

If Colin Powell had commanded Enron: the hidden foundation of leadership

The leadership principles and actions of Colin Powell, US Secretary of State, are in direct contrast to those of the executives of the failed energy giant Enron.

Oren Harari and **Lynn Brewer** analyse the differences and draw lessons for how leadership should be developed and exercised.

This article is not about Colin Powell, the person, but rather the leadership he espouses. The attributes of leadership that Powell has demonstrated throughout his 40-year career are ones that managers in all industries would be wise to demonstrate, especially in today's market environment, which seems to be spiked daily by yet another disappointing day on the stock exchanges of the world, another government investigation, another investor-backed lawsuit, another bankruptcy announcement, another wave of earnings restatements and another criminal indictment of a high-profile executive.

The proven leadership that Powell has shown in his US career as a military officer, National

Security Advisor, Chairman of the Joint Chiefs and head of the State Department is in stark contrast to the leadership that marked the acme of corporate malfeasance and shareholder decline: Enron.

We highlight Enron for two reasons. First, there is Enron's obvious notoriety. From 1997-2001 Enron and its managers catapulted to stardom in the business world. Heralded as the "corporation of the new millennium", Enron was the darling of analysts, investors, professors and journalists. Its stock value ascended to a dizzying \$90.56 per share in August 2000 (boasting a 700 per cent return over the prior decade), as its revenue explosion elevated its status to the fifth-largest



Powell: proven leadership

company in the US. The company was showered with countless awards and accolades.

The second reason for our choice is that while one could argue that in terms of reflecting executive greed, strategic distortion and market damage, Enron had “first-mover” advantage in our current cycle of corporate corruption. Yet, just as this is not a history of Powell, it is

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not a critique of Enron. Our interest is in contrasting the behaviours of former leaders of Enron with the leadership principles of Powell in order to develop a new perspective of leadership, appropriate for the realities of today’s marketplace.

Beginning with an odd conclusion

If you consider the advice of many acclaimed leadership “gurus” about what constitutes effective leadership in organisations, you might come to an odd conclusion: the senior managers at Enron were actually superb leaders worth emulating.

Did they have a bold, market-leading vision for Enron? *Yes.* Were they able to inspire “the troops” to buy into and carry out this vision? *Yes, again.* Were they able to create a fast-paced, highly innovative, change-oriented entrepreneurial culture to execute this vision? *Yes, a third time.* Were they able to attract the best and brightest and provide a culture where these hard-chargers were empowered to perform and were highly rewarded for their accomplishments? *On all accounts – affirmative.*

The conventional criteria for good leadership outlined above are attributes that senior Enron people such as Chairman Kenneth Lay, CEO Jeffrey Skilling, CFO Andrew Fastow, Chief Accounting Officer Richard Causey, Chief Risk

Enron's leadership systematically pushed unjustifiable decisions and developments below the surface via deliberately opaque accounting and financial reporting

Officer Richard Buy and the entire Enron board of directors had in spades – attributes that are both valid and necessary. But for genuine leaders, they represent only half the story. The other half of the story turns out to be the less-flashy, below-the-surface *foundation* of leadership.

The hidden foundation of leadership: seven tenets

1. "Keep looking below surface appearances. Don't shrink from doing so just because you might not like what you find."

Powell argues that good leaders are not easily misled by superficial analysis, surface truths or "spin". Further, they continually probe for data, follow up on their hunches and tenaciously dig below the surface, always asking "What are we doing, right or wrong? How can it be improved? What needs to be changed?"

Authentic leaders have enough integrity and self-confidence to ask the toughest, most disruptive and most uncomfortable questions. That's how they uncover problems and inspire change.

Throughout his career, Powell has lived this principle, which is why, for example, he came to painfully reassess the military's "flabby thinking" (Powell's words) in Vietnam in the 1960s and its unqualified support of the Shah of Iran, who was ultimately overthrown in the 1970s.

Now let's consider Enron's leadership, where top managers did a 180-degree turn on this principle. They systematically pushed unjustifiable decisions and developments below

the surface via deliberately opaque accounting and financial reporting and sneered at outsiders who questioned Enron's strategies or financials. When Richard Grubman, a Boston hedge fund manager, attempted to keep looking below surface appearances, by pointing out that Enron was the only company of its kind that failed to present its balance sheet with the release of its earnings, CEO Skilling attempted to publicly shame him into submission by calling him an "asshole". This, of course, from a company whose official values statement called for "respect" and stated that "ruthlessness, callousness and arrogance don't belong here".

