

**Conversations with Ken Lay and  
Reflections One Year Later\***

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## **Conversations with Ken Lay**

The following thoughts were developed after meeting Ken Lay on May 27<sup>th</sup>, 2006, two days after his Enron trial and conviction in Houston. Our conversations consisted of a face-to-face meeting and discussion in the Denver International Airport along with his wife Linda Lay. In addition, there were numerous telephone conversations after this date, including lengthy discussions on June 4<sup>th</sup>, June 6<sup>th</sup>, and June 20<sup>th</sup>. There were also e-mail exchanges including Ken Lay's review of an Enron case developed for our Business Ethics textbook. Overall, we talked for about four and a half hours between May 27<sup>th</sup> and June 20<sup>th</sup>, 2006. These comments were written in July 2006 and are being made available to help understand Ken Lay's thoughts in the last weeks of his life. Please view this as an attempt to have an accurate documentation of Kenneth Lay's perspective about Enron and his trial. This document is not intended to be the authors' personal viewpoints, but rather to provide insights supportive of Lay's opinions on the Enron disaster.

### **Background**

No other executive has had as much impact on the scrutiny of business ethics in corporate America than Ken Lay. Enron has become the ultimate symbol of corporate wrong-doing. Enron means greed, ethical disaster, corporate malfeasance, dishonesty, accounting fraud and corporate governance failure. Enron is also associated with personal tragedy. At least 5,600 and perhaps up to 10,000 jobs lost, life savings and retirement accounts lost and billions lost by investors and banks. There were many indictments, convictions, and plea bargains in the government's attempts to find and blame whoever was responsible for the downfall. Over 20 former employees have been indicted or convicted, with just one acquittal.

Ken Lay, more than any other executive in history, has been vilified by federal prosecutors and the media as being the key executive in a massive fraud that destroyed jobs, savings, and shareholder wealth. But in reality, Ken Lay was convicted for not being proactive in preventing the fraud, or knowing about what was going on inside Enron. For sure there were pockets of corruption and ethical rule bending was a part of the midlevel management corporate culture. Even the 'so-called' whistle blower, Sherron Watkins, claims Ken Lay was some distance from the fraud and was not in any way involved in creating the fraud. Ken Lay was convicted for allegedly not telling the truth about what was happening at Enron. Enron juror Wendy Vaughan said, "I felt it was their duty to know what was going on." This same theme was echoed by Enron juror Douglas Baggett, "For a man that knew every aspect of that business and seemed to know every deal, why didn't he know what was going on?" Ken Lay's fate was sealed when the judge told the Enron jury that they could find the defendants (Lay and Skilling) guilty of consciously avoiding knowing about wrongdoing at the company.

### **Meeting Ken and Linda Lay**

We met Ken and Linda Lay on May 27<sup>th</sup>, 2006 about 48 hours after the judge convicted Ken Lay on six counts of fraud; enough to send him to prison for life, subsequent to a bank fraud conviction for his personal financial dealings. As he entered the first class cabin of a Houston to Denver Continental flight on Saturday afternoon, we first recognized Linda Lay then Ken entered the plane. Several passengers said they were sorry about his conviction and he thanked them smiled and said, "we thought it was time to get out of Dodge." He sat behind us and after a few minutes O.C. passed back his business card "O.C. Ferrell, Bill Daniels Distinguished

Professor of Business Ethics, University of Wyoming.” A few minutes passed and Ken came to our seat and gave us two of his business cards one said “Envirofuels, Kenneth L. Lay Ph.D. Chairman, Advisory Board,” and the other said “Laylind Ltd. Kenneth L. Lay Ph.D. Chairman, Consulting Services.” We exchanged viewpoints on his trial and conviction. Ken went back to his seat for a few minutes then came back again and asked if we had some time after we arrived in Denver to talk.

