The bond of ethics and leadership

Ethics is bound up with the forms of values and morals an individual or a society finds desirable or appropriate. Ethical theory provides an important benchmark in the form of rules and principles. These rules and principles contribute in making decisions about what is good or bad and right or wrong in a particular situation. In fact, ethical theory provides a basis for understanding what it means to be a morally decent human being (Northouse, 2016, p. 330). As it pertains to leadership, ethical theory is concerned with what leaders do and who leaders are. The choices leaders make and how they respond in a given circumstance are informed and directed by their ethics. In other words, a leader's choices are influenced by their moral development.

We often read about good kings and bad kings, great empires and evil empires, and strong presidents and weak presidents. But what about good companies and bad companies? Ethical leadership in corporate America is just as important as ethical leadership in a political environment. I thought it would be very interesting to take a closer look at the Enron scandal from the early 2000s and examine the company's lack of ethical leadership.

For those not familiar with the Enron scandal, most of the top executives were tried for fraud after it was revealed in November 2001 that the companies earned had been overstated by several hundred million dollars. At the time, Enron was ranked the sixth-largest energy company in the world. Top Enron executives sold their company stock prior to the company's downfall, whereas lower-level employees were prevented from selling their stock due to 401K restrictions. Enron filed for Chapter 11 protection in December 2001 and instantly became the largest bankruptcy in U.S. history at that time. These left thousands of workers with worthless stock in their pension. The lower-level employees lost their life savings due to the collapse. The U.S. Department of Justice subsequently opened a criminal investigation into Enron's collapse in January 2002 (CNN Library, 2016).

The dark side of leadership is the destructive and dark side of leadership in that a leader uses leadership for personal ends. Lipman-Blumen suggests that toxic leaders are characterized by destructive behaviors such as leaving their followers worse off than they found them, violating the basic human rights of others, and playing to their basest fears (Northouse, 2016, p. 339). The actions of the executives at Enron leading up to the collapse of the company shows us that they had a lack of integrity, insatiable ambition, arrogance, and reckless disregard for their actions. The executives displayed all of the dysfunctional personal characteristics that are found in destructive leaders.

Jeffrey Skilling, the Chief Executive Officer, developed a staff of executives that, by the use of accounting loopholes, special purpose entities, and poor financial reporting, were able to hide billions of dollars in debt from failed deals and projects. Andrew Fastow, the Chief Financial Officer, misled Enron's board of directors and audit committee on high-risk accounting practices and also pressured their audit and accounting firm to ignore the issues. Enron rewarded their efforts and paid the top 140 executives $680 million in 2001 before the collapse. Enron shares were worth $90.75 at their peak but dropped to $0.67 immediately after the scandal was revealed and the company collapsed. Enron executive Michael Kopper would go on to plead guilty to conspiracy to commit wire fraud and money laundering conspiracy in August 2002. Enron Executive Andrew Fastow was charged with securities fraud, wire fraud, mail fraud, money laundering and conspiracy in October 2002. The Chief Executive Officer, Jeffrey Skilling, was indicted on fraud and conspiracy charges in February 2004. Paula Rieker, the Enron vice president responsible for investor relations, pleaded guilty to insider trading in May 2004 (CNN Library, 2016).

In assessing consequences, there are three different approaches to making decisions regarding moral conduct: ethical egoism, utilitarianism, and altruism (Northouse, 2016, p. 334). Ethical egoism states that people should act so as to create the greatest good for themselves. A leader with this orientation would take a job or career that she or he selfishly enjoys (Avolio & Locke, 2002). Many of the Enron executives made decisions to achieve their goal of maximizing profits. The executives had a very high concern for their self-interests but a very low concern for the interest of others.

On the other hand, Sherron Watkins, the Vice President of Corporate Development, alerted the Enron CEO of accounting irregularities in financial reports in August 2001. She is the whistleblower responsible for bringing the corruption at Enron to light. She reported the fraud to government authorities despite the fact that she knew she was risking her career at the sixth-largest energy company in the world. I would argue that her actions were altruistic. Altruism is an approach that suggest that actions are moral if their primary purpose is to promote the best interests of others. From this perspective, a leader may be called on to act in the interests of others, even when it runs contrary to his or her own self-interests (Northouse, 2016, p. 335). Sherron Watkins displayed a low concern for her self-interests and a high concern for the interests of others by jeopardizing her job as the Vice President of Corporate Development in order to protect the interests of the lower-level employees at Enron.

In conclusion, leadership is a process of influencing others. Leadership involves values, including showing respect for followers, being fair to others, and building community. Leadership is not a process that can be demonstrated without showing our values. Therefore, when we influence, we have an effect on others, meaning we need to pay attention to our values. Sherron Watkins demonstrated how this moral dimension distinguishes ethical leadership from other types of influence, like those of the other Enron executives that knowingly decided to compromise their morals and values in favor of achieving the greatest good for themselves. The Enron scandal serves as an excellent case study for why there is a high demand for moral leadership in our society today.