

The process of white-collar crime: An examination of Enron, Barings Bank and other corporations

Abstract

This paper examines the psychopathology of the white-collar criminal acting as a corporate leader. It looks at the impact of the leader's behaviour on the workforce and the organizational culture developed and perpetuated during his or her reign. It also examines the role played by other employees in the crime. We propose an 11-step process to explain how an organization can move from a legally operating organization to one where unethical behaviour ignores and promotes wrong doing. Events from Enron, Barings Bank, World Com and other corporations are used to provide examples of this process. Finally, recommendations are made about how an organization should address the discovery of such illegal activities in an effort to stay viable.

What evolves in an organization to draw law abiding company leaders to partake in white-collar crime? In the majority of recent high-profile cases of white-collar crime, such as Enron Corp., WorldCom, HealthSouth Corp., Adelphia Communications, Tyco International, HIH Insurance, Hollinger International Inc. and Xerox Corp., executives charged with committing white collar crime had no track record of committing crime. The outcome was a product of individual characteristics, a specific organizational environment and an opportunity. According to Williams et.al. (2007:205), psychopathic behaviours, those of a mix of "offensive personality traits and antisocial behavior," stems from four causes: interpersonal behaviour, affectivity, lifestyle and antisocial tendencies. In some industries pressures to achieve short-term goals cause managers to become short-sighted in relation to longer-term ethical objectives (Sweeney, 2003). Pavlo, formerly of MCI, experienced intense pressure to "make the numbers," no matter how. The culture was about pumping the stock price (Levinsohn, 2005). What appear to be otherwise honest people can be swept up in a climate of greed and corruption. Palvo did not begin his career at MCI with a plan to defraud the company. "If someone asked me on my first day at MCI, how I was going to steal US \$6 million...I would have said that I would never do such a thing and I wouldn't even know how to do it" (Jacka, 2004: 50). How does a manager like Palvo become a white-collar criminal? Is there a process leading to white-collar crime rather than just a set of antecedents or environmental conditions? As well, what does an organization do to reestablish viability after high profile illegal activities are discovered.

Corporate illegality may appear the act of one person, as in the collapse of the 233 year old Barings Bank by Nick Leeson, or a few people, as with Enron, but culpability is often more widespread. Barings Bank executives knew that Leeson was not trained to trade and that Leeson was both trading and settling the same trades. Prior to the collapse of Barings, an audit report noted that Leeson's duo role "represented an excessive concentration of powers; companies commonly divide responsibilities for initiating, settling and recording transactions among different areas to reduce the possibility of error and fraud" (Leeson, 1996:112). It is unlikely these executives knew their negligence would assist in the bank's demise. According to Palvo, "no one thing led to the embezzlement of \$6 million (of MCI money). It was a combination of the industry, the profit, the tone at the top, the friend, the external auditors, the internal auditors and many other small things" (Jacka, 2004: 52).

Research on corporate illegality spans several distinct literatures and defies ready integration (McKendall & Wagner, 1997). Is white-collar crime a case of the "bad apple," the impact of the deviant individual, the "bad barrel," the result of the dysfunctional and/or corrupt organizational culture (Trevino & Young, 1990) or a combination of the two? Organizational characteristics, identified in research, including poor financial performance, organizational slack, performance and firm size (Clinard & Yeager, 1980; Baucus & Near, 1991; Cochran & Nigh, 1987). Identified external environmental factors include industry membership or hostility (Staw & Sz wajkowski, 1975; Hill et al., 1983; Cohen, 1987). Additional variables have been identified by McKendall and Wagner (1997) including industry profitability, organizational profitability, industry concentration, organization size, structural complexity, organizational decentralization and ethical climate. Depending on the study some of these factors play a larger role than others but no one item provides a consistent indicator for organizational crime.

There has also been examination of fraud at the individual level but no clear profile of the likely white-collar criminal has been established. Daboub and Rasheed (1995) argued that individual characteristics of the top management team (length of service, functional background, formal business education, age, and military service) as a response to particular organizational contexts, influence the likelihood of illegal corporate behaviour. Holtfreter (2005) found employees who committed fraudulent

statements were likely older, educated males who held managerial or executive positions. Those who committed occupational fraud, asset misappropriation and corruption, were younger, as likely to be male as female and had similar levels of education. Bell, et al. (1991) and Loebbecke and Willingham (1988) link fraud to a “tone at the top” that fosters the commission of fraud. Increasing the environmental influences, Zahra et al. (2005) have presented a model that includes societal pressures (differential association and aspiration) as well as industry and organization antecedents. Individual level influences are viewed as moderators.

What appears to be missing in the research on fraud is an examination of the process leading to white-collar crime. Examining the process goes beyond the apple or the barrel looking at the personal interactions and personal influences that create the desire and opportunity for taking an illegal action. Anderson and Tirrell (2004: 42) argue that “increased awareness of some of the pressures that lead to abuses and the form that these abuses take should prove beneficial in reducing their incidence.” This paper seeks to answer the following questions: How does an executive slide down the slippery slope to committing illegal activities? What pressures, self or externally imposed, encourage such behaviour? What is the role that other people play wittingly and unwittingly? We are also trying to answer questions raised by Zahra et al, (2005:822): “We do not know how these managers succeed in co-opting and involving others in their fraudulent schemes...(and) why many members of the organization who, accidentally or otherwise, uncover fraud fail to report it. What perpetuates such silence and compliance to corrupt authority?” Finally, we consider what an organization does after the crime has been discovered to refocus and set a new vision.

In this paper we postulate that pressures, internal to some people such as overcoming personal weaknesses, are magnified by circumstance and that more than one person is culpable. Our view is that such behaviours, exhibited in the ignoring of ethical expectations, is part of a quest for personal happiness. The access to and misuse of power begins to reveal the psycho-social limitations of the person. The psychological principle is similar to water seeking the path of least resistance. When a person seeks power, the power may be abused if directed to an area where he or she has psychological weaknesses or

problems. Focus on the “weakness” can then undermine his/her morals and eventually jeopardize his/her power. In such cases, the power moves from magnifying a person’s virtues to magnifying their vices and encouraging maladaptive compensations (Johnson, 1994).

We now present a proposed model of the process of white-collar crime. The steps of this model are supported by examples from recent cases of white-collar crime. Understanding this process may help management prevent white-collar crime. Our model is based on an addiction model where “wanting” and a continual increase in wanting becomes the driver over mere “liking” (Eikelboom & Lattanzio, 2003; Robinson & Berridge, 1993).

THE PROCESS

We have broken down the process of white collar crime into 11 steps (see Appendix 1). Steps 1 to 3 describe the players and how the players are attracted to and support each other. During steps 1 to 3 an opportunity for illegal actions arises that solidifies the relationship between the players. Steps 4 though 7 explain how the truth of the escalating illegality is kept quiet. Steps 8 through 11 explain how the perpetrator’s actions are publicized and challenged.

Step 1 – The Perpetrator: In Defense of a Poor Self Image

Leaders that are attracted to unethical means of advancing their careers and financial position are often driven by an intense defense against a poor self image. The person will go to any lengths to see themselves favourably. For example, Leeson who was above his capability in trading and managing at Barings Bank created a dummy account to absorb his substantial trading losses (Leeson, 1996). At Barings Bank employees were “thrown in at the deep end if he or she had no prior experience on the job” (Rawnsley, 1995:62) leading to errors and rule breaking. The dummy account permitted Leeson to cover his trading losses for an amazing two years. The need for a defense against a poor self image can be conditioned by one's early childhood of perceived successes and/or failures especially vis à vis caregiver approval or dismissal. In his book entitled *Rogue trader: How I brought down Barings Bank and shook*

the financial world, Leeson repeatedly mentions his wife, father and mother, as critical figures in his life (Leeson, 1996). He expresses concern about how they would view him if they knew the truth and the lengths he went to in order to avoid detection.