After arriving in Denver we visited for about 30 minutes in an emotional discussion of the trial and conviction. There is no doubt that Ken and Linda believed that he was innocent of all wrongdoing and that the trial was unfair. Ken and Linda were open and optimistic about the future. Both expressed a deep spiritual faith and a belief that things happen for a reason. They looked forward to getting out of Houston and to spending some time together in Aspen, Colorado. Ken indicated that *the jury never read the indictment* and did not understand the complexity of the case. He stated that he really did not want to go back as CEO after Jeff Skilling resigned, but his friends on the board begged him to come back. Both agreed it was a mistake, but he believed all the problems could be resolved and Enron needed his leadership. O.C. suggested that CEOs get too much credit for a firm’s success and are blamed too often for things that go wrong. Ken said that he was not sure about my statement because CEOs do deserve a lot of credit for successes. After discussing how difficult the trial had been and the circus environment after the conviction, Ken wanted to talk about the future. He believed that Houston was the wrong place for the trial and that there were excellent grounds for an appeal. He seemed confident and appeared to feel in control of his future.

Linda Lay said that they were planning on driving to Aspen, Colorado, but at the last minute they decided to fly. They both indicated again that “things happen for a reason” and that maybe meeting us was that reason. We developed close personal rapport and briefly tried to explain our view of the complexity of ethical decision-making in a large corporate environment.

Ken indicated that with 30,000 employees in 30 countries and 200 executives at the vice president level he was surprised that the corruption existed without him knowing about it. He relied on lawyers, accountants and senior executives to keep him informed of issues such as misconduct. It became apparent that he felt that he had been protected from certain knowledge that would have been beneficial and would have enabled him to engage in early correction of the misconduct. O.C. has confirmed from Lynn Brewer, a former Enron executive, that Ken was not told about misconduct in her division. He indicated to the end that he thought Enron could recover and continue its innovative business strategy. He believed that the basic business model and growth patterns could sustain the business even though certain events occurred creating a scandal. He felt that many firms have scandals and recover from them and go on to be profitable and successful.

We invited Ken to speak at two events that would provide an opportunity to express his viewpoints on Enron and his conviction. One was a special event sponsored by the Daniels Fund and University of Wyoming College of Business for the Bill Daniels ethics initiative. The featured speaker was Lynn Brewer, CEO of the Integrity Institute and a former Enron executive. The second event was the AACSB International Ethics and Governance Conference in Washington D.C. Both events approved his participation as a speaker. Ken Lay indicated that he would need approval from his legal team and Judge Lake for a Washington D.C. event.

In the last few minutes of our visit Ken wanted to talk about Envirofuels (his new company) and stated that the product could reduce energy consumption in vehicles by 10 percent. Envirofuels manufactures and markets the first ever EPA verified technology

that drastically reduces fuel costs and emissions with minimal capital costs (www.envirofuelslp.com). He indicated that his new firm had the patent to this energy saving product and it was a “snakeoil that works.” He became extremely excited about the company and the impact that it could have on the world’s energy shortage. As he walked away to catch his plane to Aspen he turned around and said “I have a great product that is needed, but it will be hard to run a company from prison.”

### **Ken Lay’s Thoughts on the Enron Case**

The next week we e-mailed Ken Lay a copy of an Enron Case that was being revised for our business ethics textbook. We asked Ken to review the case and let us know his reaction. We never expected to hear from him, but the following Sunday, June 4<sup>th</sup>, O.C. picked up the phone and Ken Lay said that he had enjoyed meeting us and that he would like to assist with the case. He suggested that we reserve 2 hours to talk on June 6<sup>th</sup>. He indicated that he has always been interested in business ethics and wanted to help in any way that was possible.

As expected Ken called right on time (4pm MT) on June 6<sup>th</sup> and he had carefully read the case and had comments on every page. As we discussed the case he took control and addressed areas where he thought there should be more or better explanation. Overall, he thought the case was accurate and had no major problems, admitting that things had gone wrong at Enron with corruption and a negative impact on many stakeholders. Ken indicated that he had publicly expressed concerns before employees that the only way that Enron could fail was to become overconfident or too “prideful”. He commented on having young aggressive highly educated employees that were reinventing the rules of the energy industry with the average age of employees at only 35. He said they probably needed more gray hairs to provide balance. His concern was that many employees felt invincible and he often indicated in closed meetings that “the only way we can fail is to kill ourselves”.