The board of directors played along. In 1999-2000, the board's audit committee, headed by Robert Jaedicke, a senior professor of accountancy at Stanford Business School, heard several reports from Arthur Andersen that Enron was a "maximum risk" client whose accounting practices were "at the edge". The board asked and did nothing. In 2001, the board would receive a presentation that demonstrated that between 2000 and 2001 there had been a 300 per cent increase in "whistleblowing" reports to the Office of the Chairman from executives inside the company. Of the reports received, 75 per cent were reports of fraud.

Today, the fact that the directors whine they "didn't know" because they were "misled by management" really begs the question: why were board members willing to look the other way?

The guilty plea of CFO Fastow, as well as ex-finance executive Michael Kopper to fraud and money laundering suggests that what was going on below the surface was even more serious than many outsiders imagined. The *New York Times* cited legal experts who concluded that Enron's entire strategy "...has lost its veneer of a business idea and taken on the air of little more than a financial fraud in which only a small number of insiders knew the truth".

Had the outside world been willing to look at the foundation of Enron's leadership they too would have found it was shaky. In Enron's 2000 Annual Report to shareholders, Skilling proclaimed: "The company's net income reached a record \$1.3bn in 2000". However, a closer inspection would have revealed that the company's net income was only \$979 according to their *audited* financials located only a few pages behind the hyperbole.

Conclusion: Great leaders don't construct a veneer; they take the initiative to crush it in their quest to know the truth. Powell argues: "Untidy truth is better than smooth lies that unravel in the end anyway". Powell argues that "it is best to get the facts out as soon as possible, even when new facts contradict the old" even when the "truth" challenges leaders' own decisions and actions.

2. “The day soldiers stop bringing you their problems is the day you have stopped leading them. They have either lost confidence that you can help them or concluded that you do not care. Either case is a failure of leadership.”

A corporate culture with integrity encourages what Powell calls “a noisy system” filled with “the clash of ideas” where even contrarians who challenge sacred cows are encouraged and protected. It all begins with leadership that *lives* accessibility and listening to the troops.

Powell’s career has been based on this principle. When he visits foreign outposts, he surprises country desk officers by dropping in unannounced. Often during official tours, he will carve out a segment of his daily calendar for private conversations with front-line people.

From Powell’s perspective, good leaders have a finely tuned capacity to listen to all hands, to accept insights and advice from any source when the facts warrant it, and to create a climate where the “clash of ideas” is genuine and far reaching. Only then, argues Powell, can you have a *sustainable* environment of mutual trust, open communication and creative problem solving.

At Enron, not only was it the case that leaders themselves didn’t dig under the surface for the truth, it was clear to the “soldiers” in the organisation that top management didn’t want them to dig either. Top management had no interest in listening to bottom-up straight talk about shady accounting or flaky investments. Yet, according to many employees, red flags were everywhere.

On August 29, 2001, for example, Margaret Ceconi, a manager with Enron Energy Services (EES), sent an email to the head of Enron’s human resources, requesting it be forwarded to the board of directors, stating “EES has

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knowingly misrepresented EES’ earnings”. The email was never forwarded. Likewise, when vice-president Sherron Watkins, Enron’s famed whistleblower, provided evidence of potential accounting scandals, Chairman Lay, in essence, dismissed her claims while Fastow seized her computer and attempted to fire her outright.

Meanwhile, when the board learned of Watkins’ memo, not a single member made any further inquiry even though the memo pointedly addressed private partnerships, which were subject to review by the finance committee chaired by Herbert “Pug” Winokur, a member of the Harvard Corporation, the Harvard University’s seven-member governing body that oversees the university’s \$18bn endowment. Enron contributed millions of dollars to Harvard to aid in the creation and funding of research centres, which have consistently advocated an agenda of deregulation in the energy industry.

Ironically, for a company heralded as innovative, Enron was remarkably rigid in terms of exacting conformity to the party line. While individual innovation in spearheading new trading initiatives was rewarded, employees operated in a quasi-totalitarian climate when it came to challenging (or, more appropriately, not challenging) the prevailing wisdom.

The semi-annual 360-degree performance review process reinforced this climate. The review process, which aimed to weed out the five percent poorest performers, also served to oust another 10 percent of employees who ruffled feathers and challenged the process by asking “inappropriate” questions. Apart from fomenting distrust and backstabbing among the “troops”, the performance review process allowed leadership to continue its attitude of supremacy.

Conclusion: Great leaders create cultures marked by an unfettered clash of ideas, candid communication and unfiltered dialogue – all

aimed at solving problems in extraordinary ways. The opposite culture, marked by Enron, dramatically contributed to its implosion. To use Powell's terminology, Enron employees stopped bringing their problems to management because they lost confidence that managers would help them or they concluded that they did not care.

