

Enron and the Culture of Cheating

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The captain of Enron was on trial this week. Ken Lay was at the helm when the Titanic of postmodern capitalism went down, and he is now facing justice. In a surreal bit of irony revealed in this week's testimony, while Enron was hitting its iceberg, Lay was partying on a yacht named Amnesia. Lay rented the yacht for \$200,000 to celebrate his wife's birthday. In response to questions about this extravagance Lay remarked: "We had realized the American dream and were living a very expensive lifestyle."

In his trial, Lay is portraying himself a good captain who went down with the ship. His account of the tragic events goes something like this: The otherwise seaworthy vessel, Enron, was damaged by both the evil dealings of chief financial officer, Andrew Fastow and a sustained, but unmerited, attack by the Wall Street Journal. The prosecution's story of Lay's behavior while Enron went under is quite different. In their unfolding of events, Lay knew his ship was struck below the waterline and sinking, but rather than acting responsibly, he lied to the passengers and crew, saying the ship was just fine. He then prepared lifeboat for himself, all the time knowing his employees would be forced over the side without lifejackets.

The jury must decide between these stories, but it is important that Ken Lay receives the full measure of justice. Enron was a force that shaped business culture and what happens in this trial will again shape that culture.

There are reasons to worry about the future of business culture. David Callahan has recently written a book titled, *The Cheating Culture*. There he argues that we are creating a culture that often encourages rather than discourages, cheating. In simple terms, Callahan's thesis is that our culture makes it easier for people to rationalize cheating.

There is some evidence to support this idea. For instance, a recent survey of nearly twenty-five thousand high school students found that two-thirds of high school students cheated on exams and 40% admit they "sometimes lie to save money." Three-quarters of these same students rated their ethics higher than their peers and 98% said it was important to be a person of good character, to be honest and trustworthy. Despite admitting to occasionally cheating, over 90% said they were satisfied with their ethics. It seems that almost all young people think ethics and character are important, but many choose to act unethically.

It's nothing new that kids occasionally cheat on tests. What is worrisome is many of those surveyed seemed to be cynical about the possibilities of acting ethically. There is a rationalizing process going on that "nullifies ethical judgments and condones conduct that is contrary to moral convictions." The rationalization might go something like this: one should be moral, but in the real world it's too difficult, so it's OK to act unethically. This logic is clear in some of the survey's responses. Two-thirds of the males and one-half of the females agreed with the statement: "In the real world, successful people do what they have to do to win, even if others consider it cheating." This cynicism is reinforced when young people see the leaders of some of America's largest and most dynamic corporations, like Enron, caught cheating. Cynicism would no doubt be doubly reinforced if these cheaters receive light punishments.

Callahan lists several factors that give people a "rational incentive" for cheating. I think two are clearly highlighted by Lay's trial. The first has to do with risk taking. Callahan points to the lax punishment of white-collar criminals received in recent decades as making it easier for people to rationalize unethical business behaviors. If people think the penalty is low compared to the wealth to be gained, then why not? This trend seems to be changing, but much hinges on Lay's trial. Enron is one of the most important corporate scandals in American history and how it goes for Lay sends a powerful message. The second thing coming out of Lay's trial is how he defined the American dream. For Lay, the American dream seems to be becoming ridiculously wealthy, whereas middle class bliss has largely defined America's hopes. Many commentators have noted that fantastic growth in the salaries at the top of many firms, while the salaries in the middle and bottom have largely remained stagnant. This has created a winner take all culture that breeds resentment. In an environment that is perceived as fundamentally unfair, some rationalize unethical behavior to get to the top.

The interpretation of the sinking of the Titanic has now become an overused metaphor for the consequences of excessive human pride and faith in technological mastery. How we interpret Enron is still open. Depending on the outcomes of this trial, perhaps it will mark a point where American industry decided to steer a perceptibly more ethical course.