Some of the points made by Ken Lay (although not all shared by O.C. and Linda) related to the case study include:

- He did not hold the board, lawyers, and accountants responsible, but did indicate that they approved all of his decisions.
- Off the balance sheet partnerships were legal and approved by lawyers and accountants. Over 30 investment banks including First Boston and Credit Suisse participated as third party partners. The partnerships turned long term assets and liabilities into leases. Lay considered it similar to General Electric’s leasing programs.
- Enron had \$10 billion in physical assets and 90 percent of its revenue was generated through wholesale operations. Wholesale operations were not necessarily the physical delivery of any commodity, but mostly “trading” of energy commodities – wholesaling / marketing of energy products and financial derivatives. That’s what Enron called wholesale operations. This was very different than “pipeline ops” which is the physical delivery of products.
- Enron was similar to a dot com and its demise tracks the decline of dot coms in the NASDAQ stock index.
- Enron failed because of falling stock prices (dot com bubble), the uncovering of the Fastow conflict of interest issues related to off the balance sheet partnerships (fraud), Wall Street Journal articles about the fraud, and short sellers who drove the stock price down even further. Once the stock price fell, it destroyed equity in the off the balance

sheet partnerships. There was a \$1.2 billion write off of assets on October 16th and then bankruptcy on December 3<sup>rd</sup>.

- He had no knowledge of the Fastow fraud and how it related to the off the balance sheet partnerships until a meeting with lawyers when it became general knowledge.
- Representation of certain assets' value through goodwill accounting rules was included in the indictment. Lay maintains that Arthur Andersen had verified that the appropriate rules were used, but Ken Lay believes the prosecution prevented those knowledgeable about the verification from testifying at his trial.
- Third quarter of 2001 profits were \$754 million compared with \$589 million in the third quarter of 2000, with 90 percent of revenue from wholesale trades and increasing growth of physical volume at 35 percent. It wasn't until the October 9<sup>th</sup>, 2001 board meeting before Lay knew anything was wrong.
- Cash flows do not track earnings- this was considered a big factor because of the permission to use mark-to-market accounting, which allowed Enron to book sales before receiving revenue. In 2001 this was considered acceptable accounting procedure.
- Once the regulatory examiners took the limited partnerships off the books and used their accounting assumptions, the profits in the third quarter vanished and it was the end of Enron due to a cash flow crisis.
- Lay maintained his innocence and said that he was not purposely lying to the employees and the investor community, but trying to save the company that he loved. He knew it was a mistake to return as CEO and try to save the company.
- Lay did not blame Skilling, but did blame Fastow for the fraud that destroyed Enron. He believed there were only three or four individuals who engaged in major misconduct that created the negative news events and assumption of widespread corruption. Most of the damage came from the negative press that destroyed investor confidence and caused the collapse, as Enron stock was their asset base in the off the balance sheet partnerships.
- The Nigerian barge scandal, as well as other pockets of fraud, had very little financial impact, but were a part of a pattern of employee behavior that created the impression of widespread misconduct.
- There was a big difference between the facts and the assumption about his role at Enron. He felt witnesses that could have provided support from Arthur Anderson were scared off by the prosecution. The jurors did not read the indictment, know the facts nor understand the complex maze of events. He was convicted for "what he should have known" and his failure to prevent business failure. He believed that the law should not convict you for information you did not know. The judge told the jury that he could be convicted if he purposely did not know. Ken Lay said there was no evidence presented that his lack of knowledge was intentional.
- The evaluation of Ken Lay's ethical decision making came from a very narrow perspective from the press, the public and legal systems. Most people saw Enron as orchestrated fraud from the top, rather than a corporate culture that pushed the existing rules to the edge with new business models that had never been used in our capitalistic system. It is well documented that Ken Lay tried to maintain an ethical culture, but he admitted there were cracks and flaws in the system. He did not have daily knowledge of how schemes and deals were developing to meet the numbers. On top of that, he confirmed that the internal controls broke down, resulting in the implosion. He said that as hard as he tried, the internal controls did not uncover the most significant misconduct.

