also means that individuals are also not a fixed ethical entity and can therefore be influenced in both good and bad directions throughout their life. Kinicki and Kreitner (2009) posited that the individual also faces internal and external influences within an organization. The internal organizational influences are as follows: “Ethical codes, organizational culture, organizational size, structure, perceived pressure for results, corporate strategy” (Kinicki & Kreitner, 2009, p. 23). Some of these influences, such as ethical codes, corporate strategy, size and structure have a more foundational impact, while culture and perceived pressure can have secondary impact. It is important to note however, that if the secondary influences are pervasive enough, they may actually override the stated codes and strategies found within the organizational core.*

**Keywords:** Business Ethics, Morals, Organizational Culture, Corporate Social Responsibility

### **Introduction**

Organizational culture plays a dominant role in ethical business decisions, but the supportive contexts behind this is less understood (Vitell, Nwachukwu & Barnes, 1993). The roles of internal and external pressure interacting with personal moral perspectives may be more dynamic and contextual than once thought (De Cremer, Van Dick, Tenbrunsel, Pillutla & Murnighan, 2011). However, the rise of the importance of healthy cognitive development on ethical decisions has come to light in the academic discussion (Sims & Brinkmann, 2003). The long-lasting echoes of the “Enron Effect” continue to pass through American economic culture. The ghosts of which have not been relieved of the permissive nature of ethical corruption. Given the many complexities of individual power moving within business organizations, a healthy accountability agency culture is needed to keep diverse interests in alignment with moral rights (McLaverly, 2016).

### **Organizational Culture**

The impact of organizational culture has a powerful influence on individual’s choices surrounding ethical decision making, as the Enron Effect has exposed (Sims & Brinkmann, 2003). However, a key challenge in researching this element is the marked difference between the intention to make the ethical choice, and the reality of doing so under pressure (Sweeney, Arnold & Pierce, 2010). Analyzing the difference between intention and action in the context of the United States in comparison with Ireland, researchers Sweeney, Arnold, and Pierce (2010) performed four audit cases complete with qualitative questionnaires. The results of this investigation found “that while perceived unethical pressure to engage in dysfunctional behaviors and unethical tone at the top were significant in forming an ethical evaluation, only perceived unethical pressure had an impact on intention to

engage in the behaviors” (Sweeney, Arnold& Pierce, 2010, p. 531). Researchers noted that U.S. respondents were more likely to report ethical intentions over the Irish.



Retrieved from: (Sweeney, Arnold& Pierce, 2010, p. 532)

As the diagram shows above, ethical sensitivity predicates ethical behavior. However, more pernicious and dangerous in business ethics is the delusion of having ethical intentions without the capacity to hold oneself accountable in the time of need for ethical actions (Vitell, Nwachukwu& Barnes, 1993). Within the business community Corporate Social Responsibility (CSR) has been a buzz term and training exercise for decades, but in action corporate culture has become more corrupt all the time (Badaracco Jr.& Webb, 1995). The many examples of Enron, Yson, Adelphia, K-Mart, Nike, and the financial scandals leading to the 2008 recession emphasize that where ever power is concentrated there is likely to be ethical violations (Lopez, Rechner, & Olson-Buchanan, 2005).

**The Role of Cognitive Development**

In order to better grasp the power and position of the individual within a business context and their impact on culture, researcher Trevino (1996) developed a Person-Situation Interactionist Model (see below). Rooted in Kohlberg’s cognitive moral development model, this model presents the foundation that ethical choices are defined by the individual’s balancing of external and internal factors (Trevino, 1996). However, these factors are rarely able to be pinpointed as black and white “right” and “wrong”, thus presenting the difficulty and power of individual interpretation. In this model, “Three individual variables, ego strength, field dependence, and locus of control, are proposed to influence the likelihood of an individual’s acting on cognitions of what is right or wrong” (Trevino, 1996, p. 602). The external factors in the model are balanced by the moral character of the organization. Unique in this approach is

