

## Decision Point

Sherron Watkins

Following is a portion of a memo that Sherron Watkins, an Enron vice president, sent to CEO Kenneth Lay as the Enron scandal began to unfold. As a result of this memo, Watkins became infamous as the Enron “whistleblower.”

Has Enron become a risky place to work? For those of us who didn't get rich over the last few years, can we afford to stay? Skilling's [former Enron CEO Jeffrey Skilling] abrupt departure will raise suspicions of accounting improprieties and valuation issues. . . . The spotlight will be on us, the market just can't accept that Skilling is leaving his dream job. . . . It sure looks to the layman on the street that we are hiding losses in a related company and will compensate that company with Enron stock in the future. . . .

I am incredibly nervous that we will implode in a wave of accounting scandals. My eight years of Enron work history will be worth nothing on my résumé, the business world will consider the past successes as nothing but an elaborate accounting hoax. Skilling is resigning now for “personal reasons” but I would think he wasn't having fun, looked down the road and knew this stuff was unfixable and would rather abandon ship now than resign in shame in two years.

Is there a way our accounting gurus can unwind these deals now? I have thought and thought about a way to do this, but I keep bumping into one big problem—we booked the Condor and Raptor deals in 1999 and 2000, we enjoyed wonderfully high stock price, many executives sold stock, we then try and reverse or fix the deals in 2001, and it's a bit like robbing the bank in one year and trying to pay it back two years later. Nice try, but investors were hurt, they bought at \$70 and \$80 a share looking for \$120 a share and now they're at \$38 or worse. We are under too much scrutiny and there are probably one or two disgruntled “redeployed” employees who know enough about the “funny” accounting to get us in trouble. . . . I realize that we have had a lot of smart people looking at this and a lot of accountants including AA & Co. [Arthur Andersen] have blessed the accounting treatment. None of that will protect Enron if these transactions are ever disclosed in the bright light of day. (Please review the late 90's problems of Waste Management (news/quote)—where AA paid \$130 million plus in litigation re questionable accounting practices.) . . .

I firmly believe that executive management of the company must . . . decide one of two courses of action: 1. The probability of discovery is low enough and the estimated damage too great; therefore we find a way to quietly and quickly reverse, unwind, write down these positions/transactions. 2. The probability of discovery is too great, the estimated damages to the company too great; therefore, we must quantify, develop damage containment plans and disclose. . . . I have heard one manager-level employee from the principal investments group say, “I know it would be devastating to all of us, but I wish we would get caught. We're such a crooked company.” These people know and see a lot.<sup>14</sup>

After the collapse of Enron, Watkins was featured on the cover of *Time* magazine and honored as a corporate whistleblower, despite the fact that she never shared these concerns with anyone other than Kenneth Lay. Yet, it surely took a great deal of courage within the Enron culture even to voice (write) what she wrote above, especially since no one else dared to mention it. How do we reach a judgment about Watkins' actions in this situation?

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- What facts would you want to know before making a judgment about Watkins?
- What ethical issues does this situation raise?
- Besides Kenneth Lay, who else might have had an interest in hearing from Watkins? Who else might have had a right to be informed? Did Watkins have a responsibility to anyone other than Lay?
- Other than her informing Lay, what other alternatives might have been open to Watkins?
- What might the consequences of each of these alternatives have been?
- From this section of the memo, how would you characterize Watkins' motivation? What factors seem to have motivated her to act?
- If you were Ken Lay and had received the memo, what options for next steps might you have perceived? Why might you have chosen one option over another?
- Do you think Watkins should have taken her concerns beyond Kenneth Lay to outside legal authorities?

that we refer to by the phrase "personal integrity." There will be many times within a business setting where an individual will need to step back and ask: What should I do? How should I act? If morals refer to the underlying values on which our decisions are based, ethics refers to the applications of those morals to the decisions themselves. So, an individual could have a moral value of honesty, which, when applied to her or his decisions, results in a refusal to lie on an expense report. We shall return to this distinction in just a moment.

In the second sense, "How should we live?" refers to how we live together in a community. This is a question about how a society and social institutions, such as corporations, ought to be structured and about how we ought to live together. This area is sometimes referred to as *social ethics* and it raises questions of justice, public policy, law, civic virtues, organizational structure, and political philosophy. In this sense, business ethics is concerned with how business institutions ought to be structured, about whether they have a responsibility to the greater society (*corporate social responsibility* or *CSR*), and about making decisions that will impact many people other than the individual decision maker. This aspect of business ethics asks us to examine business institutions from a social rather than from an individual perspective. We refer to this broader social aspect of ethics as decision making for social responsibility.

In essence, managerial decision making will always involve both of these aspects of ethics. Each decision that a business manager makes involves not only a personal decision, but also a decision on behalf of, and in the name of, an organization that exists within a particular social, legal, and political environment. Thus, our book's title makes reference to both aspects of business ethics. Within a business setting, individuals will constantly be asked to make decisions affecting both their own personal integrity and their social responsibilities.