This was Ken Lay's perception, but was not accurate as we know from the whistle blowing reports – although he didn't remember ever seeing the report, which reflected the 300% increase between the time he ran the operations and when Skilling took over.

About one hour into the conversation about the case, Ken Lay said that he was very tired and may not be able to continue. O.C. suggested that they could continue to talk later and that since it was 6:10 CDT, maybe we should quit for the day. Ken Lay said that we should try to go on, and we talked for another 50 minutes until 7:00 CDT. Although this conversation was at the end of the day, after he had been working on his legal case, he maintained good critical thinking, a sense of humor, and sincere eagerness to help. After revising the case with additional research, we e-mailed it back to him for his review. In addition, we sent several books, including "Managing Risks for Corporate Integrity" co-authored with Robert Chandler and Lynn Brewer, a former Enron executive.

### **Final Conversation with Ken Lay**

Two weeks later, on June 20<sup>th</sup>, Ken Lay's administrative assistant called and asked if O.C. had time to talk to Mr. Lay. O.C. was in his car and asked for Ken Lay to call him at home in 10 minutes. Right on time he called and said, 'This is Ken Lay and I just wanted you to know that I did not forget about you. I have been so busy with my legal team that I have not had time to review your case revision'. Then we had a one-hour conversation about his situation, life in general and his future. At this point there was a high degree of trust and we seemed to have developed a friendship.

As usual, O.C. promised not to record the conversation, but Ken gave his permission for O.C. to take notes. In addition, he did not want O.C. to make any public statements until after the sentencing and appeal. However, he did indicate that he would continue to work with O.C. even if in prison. He indicated that his goal in life was to make a difference and contribute in any way that he could. Once again, O.C. invited him to speak at the July 18- 20 AACSB International Ethics and Governance Conference in Washington D.C. He indicated that his lawyers advised him against going, but he had not made up his mind. He said that if he could not go that he could meet us and other invited academic friends for a one-day private discussion about his viewpoint on what happened at Enron. We discussed how he was feeling about the future and his sentencing on October 23<sup>rd</sup>. He was happy that sentencing had been pushed back from September 11<sup>th</sup> and was trying to get prepared. He indicated that he had a serious medical condition that would be difficult to manage in prison and that maybe it would be a consideration in the sentencing. O.C. asked about proposing a community service program where he could travel around the country, visiting Colleges of Business and business conferences to talk about the Enron disaster. The idea was to help professors, students, businesses and public policy decision makers to understand what happened and prevent future Enron's.

O.C. suggested if we can learn from past mistakes, business ethics education could be advanced. Ken replied, "sounds a lot better than prison." He said that this would fit with his desire to help in any way possible. Then he suggested another reason that should be considered in his sentencing. His firm Envirofuels had the potential to make a significant impact on the world energy crisis. The patented product has the potential to reduce energy consumption by 10 percent. He felt that if he could continue to develop the product, direct sales could be made to the entire gasoline distribution system of a country such as China, saving millions of barrels of oil

and significantly reducing worldwide pollution. He said that if this could be taken into account, he could make a significant contribution to society.