Depending on the level of pathology, the person develops a sense of superiority that ranges from “acting” or “putting on a show,” in which they are consciously compensating, for weakness to illusory beliefs as in “I am king of the world!”, also known as narcissism (Johnson, 1994; Miller, 1981). Even though his or her superiority is truly a defense against a poor self image, it enters the realm of an illness when the person believes in their own omnipotence.

Step 2 – The Needs of the Driver

The perpetrator rarely operates on their own. They typically have one or more high level supporters “drivers” for their activities. In some cases, as in Enron, the driver is seen as equally culpable. In the case of Hollinger International Inc. the culpability of the drivers, key members of the board of directors, was not as clear. Typically the drivers are outcome rather than process oriented. They distance themselves from the specific actions of the perpetrator but are supportive of their activities as they directly and substantially benefit from the results.

In the case of Enron, Skilling, the COO, can be seen as one of the perpetrators. It was Skilling’s drive and vision, in conjunction with Andy Fastow, CFO, (another perpetrator), that took Enron to its heights and eventual depths. Lay, the CEO, was a driver aware of what was happening but not a participant in designing the financial instruments that brought Enron down. He directly benefited through share value from the activities of Skilling and Fastow. For example, in 2000 Lay sold Enron shares worth \$21 million (Swartz & Watkins, 2003). Lay rewarded and promoted Skilling and took steps to remove barriers, such as advancing Skilling over Rebecca Mark (another manager at Enron), to allow Skilling to flourish. Drivers do not mastermind the unethical activities. Slowly they become aware of these activities recognizing that their success is so closely linked to the successes of the perpetrator’s actions that it is best not to ask too many questions. Along the way drivers typically become more, if not fully, aware of

the actions of the perpetrator. In the case of Enron, the memo Watkins sent Lay in 2001, explaining the depth of deceit and risk of financial undertakings by Enron, left no doubt that he understood. However, as a driver, Lay buried Watkin's memo while assuring employees and shareholders that Enron was still economically sound.

Step 3 - Passive Participants – Chance of a Life Time

Obholzer and Vega Zagier (1994) make the point that any organization is only as good as its leadership and that the psychology of the leader has a clear and direct impact on the workplace and employees. In order to preserve the leader's delusion that they are above the rules and never do anything inappropriate, he or she surrounds themselves with organizational conformists. Such appeared to be the case of Conrad Black with his hand-selected directors and with Enron executives working with Arthur Andersen. Another common support person is the unsuspecting sycophants who may be young, not very sophisticated and easily dominated. The leader may attract followers who have particular psychological make-ups or circumstances that lead them to be more vulnerable, such as low self-esteem. There may be employee indebtedness to him/her for giving them a job and a 'chance of a lifetime, and letting them keep their job,' which they believe they really do not deserve. These followers are now in a position where they are working above their skill sets. They seek the leader's advice and approval and put him or her on a pedestal as a trusted advisor, mentor and in some cases, a friend.

In the case of Enron, employees in the bottom 10 per cent of performers were let go in what was referred to as a rank-and-yank system. The employee evaluations kept employees constantly on edge courting management to keep their job. When employees were hired they were given more responsibility and income than they would get at comparable companies. With such an emphasis on competition and rapid advancement it is likely employees were working above their skill level. There was also a culture of winners and losers, promoted through the rank-and-yank system. Winners were those who were seen with or worked with successful managers in the organization (Swartz and Watkins, 2003). Such an approach discouraged dissenters as management promoted those followers that did not question their actions

(winners) and let go or relocate independent thinkers (losers). “Although dissent was supposedly encouraged within the company, employees who did dissent were too often dismissed as people who ‘just didn’t get it’” (Fox, 2003: 92). It was also part of the Enron approach to creativity and advancing employees to move employees around often within the company. “Managers told employees it would hurt their chances of advancement if they stayed too long on one project” (Fox, 2003:89). This led to inexperienced employees dependent on those of more seniority for guidance while constantly trying to learn their job. Employees were seldom in the position to evaluate the performance of those around them.

The Opportunity for Illegal Action

The opportunity for illegal action arises around step three. The players are in place which makes the opportunity more attractive. The presence of the driver(s) and passive participant(s) allow(s) the perpetrator to see how the opportunity can be taken with less risk. The perpetrator acts illegally undertaking actions which can not be reversed and for which an informed person would say is wrong.

Step 4 - Reluctant Participants: The Uncovering of Questionable Actions

The support by followers continues until a number of questionable actions are uncovered or when the follower is told explicitly to act in a way they know is wrong (e.g. Milgram experiments). At the start, the employees often feel that it is they who might be wrong, that the leader is the expert and that their job is to be loyal to their leader and therefore, override their own thoughts and ‘do what they are told’. The follower will overlook, cover up and support their leader in the face of seeing irregularities. For example, Betty Vinson, a manager in the International Accounting Division and Troy Normand, manager of General Accounting at WorldCom, reacted with shock when told by their boss to release \$828 million of line accruals into the income statement. They called the action “not good accounting” and took steps to resign. Their boss discouraged them from resigning saying “(t)hink of us as an aircraft carrier. We have planes in the air. Let’s get the planes landed. Once they are landed, if you still want to leave, then leave. But not while the planes are in the air.” They were assured by the CFO Scott Sullivan that they were doing

nothing illegal, and that he would take full responsibility for their actions (Kaplan and Kiron, 2004:6). The request to alter statements was followed by larger requests that Vinson and Normand accommodated. The moment of doubt and opportunity to object had passed creating reluctant participants. Vinson and Normand were still with WorldCom in 2002 when the Securities Exchange Commission initiated a civil suit of fraud against the organization. They were included in the criminal investigations.

Step 5 – Distrust by the Perpetrator of the Reluctant Participants

For the leader, there is distrust in their followers as they are not the most sophisticated people. If they can be swayed by someone like themselves (poor self image), they can be swayed by others. This part of the perpetrator's paranoid delusional system is overridden by a stronger need to be the controlling and domineering authority. These employees are valuable by being passive so the perpetrator will become more dominating to discourage the influence of others. The followers will defer to the leader's authority and wisdom (not knowing any better) while at the same time colluding with the leader's need for power, and positive self worth. According to Palvo of MCI (Jacka, 2004), "(i)t's shocking that somebody didn't see (the deception) earlier." Most of the Arthur Andersen auditors were younger than Palvo and fresh out of college. "With the combination of naiveté and envy on his side, Palvo didn't have any real trouble ensuring (that) the auditors did not see the hidden bad debt" (Jacka, 2004:51).

Step 6 – Bravado of Perpetrator

Once the followers start accepting, approving and ignoring the actions of the perpetrator, the perpetrator has the followers where he or she wants them. As with abuse victims, the followers start to imagine their own guilt. The followers recognize their actions as illegal and dread discovery. As soon as the leader's 'team' of followers moves into a stage of 'affiliation at any cost,' where both parties have a rationalization for what they do, the leader is free to continue and actually make public to them, his or her risky behaviours and indifferences to conventional rules. The leader's morality is premoral where behaviour is evaluated only on the basis of personal outcomes without any concept of right or wrong

(Kohlberg in Reber, 1985). For example, in the case of HIH Insurance "...senior HIH executives began cooking the company's numbers to hide its vulnerabilities when entering U.S. and U.K. markets. Meanwhile, HIH executives lived in an unending orgy of overspending, ranging from buying themselves thousand dollar gold watches, expensive cigars and even designer jellybeans, while also granting generous loans to friends and co-workers" (Coffin, 2005:9). The leader would be characterized on the narcissistic personality continuum as having: a lack of empathy and an overwhelming sense of entitlement. It is also possible the leader has sociopathic tendencies. If so, the leader can be extremely charming and convincing - making it easier to draw people into his/her sphere. The polish, charm and cool decisiveness of the psychopath can easily be mistaken for leadership qualities providing opportunities for continued advancement within the organization which further impresses the followers (McCormick and Burch, 2005).