## Decision Point

## Management and Ethics

Imagine that you are examining this chapter's opening scenario in one of your classes on Organizational Behavior or Managerial Finance. What advice would you offer to Cemex? What judgment would you make about this case from a financial perspective? After offering your analysis and recommendations, reflect on your own thinking and describe what values underlie those recommendations.

- What facts would help you make your decision?
- Does the scenario raise values that are particular to managers?
- What stakeholders should be involved in your advice?
- What values do you rely on in offering your advice?

Expressed in terms of how we should live, the major reason to study ethics becomes clear. Whether we explicitly *examine* these questions, each and every one of us *answers* them every day through our behaviors in the course of living our lives. Whatever decisions business managers make, they will have taken a stand on ethical issues, at least implicitly. The actions each one of us takes and the lives we lead give very practical and unavoidable answers to fundamental ethical questions. We therefore make a very real choice as to whether we answer them deliberately or unconsciously. Philosophical ethics merely asks us to step back from these implicit everyday decisions to examine and evaluate them. Thus, Socrates gave the philosophical answer to why you should study ethics over 2000 years ago: "The unexamined life is not worth living."

To distinguish ethics from other practical decisions faced within business, consider two approaches to the Malden Mills scenario in the Decision Point, "Loyalty after a Crisis: Should Aaron Feuerstein Rebuild and Pay His Employees in the Meantime." This case could just as well be examined in a management, human resources, or organizational behavior class as in an ethics class. The more social-scientific approach common in management or business administration classes would examine the situation and the decision by exploring the factors that led to one decision rather than another or by asking why the manager acted in the way that he did.

A second approach to Malden Mills, from the perspective of ethics, steps back from the facts of the situation to ask what *should* the manager do, what *rights and responsibilities* are involved? What advice *ought* Feuerstein's tax accountant or human resource manager offer? What *good* will come from this situation? Is Feuerstein being *fair, just, virtuous, kind, loyal, trustworthy*? This normative approach to business is at the center of business ethics. Ethical decision making involves the basic categories, concepts, and language of ethics: *shoulds, oughts, rights and responsibilities, goodness, fairness, justice, virtue, kindness, loyalty, trustworthiness, and honesty*. For a much more detailed examination of Aaron Feuerstein's decision surrounding Malden Mills, consider Penelope Washbourne's reading, "An Ethical Hero or a Failed Businessman? The Malden Mills Case Revisited"

## Decision Point

### *Loyalty after a Crisis: Should Aaron Feuerstein Rebuild and Pay His Employees in the Meantime?*

During the early evening hours of December 11, 1995, a fire broke out in a textile mill in Lawrence, Massachusetts. By morning, the fire had destroyed most of Malden Mills, the manufacturer of Polartec fabric. The fire seemed a disaster to the company, its employees, its customers, and the surrounding communities.

Malden Mills was a family-owned business, founded in 1906 and run by the founder's grandson Aaron Feuerstein. Polartec is a high-quality fabric well known for its use in the outdoor apparel featured by such popular companies as L.L. Bean, Lands' End, REI, J. Crew, and Eddie Bauer. The disaster promised many headaches for Malden Mills and for the numerous businesses that depended on its products.

Unfortunately, the fire also was a disaster for an entire community. The towns surrounding the Malden Mills plant had originally been home to textile manufacturing. The industry effectively had collapsed during the middle decades of the twentieth century when outdated factories and increasing labor costs led many companies to abandon the area and relocate, first to the nonunionized South, and later to foreign countries such as Mexico and Taiwan. As happened in many northern manufacturing towns, the loss of major industries, along with their jobs and tax base, began a long period of economic decline from which many have never recovered. Malden Mills was the last major textile manufacturer in town, and with 2,400 employees it supplied the economic lifeblood for the surrounding communities. With both its payroll and taxes, Malden Mills contributed approximately \$100 million a year into the local economy.

As CEO and President, Aaron Feuerstein faced some major decisions. He could have used the fire as an opportunity to follow his local competitors and relocate to a more economically attractive area. He certainly could have found a location with lower taxes and cheaper labor and, thus, maximizing his earning potential. He could have simply taken the insurance money and decided not to reopen at all. Instead, as the fire was still smoldering, Feuerstein pledged to rebuild his plant at the same location and keep the jobs in the local community. But even more surprising, he promised to continue paying his employees and to extend their medical coverage until they could come back to work.

- What do you believe motivated Feuerstein? What do you think of Feuerstein's decision? What would you have done had you been in his position?
- What facts would be helpful as you make your judgments about Feuerstein?
- How many different values are involved in this situation? How would you describe Feuerstein, just knowing this story? How would you describe his actions after the fire? Can you describe the man and his actions without using ethical or evaluative words?
- Whose interests should Feuerstein consider in making this decision? How many different people were affected by the fire and the decision?
- What other options were available for Feuerstein? How would these alternatives have affected the other people involved?
- Were Feuerstein's actions charitable, or was this something he had a duty or obligation to do? What is the difference between acts of charity and obligatory acts?