Ken Lay asked if O.C. had read an article in the New York Times “The Enron Case That Almost Wasn’t” by Alexei Barrionuevo and Kurt Eichenwald published June 4, 2006. O.C. indicated that he had not read it and Ken told him how much he liked the article and had his administrative assistant send it to O.C. when he got off the phone. According to the article, while the press and public perceived Ken Lay as the mastermind of the corruption, there was no evidence to bear this out. Privately, prosecutors worried if they would ever be able to charge Lay with any crime according to the article. Lay was never linked to any of the crimes at Enron. There was no evidence that he had deceived the board. Prosecutors had to focus on the big picture, not individual transactions. The only charge was that “Ken Lay stuck his head in the sand about aggressive accounting and wrongdoing at the company.” The final question was: Did he lie to shareholders employees and banks and were those lies crimes? The jury said yes. Lay continued to maintain his innocence to O.C., that he never made a decision that was not approved by his lawyers, accountants and board of directors.

In this final conversation, Ken Lay was still positive, not blaming others, and trying to understand what had gone wrong for him in the trial. O.C. explained that there is much misunderstanding of how ethical decisions are made in an organization. It is easy to say that a CEO is responsible for everything that goes wrong in a company. We both agreed that it is like holding parents totally responsible for any misconduct of their children. Ken said it is also like holding a school principal responsible if a teacher molests a student. Ken maintained that he took responsibility, but should not be legally responsible for things he did not do nor was unaware of that created the misconduct. We ended on a positive, optimistic note with plans to talk more about the case as soon as possible. He was invited again to attend the July 19<sup>th</sup> AACSB Ethics and Governance Conference in Washington D.C. to tell his story. He replied that his lawyers did not want him to talk publicly before his October 23<sup>rd</sup>, 2006 sentencing. We continued to have a high level of trust with a great deal of openness about the Enron disaster.

### **Ken Lay’s Death**

On the morning of July 5<sup>th</sup>, 2006 we woke up to see breaking news that Ken Lay had died of a massive heart attack. We watched with sadness as the press and late night shows exploited his death and continued to hold him up as almost the single cause of the Enron disaster. We remained quiet as those who never knew Ken Lay nor met him once at an event tried to explain what he was like in real life. The real Ken Lay was a solid family person, highly successful and creative business executive who tried to play by the complex rules that have been established by our capitalistic system. He created a unique business that had never been tested under the existing legal system. He relied on accountants, lawyers and the board of directors for guidance and developed a different model of business for the energy industry. He made mistakes and did not have the advantage of an effective ethical compliance system, good corporate governance nor the effective internal controls that have been created by Sarbanes Oxley. Finally, the perfect storm of events imploded Enron and he became the scapegoat of all that went wrong at the company. There is a tremendous challenge in helping society understand the complexity of corporate ethical decision-making and the social networks that are present in decisions.

Most CEO’s know very little about the day-to-day operational decisions that are made and function at a highly strategic, motivational and public relations level to provide a public

image of the firm. In Ken Lay's case, society felt better pointing to him as the cause of Enron's failure rather than acknowledging the thousands of employees that helped create the schemes that destroyed Enron. Most people saw the way Ken Lay was treated by the justice system as an event outside their lives and business, very much like passing the traffic accident and thinking it can never happen to them. Simplistic thinking that one or two people caused Enron to fail needs evaluation by those who study business ethics. Hopefully, Ken Lay's legacy will change as we learn more.

### **One Year Later: Thoughts on Ken Lay and Preventing Ethical Misconduct Disasters**

These observations in July 2007, one year after "Conversations with Ken Lay", are an update on developments after Ken Lay's death and to discuss what we have learned that would assist in preventing future Enrons and assist in teaching students organizational ethics. All charges and the conviction of Ken Lay were vacated October 17<sup>th</sup>, 2006. Federal Courts, including the Fifth Court of Appeals, hold that a defendant's death erases a conviction. Because Ken Lay never had an opportunity to appeal his conviction, the legal process was not complete, therefore, he is considered "not guilty". However, this vacated conviction does not affirm his innocence.