Step 7 – Perpetrator as Bully

The 'narcissistic' leader will eventually demand unquestionable loyalty at any cost and will become enraged (as it hits the core of their being) when questioned, criticized or made to feel unsupported. As long as everything is going well, the leader will be nice, flexible, fun and the benevolent dictator. However, under stress or when things are going wrong, the person will become rigid, inflexible, cruel and even paranoid, in attempting to mask a deeply hidden fear of being found out. As Machiavelli (Bondanella & Musa, 1979) recommended it is safer to use the threat of punishment, (as expressed in bullying), rather than love as love is built on obligations whereas the dread of punishment is ever present. The perpetrator does not want to be constrained by obligations and therefore uses bullying to further their plans. For example, at Enron, attempts were made to silence Watkins into submission after she wrote to Lay outlining the accounting irregularities of Enron. When the CFO, Fastow, discovered that Watkins had written the anonymous whistle blower memo, he wanted Watkins fired. Fastow questioned Watkins' motives arguing that Arthur Andersen had reviewed the transactions she was questioning and found them to be appropriate (Fox, 2003). Fastow had a terrible temper. "One minute he wore his pleasant smile and

his dark eyes shone. Then something would set him off. He'd twist his head, stretch his neck and jut his chin like a boxer warming up in the ring. The torrent of curses followed" (Swartz & Watkins, 2003:74). Fastow used his temper so only the most powerful could challenge him directly.

Another example is provided through WorldCom. When Cynthia Cooper, head of Internal Audit department, asked Scott Sullivan, CFO, why a \$400 million accrual had been transferred away artificially pushing up earnings, "Sullivan scream(ed) at her in a way she had never been talked to" before (Kaplan & Kiron, 2004:8). Such a response discouraged asking such questions.

Step 8 – The Trapped Reluctant Participant

As with any behaviour that seeks to fill a psychological void, there can be no satisfaction. The "addiction" requires an additional fix and the commission of crimes becomes more risky, blatant and lucrative. These behaviours require additional collusion by the employees, which in turn breeds further distrust and further omnipotence. For example, each success of Enron, built on unhedged financial derivative products, built the appetite of the shareholders, which further encouraged Skilling's image of accomplishment. Skilling, the perpetrator, was also driven by the risk of a downturn in the value of Enron shares that, by virtue of the unhedged derivatives, would bring down Enron. To reinforce the illusion of success, Skilling sought ever more risky and complex schemes for growth and capital creation. With each new scheme, those involved had to accept the greater likelihood of being discovered. Some employees stay in their job (for personal reasons) and therefore remain complicit. For example, Vinson of WorldCom stayed in her job because it covered the family's insurance benefits and paid well (Kaplan and Kiron, 2004).

Step 9 – Cognitive Dissonance

At this stage, there is an undeniable paradox or cognitive dissonance between the worker's values and the values under which they behave. This dilemma produces significant personal problems in affected employees. Some become introverted or experience stress symptoms such as depression, sleep

disturbance and changes in enjoyment of life. Others get angry and project their emotions onto co-workers, spouse, children and friends. For example, at WorldCom, in 2001, Vinson continued to make erroneous accounting entries to hide the actions of her superiors but as a result began losing sleep, weight and withdrawing (Kaplan & Kiron, 2004). Employees are now afraid of being caught, public humiliation, job termination and dealing with their family's perceptions of them. They have been living in a 'new society' in which ethical codes do not exist, deviant behaviours are the norm, and greed is the guiding value. The organizational culture is toxic, dishonest and driven by a dictator.

Step 10 – A Reluctant Participant Blows the Whistle

As with any addict, the leader has essentially lost control of their addiction and the delusional system cannot last forever. The growing size of the illegal payoff puts increasing doubt in some people's mind. Eventually it will be intolerable for the honest people and whistle blowers will emerge. They will begin to whisper amongst themselves, speak out to others and their families, and leave the organization where they will become more vocal. For example, Watkins told Lay in 2000 that she heard an Enron manager say "I know it would be devastating to all of us, but I wish we would get caught. We're such a crooked company" (Fox, 2003:248). As dissent emerges, the leader becomes angry with the potential whistle-blowers, and punishes, humiliates and terminates them. At Enron, Watkins' letter outlining her concerns with the company's finances resulted in Watkins being transferred to the human resources department to an undefined job after almost being fired (Fox, 2003).

Step 11 – The Perpetrator's Narcissistic Compensatory Beliefs

Finally, there is a lack of remorse by the perpetrator during the uncovering or conviction stages of the process. Here, the admission of guilt, and its resultant confrontation of the narcissistic compensatory beliefs, is far more devastating to the perpetrator than the commission of the crime and if allowed to play out can lead to mental decompensation. If this were to occur, the recognition and publication of the person's acts would be so terrifying that it would be impossible to accept. The leader will, therefore,

unquestioningly and with confidence and conviction, deny his or her wrong doing to the end. When found guilty of dozens of charges linked to the collapse of Enron he denied any wrongdoing. “Lay blamed short-selling investors, journalists and thieving subordinates for weakening Enron just as the stock market imploded in the wake of September 11, 2001. Aggressive accounting does not mean illegal accounting...People misunderstood things that were new and different as being wrong, and they weren’t” (Morton, 2006:A1). If he or she would admit their guilt, they will do so with an air of pomposity as if “I’ve been told to do this so I will, but it is not really true.” For example, Skilling’s when asked what he thought about being found guilty said “obviously, I’m disappointed. But that’s the way the system works” (Morton, 2006:A1). His comments suggest these are the rules not that he is guilty.

Changing the “As-is” Culture to a “To-be” Culture

Once the illegality has been discovered and the guilty participants removed, the surviving organizational members are left with the task of remaking the organization in the hopes of saving the organization. For the organization that can survive the crisis, there is need to identify the current organizational culture, the “as-is culture,” and envision the desired organizational culture, the “to-be culture.” A rapid, in-depth evaluation of the process behind the white collar crime that has occurred, as in the 11 steps listed above is also required. These evaluations are critical to the survival and healing of the organization, keeping good employees and managing the organizational image. The surviving organizational members need to consider what went wrong and why before they can consider what to do. Through the evaluation of the process of the white collar crime (from the hiring to the demise of the key players), the weaknesses in the organizational design, decision making and employee interaction can be identified. Did the organizational structure, employee recruitment, method of performance evaluation, employee personalities and psychological profiles and organizational strategy provide opportunities and contribute to the process of white collar crime? The desired culture must evolve out of the analysis of the current culture.

