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Big Blue vs. the Crooked E: Comparing and Contrasting IBM and Enron through the Lens of Values Leadership

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At the turn of the millennium, IBM and Enron were iconic American corporations. IBM had risen from the ashes of a severe plunge in its computer mainframe sales and stock price. Enron was the seventh-largest corporation in America and its employees and shareholders were riding high. Yet, while IBM's rebound was based on a firm foundation of values leadership, Enron was afflicted with a cancer of corrupted values that would lead to its astonishing demise in December 2001. This article examines the organizational cultures, structures, and leader-follower relationships within IBM and Enron to learn how critical values leadership can be to business success, especially during times of change. The nature of the values leadership of Jesus Christ will also be examined so as to inform the leadership of Christians in the marketplace.

> *"I think we slipped a little bit on this recently, and we've got to restore it. Values are incredibly important to the fiber of this company."* — Ken Lay, Enron
>
> *"You know what the difference is between the state of California and the* Titanic*? At least the lights were on when the* Titanic *went down."* —Jeff Skilling, Enron
>
> *"A company is known by the men it keeps."* —Thomas Watson, Sr., IBM
>
> *"IBM has reinvented itself many times. But through it all, its DNA, its soul remained intact... IBM's most important innovation wasn't a technology or management system. Its revolutionary idea was to define and run a company by a set of strongly held beliefs."* —Sam Palmisano, IBM
>
> *"Therefore it is unnecessary for a prince to have all the good qualities I have enumerated, but it is very necessary to appear to have them. And I shall dare to say this also, that to have them and always to observe them is injurious, and that to appear to have them is useful; to appear merciful, faithful, humane, religious,*

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> *upright, and to be so, but with a mind so framed that should you require not to be so, you may be able and know how to change to the opposite."* —Machiavelli, *The Prince*
>
> *"Do not be deceived: 'Evil company corrupts good habits.'"* — 1 Co 15-33

Introduction

The final decades of the twentieth century were a heady yet tumultuous time for global corporations like IBM and Enron. The unprecedented bull market saw the Dow Jones Industrial Average rise 317.59% during the 1990s, ending 1999 at 11497.12.[1] When the Dow peaked at 11,722.98 on January 14, 2000, and began a bull run brought on by the crash of the "dotcom" stocks, IBM and Enron found themselves in starkly different circumstances. IBM had risen from the ashes of a near-death experience, while Enron was set to collapse at dizzying speed. While each corporation was emblematic of the new technical age, both had roots in old-line industries with distinct corporate values.

International Business Machines (IBM) Corporation

To recount the history of IBM is to trace the transformation of America from the industrial age to the information age. In 1914, an eccentric entrepreneur from Maine, Charles R. Flint, hired an eager young salesman named Thomas Watson to manage his computing-tabulating-recording company. Flint later recalled Watson as being "the most creative businessman he had ever worked with and one of the true giants of American corporate management."[2] As the United States entered World War I, Watson recognized that American businessmen needed machines to facilitate expansion and provide products and services to a growing client base. Watson stressed the importance of sincerity, integrity, and loyalty in his "chalk talks" to his sales staff, saying, "You have to put your heart in the business and the business in your heart."[3] In 1924, C-T-R became International Business Machines Corporation, ideally suited for the postwar office equipment industry, particularly with larger businesses and government agencies with specialized requirements. Turning contracts with clients like the new Social Security Administration into remarkable profits, IBM became the largest and most powerful business machine company in America and a "blue chip" stock on Wall Street. Following World War II, Watson groomed his son, Thomas Jr., as the future leader of IBM. Watson junior saw a future in mainframe computers, which were known as "giant brains." Taking the reins as CEO in 1956, Watson would preside over IBM's astonishing growth for the next 15 years. IBM emerged as a transnational company (operations in 130 countries) where leaders owed allegiance to the firm as "IBM men," not to their countries. The launch of the IBM 360 in 1966 established IBM's "reputation in technology akin to what it previously enjoyed in sales."[4] By the mid-1970s, however, IBM was searching for a way to revive its mature technology in mainframe computers. New players were proliferating in the industry. Companies like Apple, Wang, Commodore, and Tandy far outpaced IBM in microcomputers and distributed data processing in an industry now dealing in *information processing* and *information systems*. By the early 1990s, IBM would find itself facing its greatest business—*and leadership*—crisis yet.