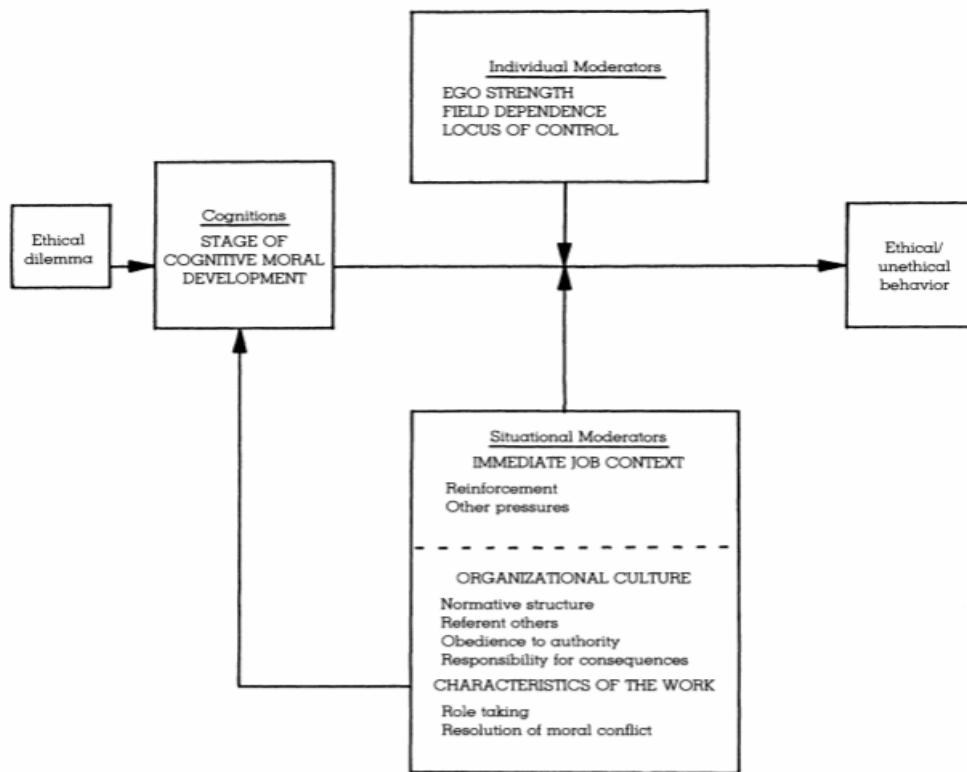


Figure 1. Interactionist model of ethical decision making in organizations.

Kohlberg's presentation that cognitive health/development plays directly into the capacity to make moral choices in complex organizational opportunities (Trevino, 1996). One example of this being used in favor of corruption is the act of expelling police trainees from training due to their IQ being too high to ensure organizational accommodation of immoral tendencies, which require low intelligence (ABC News, 2000). The fact that the Supreme Court upheld this unethical organizational practice reveals deep levels of immoral lack of accountability between government, public safety, and business interests.

Researchers present two aspects of ethical quandary that blanket black and right training will not cover. These contexts have been described by J.L. Badaracco, Jr. (Harvard Business School lecturer) as "not issues of right versus wrong, but "conflicts of right versus right"); and, second, navigating those situations where the right course is clear, but real-world competitive and institutional pressures lead even well-intentioned managers astray" (Stark, 1993, p. 1). This type of creative reasoning can be beneficial and harmful, depending on the moral character of the agent.

In the hyper-competitive globalized business environment of today "grey moral zones" are more common than not. One way this has been resolved was by posturing corporate social responsibility in the media and on the surface of business practices, but the real policy makers holding to cutthroat amoral business actions (Robbins, 2012). This practice has become more difficult with the transparency enabled by the Internet, but the subsequent distraction of consumers also plays into allowing institutionalized corruption to continue unpunished (Stark, 1993).

Utilizing a narrative research technique, researcher McLaverty (2016) analyzed how the cognitive development model applied to a diverse sample (Brazilian, British, Saudi, Colombian, Dutch, US, and Indian) of senior management when confronted with ethical dilemmas. Success in business requires strong cognitive development, and how business culture impacts individual choices is highly contextual. One key finding from this investigation was the "importance of personal networks as a resource for resolving ethical dilemmas and the importance of different cultural approaches to managing power relations within personal networks" (McLaverty, 2016, p. 2). This is a valuable finding because it asserts that pressure resulting from organizational culture can be relieved by seeking unbiased (outside) advice (Trevino & Brown, 2004). For Enron this type of cultural accountability would have saved victimized employees billions of dollars in pensions.