As-Is Culture

The as-is culture in an organization that has experienced white collar crime at the top ranks was likely a culture in which the top leaders were responsible for all significant decisions, most often behind closed doors with only trusted (untrustworthy) advisors being present. These decisions were often made regardless of the harm the decisions inflicted onto the organization or the people in it. The emphasis is outcome over process. As few employees challenged the leaders and their actions, due to fear, the workers were in a situation where they were manipulated and treated as children. The behavior and experiences of the resistant participants near the top provided examples for other organizational members about how to behave. If an employee complied with the wishes of the organizational leaders, did not question and overrode their own values the employee would be successful in this organization. Employee behaviours were motivated by fear of punishment rather than passion for work. They were responsible for things over which they have no control or input and they had no (perceived) power to effect any change. The culture became one in which individuals behaved in accordance with the ever-changing whims of the leaders. The leaders shifted focus between the objectives of the organization and those of their deception. There was no conflict resolution as there was no open conflict allowed for long. Conflict would present differing views and the leaders wanted only one view to prevail, theirs. Values were defined by the boss and they changed as often as he or she felt it was necessary. The values were based on greed and power and overrode values of honesty, governance and consistent rules. The corporate defense mechanisms were primitive denial, suppression of information and rationalization. There was no defined code of conduct, and permission was given for unethical behaviour to flourish and be reinforced. In some organizations this culture permeates the whole organization and in others it is predominate at the top and in the key income and decision making segments of the organization.

At the point when the leader's actions are made public, the as-is culture is weakening. Nothing is defined. There is no longer any mission, vision, values or governance. There is no strategic communication as there is no longer a clear organizational strategy upon which employees are acting or someone to promote and guide that strategy. Employees do not know their future, who to trust, what work

to do and not do. Employees are driven by gossip and hear-say(??) as the future of the organization, the employees and expectations are unclear. In order for the organization to survive stakeholder scrutiny, an assessment of how the as-is culture came to be is required. Those shouldered with the responsibility of picking up the pieces of the broken organization must then take concrete visible steps to create a distinctly different and healthy to-be culture that can be supported by all stakeholders,

A Systemic View of the Stakeholders and the Organization

The bi-product of the actions of the fraudulent leader and their driver(s) on the organization is a culture which can be described as authoritarian, dishonest, toxic and dysfunctional. However, the fraudulent leader does not operate in a vacuum. They are what Arthur Koestler (1981) would call “holons” or whole-parts. They appear to be self-contained units, but are concurrently parts of other, larger units. For example, the organization may manufacture a product and be influenced by the culture to which the buyers, investors or suppliers belong. This process can be extended to consider holons of top government, society, schools, families and so forth. All these holons will express criticism of the fraudulent leader’s actions once the organization’s activities are known. The implications of the deception on their operations or activities needs to be investigated. Also, the role of these players in the outcome if relevant must be investigated. For example, after the truth about Enron was discovered the larger external environment was examined in terms of how it was impacted by the Enron implosion and the role the various stakeholders played in the demise. The influence of Arthur Andersen was examined leading to accounting companies and accounting associations reconsidering their approach. The fact that Skilling had a business degree led to Harvard reevaluating its program value emphasis. Once the circumstance of the illegal behavior becomes public, the organization, in an effort to survive, will have to address concerns raised by holons or face continued loss of credibility. The desired culture evolves out of a thorough examination of the organization and its stakeholders.

To-Be Culture

The to-be culture starts with visioning the ideal state and benchmarking the progress towards that state. Making statements around a desired culture is extremely difficult given that the survival of the organization may be in question. Assuming the company will survive and go through a stage of reevaluation and remaking, ideas can be presented about the processes involved in redeveloping and reengineering the organizational culture and strategy. Critical to the new culture is leadership and addressing employee progression out of the as-is culture.

It is essential the new leadership is aligned with the future organizational plan. It is also critical that the new leaders 'do what they say they will do'. The organization is ripe to "fall off the wagon" such as when Kenneth Lay made a first attempt to address the shortcomings of Enron a year prior to the company collapse. It is very difficult to institute organizational transformation as a static concept with a new ideal state delivered to employees by upper management. It is at minimum a two year iterative process where employees are empowered to contribute ideas. It requires a strategic plan with employees responsible for specific activities within the plan. The activities should be coupled with a form of ownership, accountability and personal employee plans. In keeping with the addiction metaphor, recovery is a process with many ups and downs, not an event. It is reasonable for the new leader as well as employees to be skeptical and cautious.

It is absolutely impossible to implement an organizational and cultural transformation without aligned board members and senior leadership involvement. This does not mean that the board of directors and management will 'go along with it' but that they are committed to the transformation. There needs to be overwhelming commitment to the new culture and anyone who is not part of that commitment needs to be put into a place where they will not jeopardize the process. Given that this is a difficult task, the new leadership team often requires education and training in making dramatic changes and reestablishing ethical standards. In addition, members of the team need to understand and actively take ownership of this framework as they progress through its implementation. Given that there was a code of silence built

around the actions of the previous leadership team, a communication strategy which is open and presented by approachable management is required. For the development of a survival strategy the leadership team needs to brand the process and boldly and openly communicate the strategy.

Caring Program

The workforce also needs to heal. Some of the employees were bruised by the past and have to deal with the impact of that situation. Employees who were not directly involved in the illegal events may appear untouched. However, they have to deal with the aftershock of reading about what occurred in a newspaper, hearing about it on the radio, internet or television and often dealing with questions and accusations from those outside the company. They have to live in the aftermath, knowing that even though they have not been part of something terrible, they are perceived to be. They now have to deal with their work and social community as well as their families in the same way as other employees who had participated. These non participants may be in a worse situation than those closer to the events as they have no data from which to discuss this situation and are often seen as covering up the situation by their ‘reluctance’ to discuss the matter. They may experience shame by association.

There needs to be a ‘caring program’ which involves focus groups and a process for delivering open and honest dialogue to the employees. An attitude of ‘we will do what we say we will do’ is the only approach that will create trust. People need to tell the executive the way it is and vent with a meaningful process to channel concerns and ideas for the organization’s new normal. They need to dialogue, be affirmed and possibly forgiven. In some cases an entire retribution program ought to be implemented. Making the Employee Assistance program specific to the new needs of the organization in crisis would be essential.

Further Evaluation

The transformation of the organization goes beyond addressing the organizational culture. There are specific aspects about organizational decision making that need to be altered to avoid a repeat of the clustering of a perpetrator, drivers and reluctant participants in the senior ranks of an organization and the behaviours they adopted.

1. Code of Ethics and Policy and Training on Workplace Bullying

A new code of ethics needs to be developed, validated and implemented. The creation of the code requires joint participation from organizational stakeholders. There needs to be a new governance process in place to ensure unethical behaviour and fraudulent leadership does not happen again. This may require adding external directors with a reputation for ethics and experience dealing with a similar situation.

A workplace bullying policy is also required separating actions that are directed personally (one individual to another) versus those that are a product of a faulty organizational structure. The policy must promote open dialogue around behaviour, linking interpersonal skills and communication style to an employee's performance review. Performance reviews require 360 degree evaluations to avoid the use of intimidation and fear as a managing technique. The role unethical and bullying behaviours played in the as-is culture must be recognized and discussed in order to create commitment for these management tools. The organization can survey employees who have remained with the organization to determine if workplace bullying was present during the previous leadership and if so the nature and cause of workplace bullying. This information can be used in training and policy design. Essential to training is a discussion on intent. Not all workplace bullying is intentional especially when a policy acknowledges the interpretation of the recipient as important as the perpetrator. Intent is critical given the role intentional bullying may have played in the previous deception to ward off uncomfortable questions. The distinction between healthy conflict and bullying needs to be clarified to encourage both questioning and respectful honest behavior.