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Enron Corporation

Enron's story is best told through the life of its founder and future chief executive officer and chairman, Ken Lay. Growing up poor, Lay made his way to the University of Missouri where he worked his way through school and fell in love with the study of economics. Upon graduation, Lay leveraged his knack for making connections by going to work at Houston's Humble Oil and earning his Ph.D. in Economics at the University of Houston in 1970. Following a stint in the Navy and federal government service, Lay returned to the business world as an executive and later president with various pipeline companies, finally becoming CEO of Houston Natural Gas. At HNG, Lay engineered a merger with InterNorth, a big Omaha pipeline company. HNG InterNorth, as the new company was called, was a $12 billion company with the largest gas distribution system in the country, as well as access to the three fastest growing markets: California, Texas, and Florida. The merger did not go according to Lay's plan, however. His inability to effectively incorporate InterNorth's Omaha managers into his debt-burdened HNG organization in Houston, and coupled with a glut of gas on the market resulting in a severe plunge in prices, caused the new company, now called Enron, to report a loss of $14 million for its first year and a downgrading of its credit rating by Moody's to junk bond status in 1987. Enron's search for a fresh source of profits was to sow the seeds of its ultimate destruction a mere fourteen years later.

Theoretical Framework

Values Leadership

It is too obvious and simplistic to conclude that the difference between IBM and Enron is in their corporate values because one organization (IBM) *walked the talk* and the other (Enron) did not. In fact, both organizations formally espoused corporate values, and in the case of Enron, did so until the moment it declared bankruptcy and folded. It is instructive to identify and understand the critical incidents where both organizations had the opportunity to abide by their values or depart from them, and what consequences ensued.

But first, what are *values* and *values leadership* in this context?

Rokeach defined a *value* as "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable to an opposite or converse mode of conduct or end-state of existence" and a *value system* as "an enduring organization of beliefs concerning preferable modes of conduct or end-states of existence along a continuum of relative importance."[5] What functions do values serve? Rokeach advises us to "think of values as standards that guide ongoing activities, and of value systems as general plans employed to resolve conflicts and to make decisions."[6]

Let us now take a look at the values espoused and practiced by IBM and Enron.

IBM. Thomas J. Watson, Sr., brought with him to IBM a personal character forged by a "Scottish fierceness that drove him off the farm [in upstate New York] combined with his

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Methodist fundamentalism."[7] Watson took pains to demonstrate that he not only wanted his company to be financially successful, but would reflect his personal values as well. These values, which he institutionalized and were later reaffirmed by his son, Thomas Jr., when he became IBM's second CEO, were known as the Basic Beliefs:

1. The individual must be respected.
2. The customer must be given the best possible service.
3. Excellence and superior performance must be pursued.

When Tom Watson, Jr., took over IBM from his father in 1954, the company was embroiled in the "computer wars" with rivals like Sperry Rand, Burroughs, and Control Data Corp. Therefore, he quickly reaffirmed his father's organizational principles and philosophy, saying, "For any organization to survive and achieve success, there must be a sound set of principles on which it bases all of its policies and actions. But more important is its faithful adherence to those principles."[8] Watson admitted that the "hardest task of all was what…I called riding the runaway horse: keeping IBM coherent as it multiplied in size," resolving that "to survive and succeed, we had to be willing to change everything about IBM except these basic beliefs."[9] Watson was unafraid to terminate employees when they violated these principles: "I simply fired managers when they broke rules of integrity…the company was invariably better off for the decision and the example."[10]

By the early 1990s, IBM was besieged by competitors large and small in the now wide open computer industry. In January 1993, CEO John Akers retired under fire. In seeking his successor, IBM's board avoided hiring another technologist in favor of a "broad-based leader and change agent…skilled at generating and managing change."[11] Enter Louis Gerstner, a Harvard MBA, former McKinsey consultant, and CEO of RJR Nabisco. He found IBM's sales and profits declining at an alarming rate and the mainframe computer revenue down by nearly 50 percent in just three years. Additionally, there was talk of breaking the company up into operating units. Gerstner immediately realized that IBM's malaise would require a cultural shift, "What the Beliefs had come to mean – or, at least, the way they were being used – was very different in 1993 than in 1962…they had morphed from wonderfully sound principles into something virtually unrecognizable…we needed something more, something prescriptive."[12] Gerstner cut rules, codes, and procedures, and drafted eight principles as the underpinnings of IBM's new culture. IBM's successful "moon shot" in developing "e-business" along with its culture shift restored the company to much of its former prominence by the time Gerstner retired in 2002. Reflecting on the "corporate malfeasance" prevalent in corporate America at the time, Gerstner cautioned:

> No one should be entrusted to lead any business or institution unless he or she has impeccable personal integrity. What's more, top-rung executives have to ensure that the organizations they lead are committed to a strict code of conduct. This is not merely good corporate hygiene. It requires management discipline and putting in place checks and balances to ensure compliance.[13]

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In 2003, Gerstner's successor, Sam Palmisano, led IBM's first reexamination of its values in 100 years. In a 72-hour virtual "values jam" to which all 319,000 IBM employees worldwide were invited, the new Values at Work became:

- Dedication to every client's success.
- Innovation that matters, for our company and for the world.
- Trust and personal responsibility in all relationships.[14]

Enron. Enron prided itself on being "The World's Leading Energy Company" and later "The World's Leading Company" with a "new way of doing business" in the oil and gas industry. A 1986 report to the Enron board called it trading "as done by professionals in the industry today, using the sophisticated tools available, [which] can generate substantial earnings *with virtually no fixed investment* [emphasis added] and *relatively low risk* [emphasis added]."[15]

The canary in Enron's coal mine appeared in the disastrous year of 1987 when the company recorded a $14 million loss and a downgrading of its stock to junk bond status. Two Enron Oil executives were charged with and later convicted of fraud, personal income tax evasion and hiding income with "sham transactions" wherein revenues and losses were shifted as needed to off-balance sheet accounts to manipulate Enron's all-important earnings report to investors. CEO Ken Lay and Enron's board denied any responsibility for the actions of the "rogue traders."

Ken Lay then made his fateful mistake: he hired former McKinsey & Co. consultant and Harvard MBA Jeffrey Skilling as CEO. Variously described as "incandescently brilliant" or "the smartest person I ever met," Skilling, nevertheless, lacked the qualities necessary for running a large company; he had "dangerous blind spots…didn't really understand people…had a tendency to oversimplify" and "an active distaste for…the messy details involved in executing a plan."[16]

Lay and Skilling presided over a global organization that espoused the values of:

- ***Respect.*** We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness, and arrogance don't belong here.

- ***Integrity.*** We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won't do it.

- ***Communication.*** We have an obligation to communicate. Here, we take time to talk with one another…and to listen. We believe that information is meant to move and that information moves people.

- ***Excellence.*** We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

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A young Enron trader named Brian Cruver would later write of the Enron core values: "Enron actually had those values well defined in its own *Code of Ethics* handbook, but it appears the only time the board of directors paid attention to that handbook was when they were *officially agreeing to disregard it*."[17]

Ken Lay was a Christian who spoke often about corporate values. "I personally have a very strict code of personal conduct that I live by," he told an interviewer for a religious magazine, "This code is based on Christian values."[18] Yet, Lay was noted as having an "unhealthy capacity for self-delusion," nepotism, and a "powerful sense of personal entitlement."[19]

Using an accounting method known as mark-to-market accounting, Enron adjusted its values on its balance sheet regularly to reflect fluctuations in the marketplace or anything else that might change the values. It also allowed Enron to book the entire estimated value of the length of the contract on the day it signed the contract. Changes in that value show up as additional income – or losses – in subsequent periods. "If you accelerate your income, then you have to keep doing more and more deals to show the same or rising income," said an Enron competitor.[20] Jeff Skilling's "Big Idea" was to trade electric power. Enron had morphed from an oil and natural gas pipelinecompany into one built on trading and deal making. As McLean and Elkind point out, "This was Enron's dirty little secret: a company built around trading and deal making cannot possibly count on steadily increasing earnings."[21] The man who would "game the system" to keep Enron's stock price high and the Wall Street analysts and accountants at bay was Andrew Fastow, the chief financial officer. Fastow used "hypothetical future value accounting" methods, created "special purpose entities" and structured finance deals to "keep fresh debt off the books, camouflage existing debt, book earnings, or create operating cash flow…the deals were intended to allow Enron to borrow money – billions upon billions of dollars that it needed to keep itself going – while disguising the true extent of its indebtedness."[22] By late 2000, however, Enron could no longer fool Wall Street, Securities and Exchange Commission investigators, or its own whistleblower, an accounting executive named Sherron Watkins. In the astonishing final twelve months of its life, Enron would implode, though Lay would reassure employees at the same time he was cashing in $20 million of his Enron shares. Skilling quit as CEO, Fastow was fired, and the company's stock cratered under the weight of a staggering $38 billion debt. On Sunday, December 2, 2001, Enron filed the largest bankruptcy case in U.S. history. Skilling, Fastow, and Lay were sentenced to lengthy terms in federal prison, charged with offenses ranging from conspiracy to fraud to insider trading. Shortly before he was to report to prison, Ken Lay died of a heart attack.

