The collapse of ENRON, a classic case of corporate social irresponsibility

Falimentul ENRON, un caz classic de iresponsabilitate sociala corporativa

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Abstract

Corporate Social Responsibility is an issue that is working its way into many policy debates and corporate agendas. The definition of corporate social responsibility has undergone substantial modifications over time and it is still evolving along with society and society's expectations. There is no globally accepted definition of CSR, nor is there a consensus on a definitive list of the issues it encompasses. It is generally agreed that CSR is neither corporate philanthropy nor strict compliance with the law. However, we can easily identify "events" which doesn't fit in the CSR framework. The collapse of energy broker Enron Corp. has been described as the biggest business surprise of the past 10 years. It was a surprise which unexpectedly left 20000 employees in a deeply compromised safety of their pension funds. The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival and profitability are being swept away. The increasingly negative and very pervasive impact of global corporations in all aspects of social life and in the environment has been the catalyst in the emergence of a diversity of stakeholders demanding accountability about the impact of corporate activity in the whole aspects of its influence.

Keywords: *corporate social responsibility, irresponsibility, ethical leadership, Enron*

Rezumat

Responsabilitatea socială corporativă este un subiect tot mai prezent în debate-urile publice, dar şi în agendele corporaţiilor. Conceptual, nu are o definiţie general acceptată şi, de asemenea, a evoluat dimensional pe măsura ce aşteptările societale s-au multiplicat. Plasându-se noţional între filantropia corporativă şi dezvoltarea sustenabilă a mediului eco-social, responsabilitatea corporativă poate fi mai bine reperată prin prisma activităţilor care fac rabat de la conduita responsabilă. Prăbuşirea Enron Corp a fost descrisă ca fiind cea mai mare „surpriză" din ultimii 10 ani, care a compromis în mod neaşteptat siguranţa fondului de pensii a 20000 de angajaţi, cu efecte negative în cascadă asupra tuturor categoriilor de stakeholderi . Vederile traditionale despre competitivite, *rentabilitate şi sunt în curs de reinventare, dat fiind rolul tot mai important al eticii în afaceri.*

Cuvinte-cheie: *responsabilitate socială corporativă, iresponsabilitate, leadership etic, Enron*

JEL Classification: M14, K22

Introduction

In his 1930 essay, "The Socializing of Theoretical Economics", John Maurice Clark criticizes orthodox economics, or "Euclidian economics" - as he terms it (Champlin and Knoedler, 2004). He claims that the treatment of business under orthodox economics – which asserted the primacy of individualism, free contract and laissez-faire, produced an "economics of irresponsibility". Clark proposes as a cure to this abnormal type of behavior an "economics of responsibility" in which business recognizes and accepts its responsibility for the public interest and in which the rest of society works toward the same purpose.

Corporate Social Responsibility

There is a significant dose of ambiguity when we want to detail the *concept of CSR*, as neither the initiating motivation nor the corporate rules by which a company is guided are enough to pencil the "profile" of the companies involved in such activities. A vast number of economists, sociologists and scientists from various fields have tried to provide a more conclusive definition, fact proven by the numerous trials reported so far.

There will presented some examples developed chronologically which are eloquent to the evolution of the CSR terminology.

In 1961, Eels and Walton, (Caroll, 1979), argue that "people talk about corporate social responsibility when confronted with problems that touch the social scene or the lack of ethical principles that should govern relations between corporations and society."

Liberal economists have supplied some of the most trenchant criticism of corporate social responsibility. They cite Milton Friedman's famous maxim that "there is only one social responsibility of business: to use its resources to increase its profits, so long as it stays within the rules of the game" (Friedman, 1970). Businesses, which pursue CSR goals, risk losing sight of the profit motive, at the cost of the long-term health of the corporate sector and, by extension, the economy as a whole (see Globalethic).

In a provocative article, the economic commentator Martin Wolf (2001) has described CSR as "not merely undesirable, but potentially quite dangerous". Wolf, drawing on a paper written by David Henderson (see David Henderson), argues that business is conceding ground to NGOs which are at best critical of, and often completely opposed to, market economics. Moreover, the two authors claim that CSR is inherently antidemocratic because it requires businesses to make political judgments on social and environmental issues. The two authors also argue, that the spread of CSR will result in a form of "global neo-corporatism" with unaccountable power shared among companies, activists, international organizations and a few governments (Murray and Alasdair, 2003).