3. "Never neglect details."

For Powell, vigilance in details is essential for strategic preparation and execution. Powell doesn't buy into the concept of the leader who stays perched on a lofty pedestal having "delegated" to others the details of his or her "grand vision".

Good leaders are not micro-managers nor are they obsessive-compulsives. They delegate liberally. But at the same time, they are intensely committed towards being "in the know" and they refuse to lose connection with the people and activities they are supposed to be leading.

The transcripts of the military commanders' meetings before and during the 1990 Gulf War against Iraq revealed how carefully Powell and General Norman Schwarzkopf, the most senior executives of the command, paid attention to a constant flow of details to keep themselves in the loop as well as to minimise unpleasant surprises, accelerate urgency, continually shift peoples' attention to the right places and generate contingency plans on a rolling basis.

When leaders remove themselves from the details they lose touch. And when they lose touch, their decisions are increasingly made in a self-serving, undisciplined vacuum. This is precisely what happened at Enron.

The ex-top executives and board members of Enron (and of its partners Arthur Andersen and law firm Vinson and Elkins) are falling over themselves in trying to win the "who knew less?" contest. It seems that nobody in a position of power knew anything.

Either these people are simply lying, or they blatantly violated a basic principle of responsible leadership – they failed to know; they failed to stay in touch. To assume that underlings at Enron could pull off the scam of the century without top management's knowledge is on the surface ludicrous but, if true, clearly demonstrates how being "out of touch" can rock the foundation of an organisation that is not built on solid leadership principles. "If you don't know what information is flowing through your organisation," warns Powell, "you don't know what's going on in your organisation."

Conclusion: No leader can or should be aware of all details but great leaders make it a point to stay in the loop with the important details. In the

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case of Enron, the 2,300 subsidiaries and off-balance sheet partnerships, the concealment of hundreds of millions of dollars of debt, the gross inflation of earnings and the collapse of sizeable investments in the trading of non-energy commodities like water and broadband should have been foremost in the details considered important by Enron's leadership.

4. "If the troops are cold, you're cold. Corporate leaders ought to learn that. Too often those at high levels don't quite understand the sacrifices and hardships of those at the bottom."

For Powell, the principle of "shared sacrifice" is a critical attribute of leadership and not simply because it represents ethics and decency. As Powell argues, in order to galvanise shared direction, innovation and *esprit de corp* on a sustained basis, "they (employees, soldiers) must believe that they are part of a team – a joint team – that fights together to win". For genuine teamwork and togetherness to occur, a leader must *care* about the welfare of his troops.

If there is one thing that impartial observers can agree upon, it's that senior managers at Enron violated this principle thoroughly and convincingly, especially as the stock descended. Even as they were assuring nervous employees and institutional investors that Enron was sound,

29 Enron officials sold off nearly \$1.2bn of company shares, while rank-and-file employees were often legally barred from doing so. Top managers pocketed \$680m in 2001 alone. Lay himself sold off \$70m worth of stock between February and October 2001.

While all these events were happening, of course, ordinary Enron employees got crushed – as did millions of outside investors – as the stock dropped from \$79.00 to 50 cents in a year. For leaders like Powell, such self-serving actions are incomprehensible, especially in an environment where teamwork, collaboration and mutual trust become increasingly important.

Conclusion: Trust is essential for a leader's influence and credibility. While many factors affect trust, the traits that Powell labels as "selflessness, sacrifice and empathy" are high on the list. Great leaders are happy to share the wealth with team members when times are good and, unlike at Enron, they do so generously and with grace. But the true mettle of leadership occurs when times are bad. Great leaders share financial pain. In contrast, too often we read about a faltering corporation whose employees face layoffs and salary cuts even as their executives keep their huge compensation packages and golden parachutes.

5. "Never let your ego get so close to your position that when your position goes, your ego goes with it."

Good leaders have very healthy egos. But when they wed their egos to the status quo problems begin because the status quo inevitably changes. Rather than focusing organisational resources to protect their current "positions" – a sign of strategic myopia and personal insecurity – great leaders apply their healthy egos towards capitalising on the changes around them.

Great leaders
balance their strong
egos with humility

By the early 1990s, for example, Powell saw mammoth changes emerging in his environment. The Soviet Union collapsed, the Warsaw Pact imploded, the Berlin Wall fell and the ideologies of Marxism and Leninism sank into disrepute.

"In the military, to put it in corporate terms," said Powell, "our product line was now out of date. I saw it as my main mission to move the armed forces onto a new course, one paralleling what was happening in the world today, not one chained to the previous 40 years".