### ***International Perspective***

Analyzing international differences and industrialization in ethical decision making, researchers Scholtens and Dam (2007) utilized Hofstadter's cultural indicators to define cultural differences impacting business ethics. The findings from this study indicate that "individualism and uncertainty avoidance are positively associated with a firm's ethical policies, whereas masculinity and power distance are negatively related to these policies" (Scholtens & Dam, 2007, p. 273). Holding individual employees applicable for their choices as industrialized nations tend to do has a marked increase over groups engaged in hierarchical power structures and collectivist belief systems (Vitell, Nwachukwu & Barnes, (1993).

### ***Lessons from Whistleblowers***

As ethical violations in business have grown so has the instance of whistle blowing. Research into the impact, scope, and precedents of whistle blowing have been inconsistent, and unable to translate to further research due to a lack of systematic synthesis (Vadera, Aguilera & Caza, 2009). To rectify this, researchers suggest, "future research needs to investigate how national differences in laws and their enforcement, along with cultural dimensions and other country-level institutional factors such as employment relations and understanding of trust endorse whistle-blowing" (Vadera, Aguilera & Caza, 2009, p. 571). A consistent perspective on the role of whistleblowers is needed to fit this aspect into the business ethics discussion (Sweeney, Arnold & Pierce, 2010).

### ***Relationships within Organization***

Analyzing the nuances of relationships within a business organization can help define the ethical context in which it operates. Researchers Bendixen, and Abratt (2007) conducted a review of buyer-supplier relationships in this context and found that while ethical codes did not always enforce actions, "Ethical perceptions of buyers by suppliers are driven by the management of corporate identity, through the elements of ethical standards and candid relationships" (Bendixen & Abratt, 2007, p. 69). The personal impact of the relationships within an organization had more of an impact than the stated codes of ethical conduct. This finding has implications for

improving relationships between employees and management in ways which increase ethical synergy (Treviño, Weaver & Reynolds, 2006).

### ***Relationship with the Self***

Researchers De Cremer, Van Dick, Tenbrunsel, Pillutla, and Murnighan (2011) present a model of understanding business ethics through a principal-agent model unlike traditional approaches. This interpretation emphasizes that “by explicitly arguing that much unethical behavior occurs outside of the awareness of individual actors (in contrast to the assumption of deliberate cheating in the principal-agent models)” (De Cremer, Van Dick, Tenbrunsel, Pillutla & Murnighan, 2011, p. S1). This model is in alignment with the cognitive approaches stressing maturity and seeks a deeper understanding of the unconscious/intuitive processes which inform ethical decision making (Marin, Ruiz & Rubio, 2009).

Contemporary business is fast paced, and ethical actors often do not fully grasp the ethical context of their choices until it may be too late to change them. Supporting the understanding of dynamic morality, Hadit (2001) as seen in De Cremer, Van Dick, Tenbrunsel, Pillutla, and Murnighan (2011) defined moral intuition as “the sudden appearance in consciousness of a moral judgment, including an affective valence (good–bad, like–dislike), without any conscious awareness of having gone through steps of searching, weighing evidence, or inferring a conclusion” (p. S2). This insight emphasizes the speed and reflexive nature of many moral choices, and also emphasizes the need for accountability agencies to help guide such agents with perspective and unbiased transparency for public aid and support (Scholtens & Dam, 2007).

### ***Conclusion***

While much focus is given to Corporate Social Responsibility and ethical training for employees, it cannot be ignored that those individuals who are consistently promoted to managerial and positions of power in corporations are often willing to bend and break ethical codes for their own and organizational benefit (McLaverly, 2016). The Enron Effect has the power of a lasting cautionary tale which emphasizes the power of culture. Ultimately the most powerful force to safeguard business ethics is likely to be strong accountability offices which closely guard business practices and policies, and result in heavy penalties for abuses (Hess, 2007). However, until accountability offices are preserved from revolving door politics, and legalized corruption these trends are likely to continue (De Cremer, Van Dick, Tenbrunsel, Pillutla & Murnighan, 2011).

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