2. Company Responsibility

From an individual standpoint, there are significant challenges ahead for employees (both colluders and those who were unaware) for which they will certainly require some assistance and for which the company may have some responsibility. For example, the company, if it survives the fall out of the leader's action, may need to assist some of the colluders in their rehabilitation. This is in the interest of the organization for several reasons. Firstly, the organization will continue to be directly and indirectly impacted by employee decisions. If the employees that remain feel angered by the events of the past and are subject to an indifference expressed by the new management regarding organizational responsibility it is possible they will retaliate making recovery more difficult. Secondly, there is capital in 'the word on the street.' Some of the employees will leave the company at the time of the discovery or soon after if they believe they have limited opportunities within the company. These former employees will resurface in other companies in the industry and specific environment. Therefore it is important they are treated fairly and ethically at the time of discovery and thereafter so as to manage the 'word on the street' for future hires. Finally, as employees face uncertainty they may resort to retaliation or self serving actions. For example, when the news of the eminent downfall of Barings was reaching employees chaos ensued. Some employees, over-reacting in the heat of the moment and imagining that the liquidators would be arriving any minute, began backing up research data on disks and snatching client lists from drawers (Fox, 2003). The faster the company's management reassures the employees the less extensive this retaliation will be.

Company responsibility involves.....what are the steps of company responsibility?????

3. Power Dynamics and whistle blowing (Ruth)

-examine the necessity of a whistle blower policy/hotline by discussing transparency and the power dynamic in an organization

-look at the three levels of power and consider how a whistle blower hot line can discourage the third dimension of power from gaining a hold in an organization

4. Trama and Addressing Fear (Jae)

-how can studying trama help employees in an organization break a code of silence when fear becomes debilitating? Is trama still a problem in an organization that has a questionable future due to past events? Do you have training sessions on trama? Do you include the training sessions with the workplace bully training? Can you use a survey to identify if this is a problem in the organization and educate employees about trama as they fill the survey out?

5. Hiring (Carey)

– How does an organization measure for the following in hiring to improve the caliber of employees in an organization particularly in the senior ranks for 1, 3 & 4 (see below) and for the other ranks in the organization – middle management and below 1, 2 & 4 (see below).

1. self esteem
2. measure independent thinking so not caught up in group think of deception
3. addictive personalities
4. ethics

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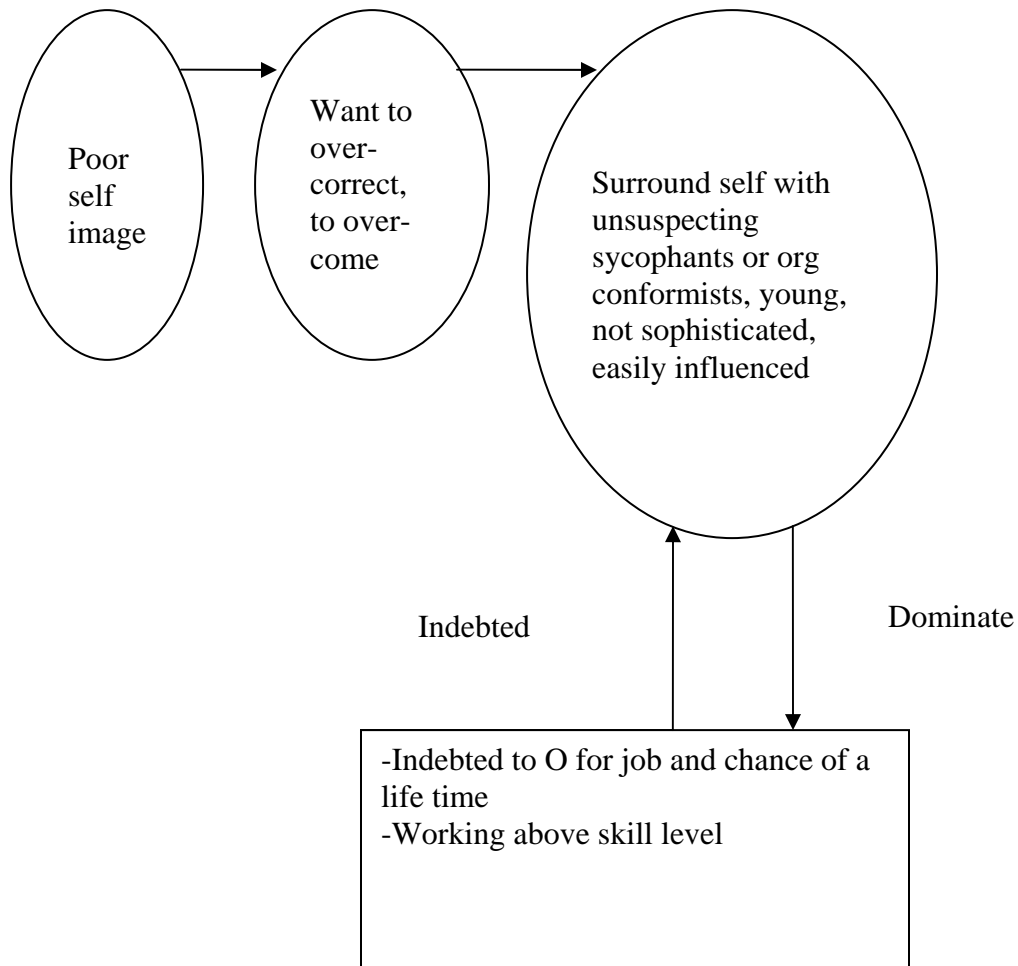
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Appendix 1

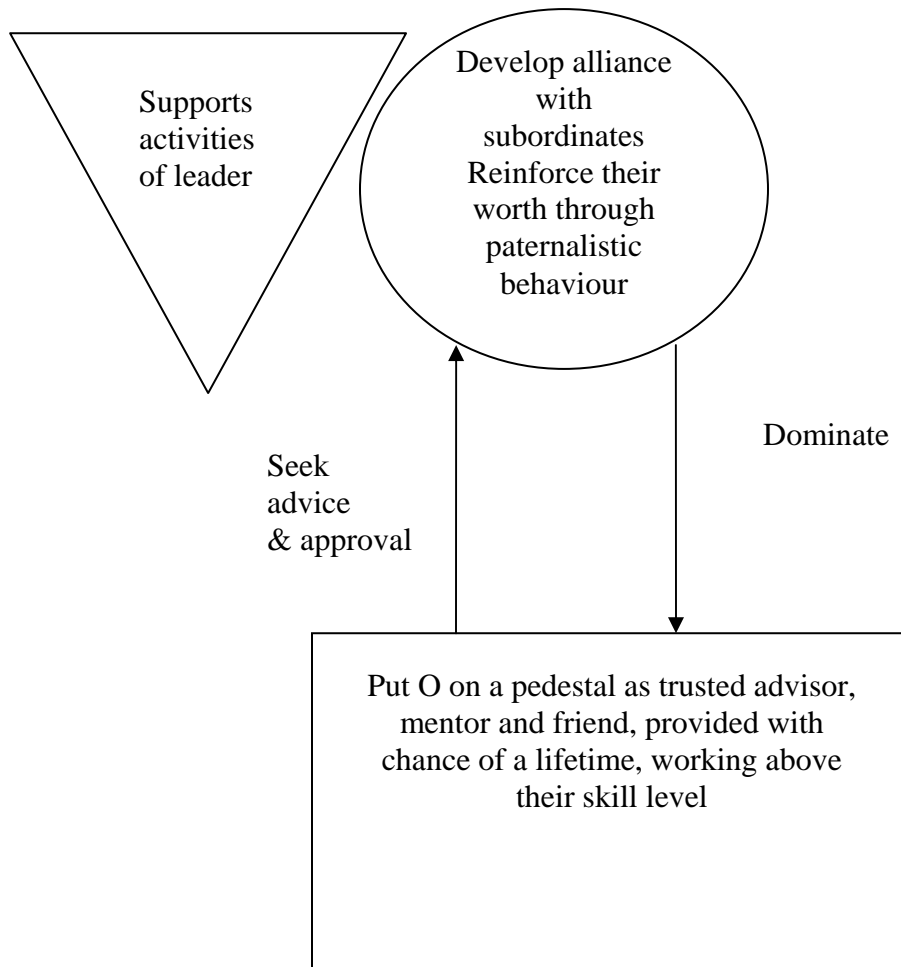
Step 1 – Relationship Established of the Passive Participant