A complex paradigm which considered three distinct aspects of CSR was formulated as following (Carroll, 1979): *the definition of CSR* - in order to cover all the obligations which a company has to society, it is necessary to cumulate the results related to the economic, legal, moral, ethical and discretionary fields; *social issues* - factors that determine a company to act responsible: ability to involve in the needs of society, similarity to its own needs, social seriousness of the problem, managerial interest, PR value added, pressure from the government; *capacity of reaction* - it refers to the philosophy or the strategy "behind the business" that may conduct the way in which a business is situated, between do everything and do nothing.

CSR advocates, whether companies, governments or the rapidly expanding CSR consultancy industry (Murray and Alasdair, 2003) argue that a company which employs an effective corporate social responsibility strategy can increase its long-term profits, even if initially it has to bear higher costs. The European Commission also suggests in its Green Paper: "There is a growing perception that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits but instead through market-oriented yet responsible behavior."

Many national governments and the European Commission are increasingly sympathetic to claim that one generic regulation is not always the best way to solve complex environmental or social problems.

CSR (see Ghid CSR) is a concept referring to the contribution that companies should trigger to develop the modern society. Since the adoption of the principles of CSR by companies serving the objectives of sustainable development, international institutions have developed a set of standards to define the meaning of the "desirable" corporate behavior. United Nations, the European Union and the Organization for Economic Cooperation and Development are three (see Ce este CSR) of the most important institutions that were involved in the development of a framework which aimed to define and establish CSR indicators that can be evaluated in a transparent manner. This framework has been accompanied by recommendations and principles that guide the states and the local authorities in the formulation of public policies that promote ensure transparency and support the initiatives of CSR.

European Union proves to be an acceptant of the idea that CSR is a voluntary practice, driven by the companies' management policies. Thus, the European Commission defines CSR as the "concept whereby companies integrate in a voluntary manner social and environmental actions linking business and interacting with stakeholders." The same view is globally embraced: Corporate social responsibility is essentially a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Murray and Alasdair, 2003).

However, an increasing number of voices pertaining to the nonprofit sector argue that as long as CSR will incubate a voluntary force, companies will not take "seriously" these responsibilities. Why? For many companies, the reason of this approach is that CSR is considered only a cosmetic exercise, designed to protect the economic colossuses from a newer legislation.

Ethical Leadership

The leadership literature does little to prepare leaders to assume the dynamic responsibility of future endeavors as Aristotle argues that morality cannot be learned by simply reading a treatise on virtue (Pickett, 2005).

In the scholarly literature, there has been much written about ethical leadership which suggests from varied perspectives, such as philosophical and normative points of view, what leaders “should” do. Moreover, researchers identified what personality traits are perceived to be important to ethical leadership and its effectiveness, for example: honesty, integrity and trustworthiness (Den Hartog et all, 1999)

Based on a review research, a model was developed which connoted a relationship between the characteristics of an organization’s top management team and corporate irresponsibility, even criminality (Daboub et all, 1995). The model holds that, other variables being equal, the greater the proliferation of formal management qualifications in a top management team, the higher the chances of corporate criminality. The implication of this is that management educators do not seem to be addressing the current and future developmental needs of managers who are required to respond to changing social norms for higher ethical, accountable and sustainable standards in business (Hind, 2009).

The 4-V Model of Ethical Leadership developed by the Center for Ethical Leadership is a framework that aligns the internal beliefs and values with the external behaviors and actions for the purpose of advancing the common good. The ultimate purpose of leadership is to shape a future that is visionary, inclusive, and enables all members of society to fulfill their needs, dreams and potentials. It consists of:

- *values*: ethical leadership begins with an understanding of and commitment to a set of core values
- *vision:* Vision is the ability to frame actions – particularly in service to others – within a real picture of what ought to be
- *voice:* Claiming the voice is the process of articulating visions to others in an authentic and convincing way that animates and motivates them to action.
- *virtue:*. Understanding that we become what we practice, the aim is to foster virtue by practicing virtuous behavior – striving to do what is right and goodIn particular, virtue stands for the common good.

Pickett proposes a 5-step model that, based on academic research, has the ability to truly provide organizations the wherewithal to apply the concepts that can revolutionize their methods of leadership and views of corporate social responsibility. The basis of Pickett’s pyramid is ethical environment, the following layers being added: ethical climate, inner processes of moral behavior, corporate social responsibility in order to finalize it with ethical leadership. Therefore, in order for a company to have a top management that embraces ethical leadership, it has to act as a social responsible actor.