Former CEO Jeff Skilling was found guilty of 28 counts and sentenced to 24 years in prison. Skilling, a graduate of Southern Methodist University and the Harvard Business School, said that he was making the world better and continues to claim that he is innocent. Skilling, like Lay, maintained that he knew of no fraud at Enron and thought that because of Andrew Fastow's, former CFO, deals were on the 'up and up'. Skilling remained under house arrest until the Bureau of Prisons determined his date of incarceration. Skilling was ordered to pay \$45 million into a restitution fund for Enron victims. Skilling began serving his sentence December 13<sup>th</sup>, 2006 at a low security prison in Waseca, Minnesota. He is scheduled for release in February, 2028. The appeal on his conviction has yet to be heard.

The Lay and Skilling indictments and convictions are surprising because of what they do not allege. There was no allegation of knowledge or participation in ordering or creating a specific fraudulent event. John C. Coffee, Jr., Columbia Law Professor and corporate governance expert stated in the *National Law Journal* (August 16<sup>th</sup>, 2004) that the "Lay indictment is surprising in what it does not allege." Lay was indicted and convicted more for optimistic puffing than for predatory fraud. Lay's first allegation from prosecutors was that he made statements to Enron employees on an online form September 21<sup>st</sup>, 2001. Lay told employees that the third quarter was looking great. In personal conversations on June 6<sup>th</sup>, 2006, Lay focused on a defense of the third quarter and why he thought that Enron's financial condition was good. He felt that Enron had \$10 billion in physical assets and 90% of its revenue was generated through wholesale operations. He maintained that third quarter profits were \$754 million compared with \$589 million in the third quarter of 2000. He believed that Enron would be a good long run investment. Coffee wrote that "Lay seems mainly a bystander to the tragedy of Enron...nothing that he did post-return mattered, because Enron was beyond saving." So what Lay did proactively was "optimistic puffing".

The government case was that Lay and Skilling purposely misrepresented the company's financial conditions to stakeholders to enrich themselves. Coffee indicates that "this sounds more like the traditional CEO acting as motivator-in-chief, trying to sustain employee morale during a crisis." Lay said in the third quarter of 2001 that Enron stock is an incredible bargain at current prices. In fact, Lay had just bought \$4 million in Enron stock. The government focused

on his sale of \$24 million at an earlier date. According to Coffee, these sales resulted in alleging that Ken Lay “omitted material facts and breached a fiduciary duty of honest services...” Yet, Lay made a major point to us in his defense that these earlier sales (\$24 million) were the result of margin calls over which he had little control. One of the members of the jury said after the conviction that Lay should have managed his personal finances better. As the price of the stock went down, Lay’s personal financial portfolio was based on the value of Enron stock and had to be sold to meet the obligations.

While the legal theory and facts behind Enron’s failure are complex, it really came down to one issue, “Lay should have known what was going on and was responsible for the complete disaster.” This was emphasized by Jill Ford, a member of the Enron jury, who we interviewed in February, 2007. A podcast of this interview is available at [www.e-businessethics.net](http://www.e-businessethics.net). Jill Ford seemed to like Ken Lay as a person, although, she and the rest of the jury convicted him on what he should have known about Enron. She indicated there was no direct evidence that he either participated in or knew about illegal acts that occurred at Enron. She said that when the judge said they could convict Lay for what he should have known, then the jury had no alternative but to convict him.

The Sarbanes Oxley Act of 2002 could be tagged the “Prevent a Future Enron Act.” The CEO and CFO must sign off on the financial statements and if they have any knowledge that the numbers are fraudulent, they will be held legally responsible for misrepresentations. The internal controls associated with section 404 of the act are supposed to make accountants, lawyers, and internal oversight transparent and responsible for accurate financial reporting. Section 406 of SOX calls for a specific code of ethics to be developed for top financial officers.

Most ethics experts believe that we will never be able to create enough laws to prevent schemes designed to inflate earnings and engage in other forms of misconduct. To prevent future Enron-type failures, the corporate culture, corporate governance, and reward systems will have to change in many organizations. In most cases, a CEO acting alone cannot ‘sink the ship’ and many of the structural, cultural, and corporate governance conditions that caused the collapse of Enron haven’t been removed from corporate America.