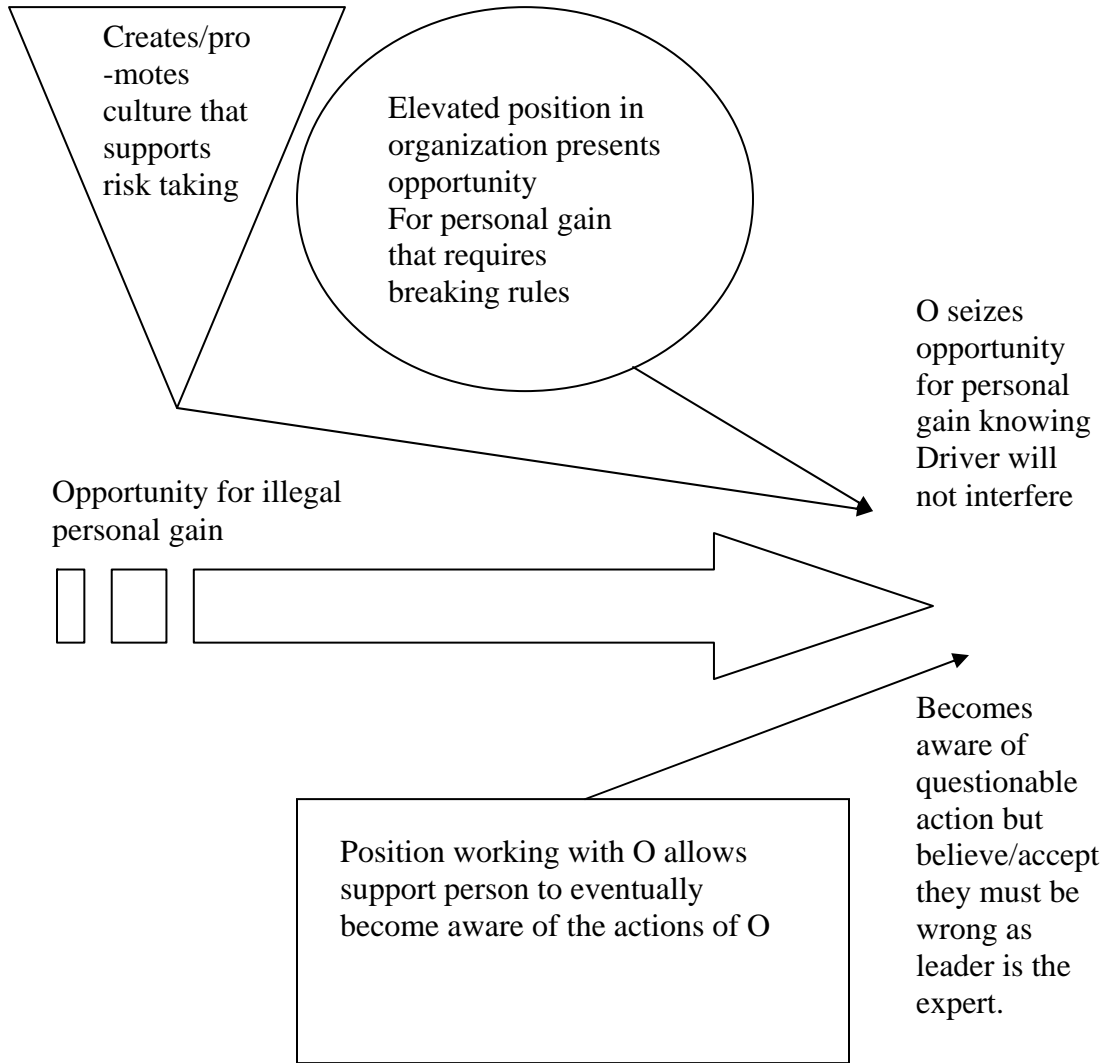
Reference

- O = leader/manager
- ▽ = driver
- = subordinate

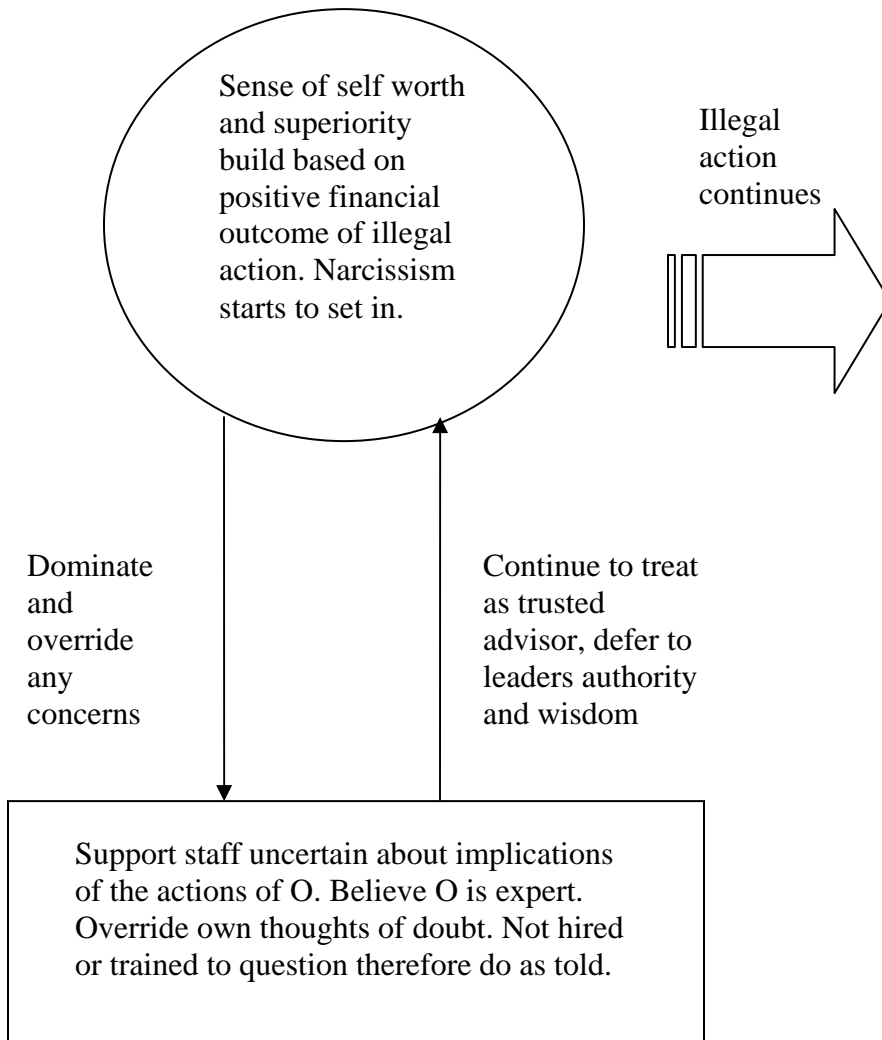
Step 2 & 3 – The Needs of the Driver & Passive Participant