Windsor neatly summarized the fall of Enron:

> The Enron organizational history apparently involved a financial and moral corruption machine, something akin to "victory disease," denying the possibility of failure, and a corporate culture and moral climate ultimately hostile to business ethics.[23]

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Organizational Change

Both IBM and Enron operated during times of momentous cultural and technological change which can serve to forge an institution's character. Selznick postulated that it is in this very process that "organizations become institutions as they are *infused with values*, that is, prized not as tools alone but as sources of direct personal gratification and vehicles of group identity. This infusion produces a distinct identity for the organization."[24] He further argued that the primary task of corporate leadership is to create a social structure of shared values: "The institutional leader…*is primarily an expert in the promotion and protection of values*."[25] Burns earlier found that the essence of leadership is to codify values:

> Essentially the leader's task is consciousness-raising on a wide plane…The leader's fundamental act is to induce people to be aware or conscious of what they feel – to feel their true needs so strongly, to define their values so meaningfully, that they can be moved to purposeful action.[26]

The integrity of an institution can become vulnerable when values are tenuous or insecure. IBM's dedication to its values through times of great turmoil gave it staying power, while Enron's tenuous or even absent adherence to values brought its demise. Maintaining the integrity of institutional values is the sacred responsibility and *sine qua non* of leadership, for the "ethical orientation of the CEO is a critical issue to consider in understanding ethical practices in organizations," says Hood in her study analyzing the relationship between CEO values, leadership style, and ethical practices in organizations.[27] Selznick agrees on the concept of integrity:

> The protection of integrity is more than an aesthetic or expressive exercise, more than an attempt to preserve a comforting, familiar environment. It is a practical concern of the first importance because the defense of integrity is also a defense of the organization's *distinctive competence*.[28]

How do leaders embed these values and create the conditions for positive culture formation and evolution? Schein says leaders must *walk the talk*:

> Through what they pay attention to and reward, through the ways in which they allocate resources, through their role modeling, through the manner in which they deal with critical incidents, and through the criteria they use for recruitment, selection, promotion, and excommunication, leaders communicate both explicitly and implicitly the assumptions they actually hold.[29]

All this is not to say that corporate culture and values must remain static and impervious to positive change. Says Fairholm:

> Corporate values, and the culture that gives them context, direct and open some possibilities and inhibit others. They need to be set, maintained, *changed as needed and constantly kept relevant* [emphasis added] to present action and plans. Leaders need to understand and use the corporate cultural values to ensure member commitment.[30]

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When corporate change involves an acquisition and/or merger, the organizational *fit* may not work. Fairholm stipulates:

> Values permeate organizational life. They define organizations and all other interpersonal relationships. They are a main cause of the sense of permanence most organizations enjoy. They are also a prime cause of the difficulty many people – leaders and workers alike – experience in attempting to change organizational structure, process, or systems of work.[31]

In Enron's final days, it was forced to suffer the indignity of crawling to a smaller competitor, Dynegy, a company that had operated in the shadow of Enron for more than a decade, to seek a merger. Though Dynegy's CEO said of the proposed merger that "Culturally, it's a good fit," he had second thoughts when he saw Ken Lay's new $45 million Gulfstream G-5 corporate jet, telling a colleague, "I nearly had a heart attack."[32] (The merger was cancelled when Enron's credit rating cratered to junk bond status, triggering enormous debt.)