Enron – a recipe of Corporate Social Irresponsibility

The importance of ethics in business, a component of CSR may be highlighted in two perspectives: a positive approach, in which ethics is intrinsic usefulness (hence the statement: good ethics, good business (see Amitaietzioni)) and a negative approach, which assumes that ethics is useful only because violation of ethics is expensive.

According to the Mid-American Journal of Business (MAJB), Enron serves as the absolute example of the perils of large scale success achieved in a short space of time (Enron, 2003). Created out of the merger of two gas companies in the mid-1980s, Enron began trading as gas commodity in 1989 and within few years it became the largest trading gas commodities in the USA, with 21000 employees in 40 countries. Riding on a wave of optimism, Enron started diversifying its portfolio through the use of special purpose entities (SPEs) which allowed the company to embark upon less conventional ventures without necessarily reflecting their cost on its balance sheets.

Enron has made disastrous financial associations that have removed it from its main object of activity, energy, by trading completely different goods such as water, paper, steel, bandwidth for computer networks, space advertising, credit risk and derivative instruments on weather. The company's theory was that almost anything could turn into a merchandise that can be transacted. The postmodernism of the managerial approach – the deconstruction of the usual archetypes by combining real assets with the innovations of the new economy – was supported by an edifice, however ramshackle, corroded by the lack of integrity and ethics in the all four tiers: economic (profitability); social dignity , the ambiental viability, politics' equity.

The has identified four types of corrupt organizations, as in the Table 1.

The Taxonomy of the Corrupt Organizations

Tabel 1.

Number of the hierarchical levels involved	High	Sick Bulldog Structural Malfeasance • Leveling • Pacification	Mad Fox System Malfeasance • Positioning • Control
	Low	Errant Rabbit Prcedural Malfeasance • Bridging • Acquiescence	Wild Puppet Categorical Malfeasance • Interpenetration • Selection
Intensity		Low	High

Source*: Luo, Yadong (2007), „Global Dimensions of Corporate Governance", Blackwell Publishing, p.166*

„Crazy Fox" represents a metaphor for a multinational corporation in which an expanded number of managers and employees at various levels of the hierarchy carry out acts of corruption (Luo, 2007). This type of behavioral illness affects both in intensity and depth the plague of anti-CSR. The organisational structure is extensively involved in corrupt practices or it makes alliances with stakeholders in order to get the results sought.

The most grave scenario of the four types referred above, is characterized by:

- confidence that the company is situated in legal and ethical acceptable parameters;

- confidence that the actions are under the auspice of the best intentions;

- opinion that the activities are *safe* because they will not ever go public;

- confidence that if the unethical act *helps*, the company will pardon the illicit dimension of the activity and it will even reward the person concerned.

Enron's profile is revealed by the features described above. The Membership of the board of Enron itself illustrates the concept of conflict of interest and lack of ethical leadership. Thus (Schwalbach, 2005), Ms Wendy Gramm was part of the Senate Committee that approved the laws that exempt certain transactions of Enron by federal remark; Mr John Mendelsohn was also the director of a clinic that treats cancer which received donations of about $ 600,000 from Enron and its CEO, Lay; Lord John Wakeham, a former parliamentarian, has received $72,000 for consulting services for the company in 2000; Mr. Robert Belfer, who was the major owner of Enron stocks, had, in addition, involved his oil and gas company in businesses with Enron worthing over 30 mln USD.

Former employees of the American companies declare that for the heads of Enron, the most important thing was the immediate financial success, *at any price, with any means*, and they were inflicted that it is allowed to lie, cheat or to make their own rules, as long as they make money.

A more worrying fact is that thousands of employees invested their savings and pensions in the group; while members of Enron management sold their shares, apparently concerned about the deteriorating performance of Enron, small shareholders were not allowed to proceed in a similar manner or were encouraged to maintain investment. Between 1999 and mid 2000, when Enron shares were increasing on the stock market in New York, 29 members of the company's management received a total amount of 1.1 billion dollars by selling a total of 77.3 million shares. They continued to sell shares until early 2001, when it started the fall stock shares.

Conclusion

The corporate scandals of 2002 increased the public's distrust of corporate leaders, but have yet to produce a significant change in public policy. Some progressives believe that it will take a major crisis, such as another major depression or a major regulatory failure, to wake up the public.

The author plans to study in a future article if the current economic distress is a catalyst for corporate social responsible actions.

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