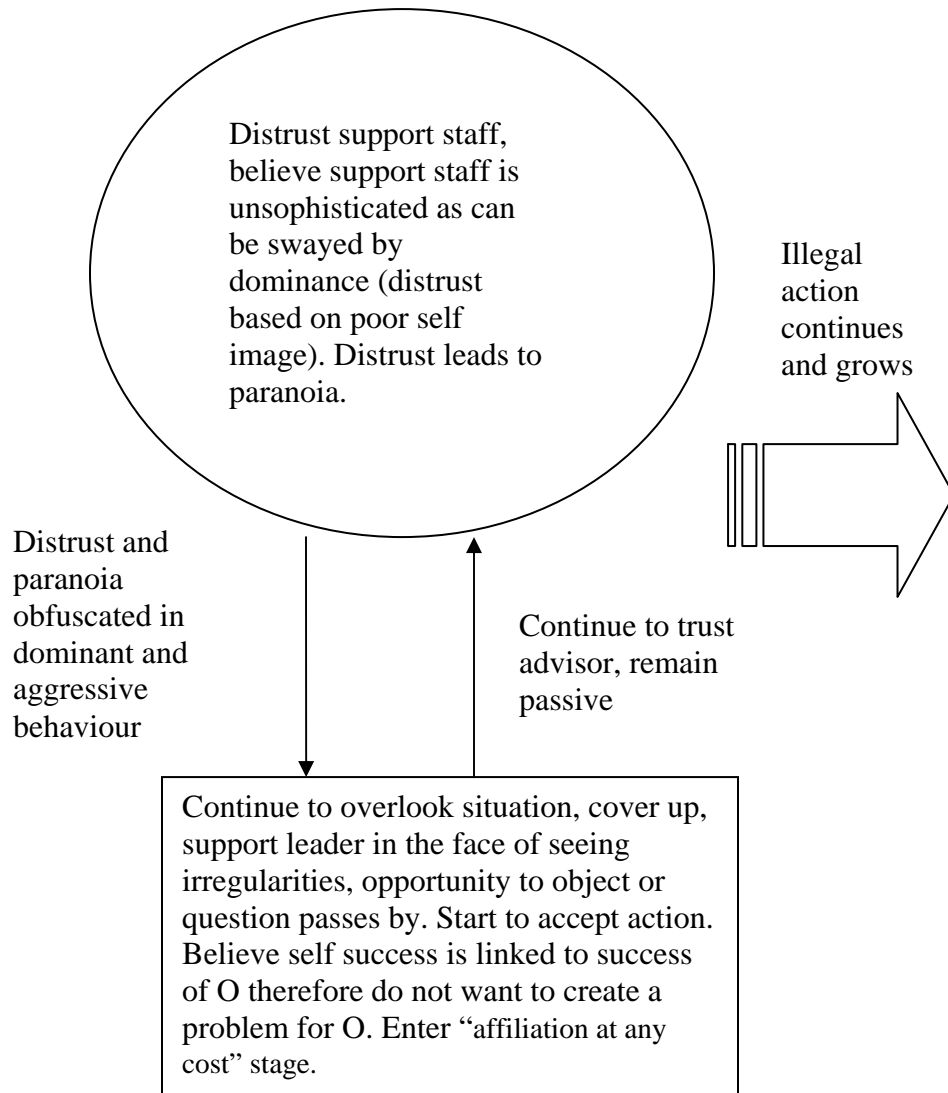
Opportunity for Illegal Action and Step 4 Reluctant Participant