Powell began shaping a vision that revolved around a leaner, nimbler, more mobile, technologically "smarter" military that could anticipate and put out fires from multiple sources around the world. Certainly, in the current war against a global terrorist network, his thinking proved prescient.

On one level, the innovation at Enron was praiseworthy. It was originally aimed at transforming the company from a bricks-and-mortar energy provider to a financial powerhouse that could trade any commodity and reinvent value chains in any industry. On another level, however, as the company grew, it became apparent that the financial returns were spurious and the business model itself was unsustainable. It's at this point that senior executives at Enron allowed their egos to get too close to a position (the new, virtual, web- and derivatives-based Enron) that was sexy and exciting on the surface but hollow on the inside.

As in so many companies that struggle to tread water with a flawed strategic approach, desperation became synonymous with innovation. The obsession became two-fold: do whatever it takes – however "creatively" – to prop up the business model; and do so by doing whatever it takes to raise stock value.

Hence, the business model became sacrosanct, even as it became more of a charade. Since the great fear was that if anyone peered through the curtains, the house of cards – along with executives' egos, careers, reputations and compensation – would collapse, enormous amounts of energy were devoted to propping it all up. Increasingly, the innovation and entrepreneurship revolved around creative accounting and financial sleight-of-hand.

Conclusion: When a leader's primary strategy is to disregard market warnings and "circle the wagons" to protect existing business designs, strategies and products, the end is in sight – both ethically and competitively. Great leaders balance their strong egos with humility, which allows them to continually press for new positions in light of external changes and reality-checks.

On its own, “building shareholder value” says nothing about the worth of an organisation’s underlying values or the worth of its strategy

As Powell has advised others throughout his career: “Dig deep and rip out that old mission and fill it immediately with a new mission and then start training for it. You cannot tolerate a vacuum!”

6. “It is more important to do what is right than to do what is personally beneficial. Whatever the cost, do what is right.”

For Powell, “doing what is right” is at the core of courage and character, both of which are paramount for leadership. Doing what is “right” means standing for an honourable value or deal even in the face of adversity. It means holding the banner for personal excellence, setting the right example, walking the talk and, most important, being straight and honest. Ethical and integrity-based leadership are critical parts of great leadership.

In the public sector, Powell has always operated with this principle in mind. Even though he concedes that they’re “corny”, he argues that values matter. Honesty matters. Duty matters. Integrity and honour matter. These intangibles are hard to operationalise but people know when leaders exhibit them, just as they know when leaders exhibit opposing behaviours of expediency, opportunism, evasiveness, self-aggrandisement or outright dishonesty. From the employees’ perspective it was clear

which path top-managers chose at Enron, which is not to say that Enron didn’t have a “code of ethics” or a “values statement”. Both existed. But for Powell, the “do the right thing” admonition emphasises “do” as much as it does “the right thing”. Powell has often said that “setting an example” is the single most important role of the leader: “The leader sets an example. Whether in the Army or in civilian life, the other people in the organisation take their cue from the leader – not from what the leader says but what the leader does”.

A leader’s behaviour ensures that organisational value pronouncements can go in one of three paths: one path is where they are “lived” and “owned” in every decision and action, every day; the second is where value pronouncements are, in practice, simply irrelevant when it comes to important strategic, operational or budgetary decisions; and the third is where values are used strictly as window-dressing and propaganda statements.

Enron’s leaders “wrote the book” on the second and third paths. Enron’s public values of *respect*, *integrity*, *communication* and *excellence* were often used for little more than image promotion. Repeatedly, senior leaders at Enron said one thing and did another. Even as lies and deceit became endemic in the workplace, an internal film introducing Enron’s new Vision and Values campaign, would show Lay saying: “At Enron, we stand by our word. We mean what we say, and we say what we mean”. Meanwhile, Skilling added: “It’s very competitive world out there and there probably are times that there’s a desire to cut corners. We can’t have that at Enron”.

Like many executives today, Skilling and his cohorts saw “building shareholder value” as equivalent to doing “what is right”. Building shareholder value is both a necessary and desirable goal for any corporate leader but it is a consequence – a scorecard – of doing the right things strategically and operationally. On its own, “building shareholder value” says nothing about the worth of an organisation’s underlying values or, for that matter, the worth of its strategy. At Enron, words to the contrary notwithstanding, deceit that elevated shareholder value was itself valued.