Leader-Follower Alignment

Values leadership is characterized by Fairholm as "in essence simple and direct. It is leader action to create a culture supportive of values that lead to mutual growth toward excellence and enhanced self-determination. The true essence of leadership is not in procedures. It is knowing and teaching values of leadership to followers."[33]

In effectively framing their advocacy of values, leaders must speak in terms of their followers' interests. Conger has developed a "framing triad"[34] that is based on shared ground and shared advantage:

1. Shared goals and rewards.
2. Shared values and beliefs.
3. Shared language.

When Gerstner took over IBM in 1993, he quickly quashed the notion that IBM should be broken up into business units ("Baby Blues"), saying in a memo to all employees: "You and I want to make IBM the most successful company in the world. It was once and I am convinced it will again."[35] He called for 5,000 volunteers to help him effect the change in IBM. "Gerstner's Guerrillas" were called to be committed to the long-term success of IBM in a fast-changing global business environment, zealous in making things work for the customer, and willing to take risks in the face of conventional wisdom.[36]

Ken Lay made a mockery of leader-follower values in Enron's final months. Calling an all-employees meeting in late October 2001, Lay assured them that "the underlying fundamentals of our businesses are very strong" and that while Enron's reputation was "a little tarnished right now," he added, "we will return to that preeminence and we'll take that tarnish away with a little time."[37] Lay, of course, did not reveal that he'd recently cashed in $20 million of his own stock at a time when he had urged others to buy and "talk up the stock."[38]

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The Nature of the Values Leadership of Jesus Christ

Christian leaders in the marketplace can look to Jesus of Nazareth as the exemplar of values leadership. He codified Christian values for all time in the Beatitudes delivered in the Sermon on the Mount (Mt 5:3-10, New King James Version). More importantly, "he brought them to life by living them."[39] Winston has noted the Beatitudes as the basis for ethical behavior and provides an associated value trait indicated in brackets.[40]

1. Blessed are the poor in spirit, for theirs is the kingdom of heaven. **[Humility]**
2. Blessed are those who mourn, for they shall be comforted. **[Caring]**
3. Blessed are the meek, for they shall inherit the earth. **[Controlled Discipline]**
4. Blessed are those who hunger and thirst for righteousness, for they shall be filled. **[Seek Goodness]**
5. Blessed are the merciful, for they shall obtain mercy. **[Merciful]**
6. Blessed are the pure in heart, for they shall see God. **[Integrity]**
7. Blessed are the peacemakers, for they shall be called sons of God. **[Unity]**
8. Blessed are those who are persecuted for righteousness' sake, for theirs is the kingdom of heaven. **[Commitment]**
9. Blessed are you when they revile and persecute you, and say all kinds of evil against you falsely for My sake. **[Commitment]**
10. Rejoice and be exceedingly glad, for great is your reward in heaven, for so they persecuted the prophets who were before you. **[Commitment]**

Ford offers that Jesus was careful to frame his values in terms of value stories, known as *parables*.[41] Parables would help those on the outside understand the values of the kingdom of God: "Seeing they may see and not perceive, and hearing they may hear and not understand; lest they should turn, and their sins be forgiven them" (Mk 4:11-12). And to those who believed, Jesus would speak in a manner (parables) that they could understand Divine truth. (Mk 4:33)

Ford concludes that Christian business leaders must emulate Jesus' example and adhere to Kingdom values:

> Jesus' leadership was not *value-neutral*, a set of tools to be used for any cause at all. Rather his leadership was kingdom leadership, value-driven…Jesus' leadership is not a 'how-to' program for achieving secular goals; it is uniquely a leadership related to the dynamic of God's purposes.[42]

Leading Organizational Change toward Values Leadership

Christian leaders must model the way in shaping corporate values. In her study of why leaders fail in introducing values leadership, Viinamäki recommends three steps:

1. ***Sense of Values***. Increase followers' knowledge on values and ethics by using roundtable discussions, listening to stakeholders' needs, and finding a balance between enduring values and short-term operational goals.

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2. ***Values awareness.*** Create and facilitate discussions on persistent ethical principles and value transformation, institutionalize values and ethical codes and procedures – especially when the organization expands – and incorporate values and ethics in strategically important functions and services, monitoring and feedback systems.

3. ***Competence to put values into practice.*** Communicate values and create trust in ethical codes, coordinate competing values and find opportunities for consensus, operationalize values and provide task-specific and self-related feedback, and establish value-platforms in several levels of organization hierarchy where values can be shared, debated, and agreed.[43]

Conclusion

What may we learn from the values leadership approaches of IBM and Enron?

First, organizations must be led by men and women who not only espouse core values, but *walk the talk*. Second, these leaders must enlist their followers in terms and language they can understand in the effort to create a sense of values, institutionalize the values, and put the values into practice. Finally, Christian leaders must look to Jesus of Nazareth as the exemplar of values leadership so that they may fulfill the charge in Matthew 5:16:

"Let your light so shine before men, that they may see your good works and glorify your Father in heaven."

About the Author

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