The lessons learned from the Enron case are many. Ethics and compliance starts at the top. If the senior officers and board of directors do not develop effective ethics and compliance programs, there are increased risks of ethical misconduct disasters. Top management and the board of directors are responsible for risk assessment, ethics audits, and the development of an ethical culture. Ethics is more than the character of a few individuals, it requires resources and proactive management associated with understanding and preventing misconduct.

An ethical culture can prevent complacency through codes of conduct, training and identification of potential ethical issues, as well as the development of systems to monitor and enforce ethical standards. Organizations are increasingly using internal systems to report misconduct. In addition, third parties are providing professional reporting and case management software so employees can ask questions, voice concerns or report misconduct. There is strong evidence that organizations with advanced ethics programs avoid major ethical disasters. Both the U.S. Sentencing Commission and the Open Compliance Ethics Group provide evidence that strong ethics programs prevent ethical misconduct.

Enron did not have an effective ethics and compliance program. Ken Lay stated in our conversations that “the internal control systems failed.” It is also clear that the external checks and balances of accountants and lawyers also failed Enron. Regulations and internal controls required by Sarbanes Oxley did not exist at that point in time. The board of directors approved

all key decisions providing evidence of a corporate governance failure. Potential elements of an effective ethics program either failed or did not exist in the Enron culture. Enron was trying to create a new energy model in a deregulated 'wild west' environment. Young managers were bending rules and inventing new rules related to energy trading and distribution. Top management and the board of directors were only looking at the numbers and trying to achieve earnings. Everyone thought ethics just happens while keeping your eye on the main business goal of maximizing profits. Enron turned into the perfect 'ethical storm and disaster'. Now we know how to prevent future Enrons, the question is, will organizations and stakeholders keep demanding and supporting ethical climates and effective corporate governance?

### **Lessons for Students from the Enron Disaster**

All too often, students think of ethical decisions in business being easy to make: black and white, right versus wrong, obvious versus clandestine. In addition, students are told that they are in control of their decisions and just need to stand up to managers. Tracking the complexity of the Enron case dispels this myth to many. If the prosecution had sought to take the jury down the path of the complex business dealings, layers of approval and auditing that were Enron's past, they would have lost the jury and Lay and Skilling would have, probably, been found not guilty. However, they boiled the case down to very simple terms and concepts that jurors could relate to...high paid, high ranking executives should have known the truth. One danger in dissecting what happens with graduate and undergraduate students is focusing too much on what happened and not enough on how this could have been prevented. The role of social networks and evaluation systems created a complacent corporate culture.

Many students believe business ethics is about personal character and if you're a 'good apple' you can survive in the most 'rotten of barrels'. Our interaction with Ken Lay would confirm that he showed up in the community as a highly moral, concerned and committed individual. He reached out to others and donated his time and money to many social causes. His organization had taken on a destiny of its own before his return. He was the eternal optimist and when we spoke with him in Denver, he indicated that if Enron were around, this would be its 'hey day'. He indicated that Enron thrived on fluctuations in the energy market. Lay was the chief champion and motivator in a situation that was beyond his control. The role of the culture, influence of peers/coworkers and incentives for behavior dominates in most organizations.

The legalization of business ethics is an ongoing concern for many organizations. You can not necessarily mandate ethical behavior in organizations. The financial burden to many organizations has been overwhelming, with some companies even delisting from the NYSE to escape the cost of compliance. Efforts need to continue to link good ethics and social responsibility with financial performance. Ongoing efforts to legislate organizational ethics will undoubtedly be side-stepped by aggressive, overly competitive, short run decisions related to quarterly earnings. We, as a culture, are still innately bottom line and short term oriented. Bending the rules and winning in all aspects of life is not only accepted, but rewarded in social relationships, sports, and business. Students need to address these issues as they relate to their careers and responsibilities to society.

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