Small wonder that Enron’s employees and investors lost faith in the company’s leadership, based on the mismatch of word and deed they observed. Yet paradoxically, even as they lost faith, they began to emulate their superiors in order to reap short-term corporate accolades and rewards. Since doing what is personally beneficial trumped doing what is right, it should not be surprising that a “me first” and “get mine” attitude began to fester. Nor should it be surprising that as Enron’s stock began to plummet, so did employees’ fragile loyalty to the company. Employees, whose conscience had

Above the waterline

The tip of the leadership iceberg

- Create a bold, inspiring vision
- Empower people who are committed to the vision
- Develop a fast-paced, innovative culture
- Attract the best and brightest

waterline

Below the waterline

The hidden foundation of leadership

- Continually probe "below the surface". Don't get misled by appearances. Ask tough questions. Seek the truth.
- Be accessible to people and their insights – even when they challenge the status quo. Fuel a genuine "clash of ideas" and follow-up collaborative action. Make inclusion a priority.
- Master details. Stay connected to people and data throughout your organisation. Never lose touch.
- Demonstrate shared sacrifice, selflessness and empathy. Show that you care about peoples' welfare. Visibly share the struggle, the pain and the wealth.
- Don't let your ego get so close to your position that when your position goes, your ego goes with it. Change before you're forced to change. Balance a strong ego with humility.
- Whatever the cost, do what is right. Demand honesty, ethics and full disclosure in all decisions, actions and relationships. Set the example.
- Never shirk responsibility. Embrace the premise that the final responsibility for success and failure rests with you – the leader.

been hedged with inflated Enron stock, began leaking information to the press about their leaders. And in a final act of character-less behaviour, the leaders themselves became, and still remain, enmeshed in legal subterfuge, finger pointing and charges of betrayal.

Conclusion: Doing the right thing is the mark of character, integrity and courage. It is a necessary ingredient for sustained leadership credibility and performance excellence. When leaders fail to do what is right, followers become cynical. When cynicism reigns, the leader's credibility plummets while followers' loyalty, commitment, collaboration and *esprit de corp* suffers greatly.

7. "Leadership is not rank, privilege, titles, or money. It is responsibility."

Powell often points out that the final responsibility for the success or failure of a mission rests with the leader. Real leaders embrace that responsibility. They recognise that they are ultimately responsible for the organisation's mission and strategy, the culture and values that exist in it, the key decisions and behaviours of its members, and the organisation's progress – or lack thereof. At the end of the day, after a leader has listened, collaborated, delegated and empowered, it's time for him or her to step up – to set the right course of action, inspire hope and confidence, bless the right initiatives, anoint the right people, articulate the right standards and define the right metrics.

During the Enron heyday, the leaders of Enron were certainly willing to enjoy the perks and privileges of their positions. Today, instead of copping to responsibility, ex-chairman Lay complains that he really didn't understand what was going on, it wasn't his fault, he was kept in the dark, others betrayed him.

Great leaders blend their responsibility to their mission and their people. Yes, they take ownership of company-wide setbacks and errors and constructively mobilise their peoples' efforts at fixing them. And on the flip side, they let their people own the triumphs.

After the Gulf War victory in 1991, the editors of *US News & World Report* wanted Powell on the magazine's cover. To their surprise, Powell tried to convince them to put Schwarzkopf, the field commander of Desert Storm, on the cover instead. At Enron, a perfect mirror image occurred: top executives took credit for the victories and now blame their people for defeats.

Conclusion: Great leaders not only accept but also seek final responsibility, fully and unequivocally. They don't make excuses after the fact. Responsible leaders take joy in success, making sure to let team members share the glory and rewards. Likewise, responsible leaders take

public ownership of setbacks and errors and then constructively focus on solving problems and capitalising on new opportunities. They truly lead by the old adage that "the buck stops here".

A new model of leadership

Figure 1 illustrates the leadership dynamics highlighted by our Powell-Enron contrast. Like an iceberg, what's underneath the waterline is far bigger and weightier than what is above. The tip of the iceberg reflects today's conventional wisdom about leadership. The attributes and behaviours listed in the tip are important and necessary, but in today's world they are no longer sufficient. The hidden foundation of leadership lies below the surface and like the bottom part of an iceberg it's *big*, as is its impact on unit goals and performance excellence. It is so big, in fact, that it can literally "make or break" an organisation.

It's time to move our attention to the traits below the surface. And when we do, we will find deeper challenges for any would-be leader, because the submerged traits require *courage*. Powell is very specific that leadership requires "moral, physical, mental and spiritual courage".

Can that courage be taught? Can it be learned by anyone? What sorts of action-steps can be extrapolated from these traits? And what will the long-term effect be if we fail to recognise their importance? These are the questions that researchers and practitioners should begin urgently to address. ■

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