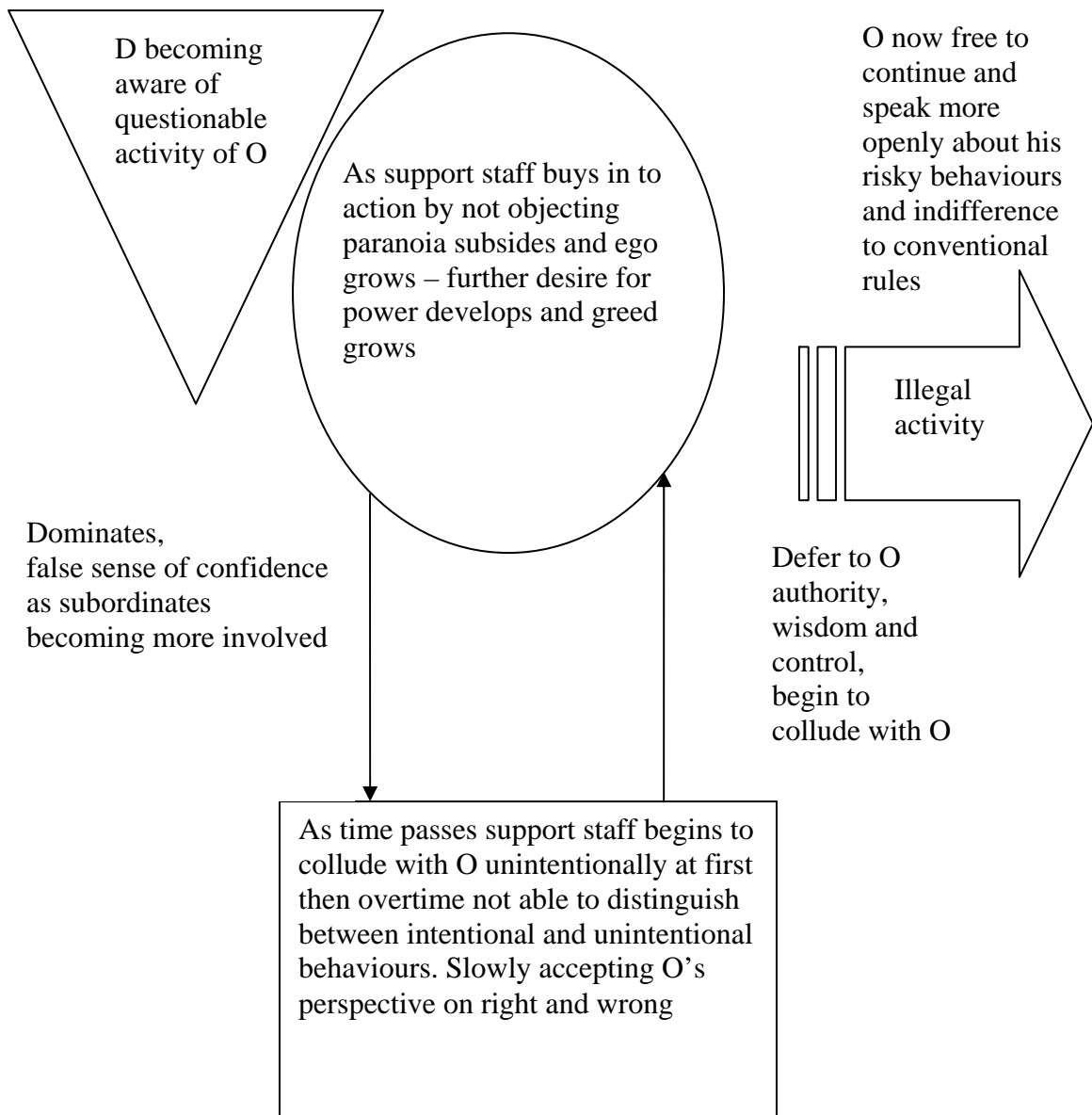
Step 4: Reluctant Participants continue



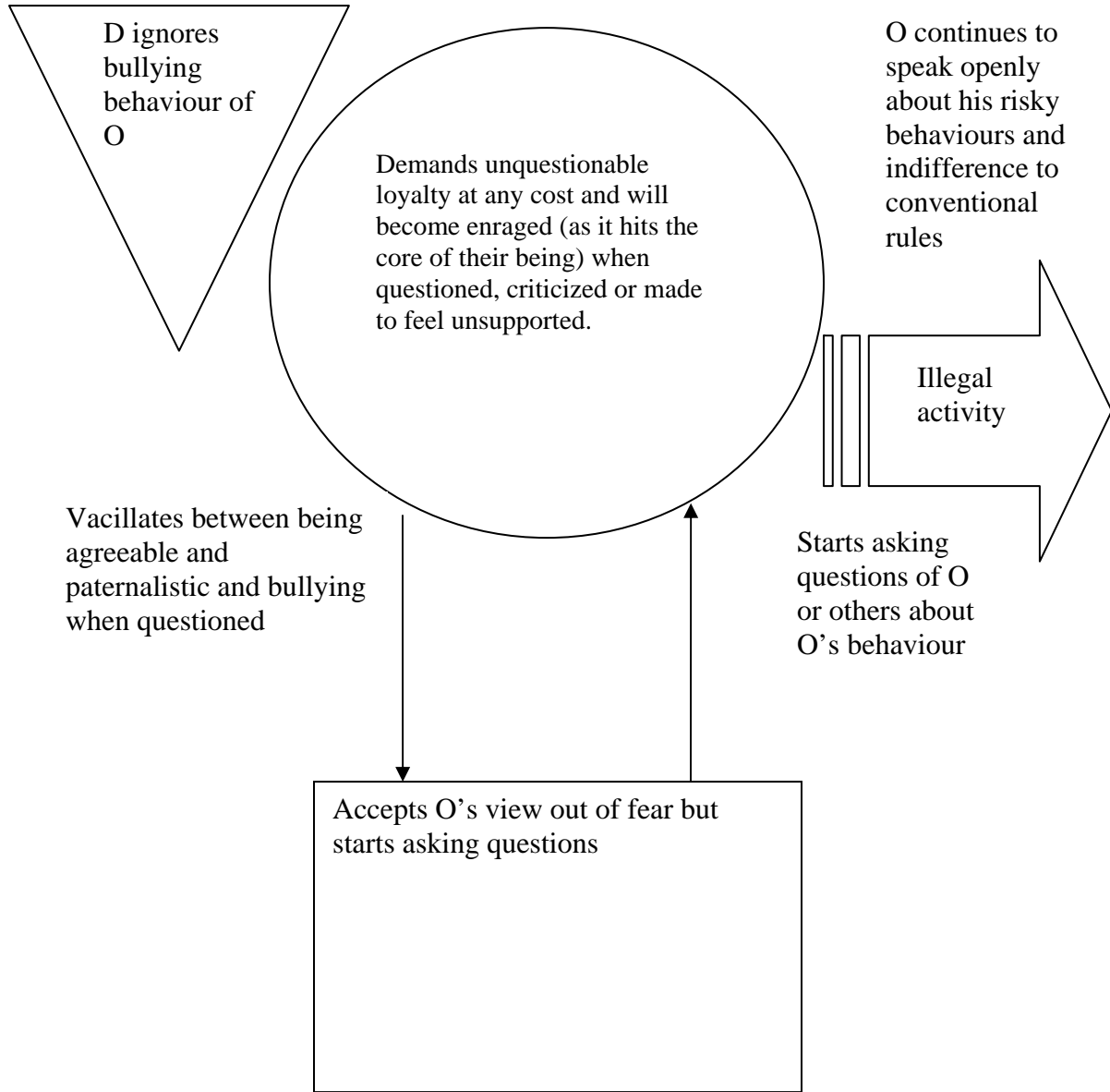
Step 5: Distrust by the Perpetrator of the Reluctant Participants



Step 6: Bravado of Perpetrator (Affiliation at Any Cost)

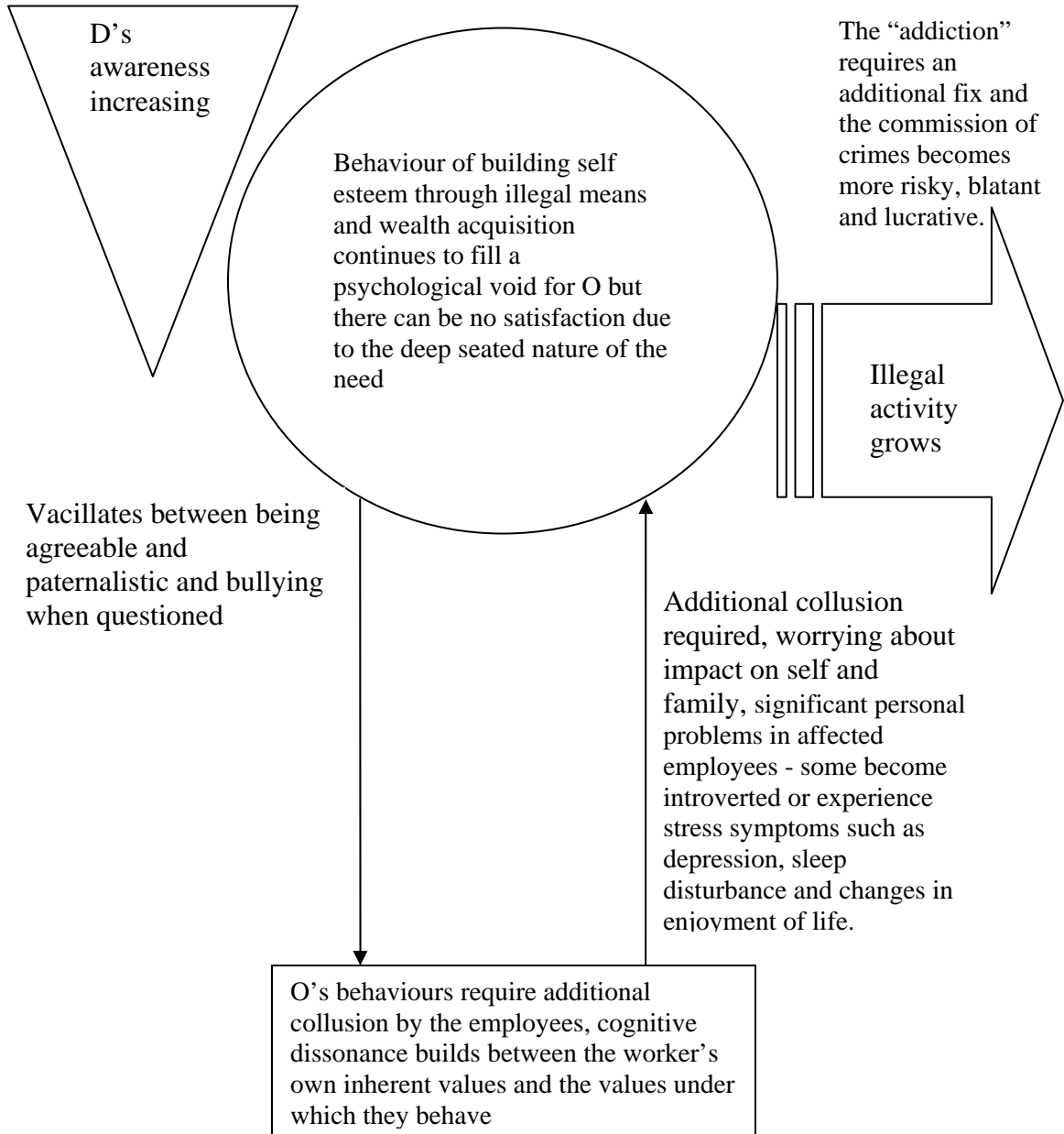


Step 7 Perpetrator as Bully



Step 8 &9 The Trapped Reluctant Participant & Cognitive

Dissonance



Step 10 & 11 Reluctant Participant Blows the Whistle & The Perpetrator's Narcissistic Compensatory Beliefs

