
Enron Lessons for Everyone

by Donna Davis, Director, Ethics and Business Conduct

In January 2000, *Fortune* magazine named Enron the most innovative company in America and ranked it among the “100 Best Companies to Work For.” But when news of possible problems leaked and Enron’s credit rating was downgraded, creditors and investors panicked.

Less than two years later, Enron declared the largest corporate bankruptcy in history and is now under investigation by the Justice Department, Securities and Exchange Commission, Labor Department, Federal Energy Regulatory Commission and the Commodity Futures Trading Commission. The company’s auditor, Arthur Andersen LLC, also fell under scrutiny for failing to warn the investing public of Enron’s problems and was found guilty of obstruction of justice.

Although the investigation continues, one thing is apparent—Enron suffered from mismanagement. It is also clear that Enron’s demise resulted from a combination of unethical practices that created an unhealthy, cutthroat business climate and that the company’s top executives had the power, gave the orders and found loopholes in the law to justify their unethical behavior.

Most people are under the impression that the “rank-and-file” employees were the victims of top management control. Could they have contributed to the

problem by not stepping forward, and what lessons can be learned from the Enron debacle?

Put Integrity First

Enron engaged in off-balance-sheet financing, using subsidiaries that it controlled to hedge its own investments. On the books, this practice inflated company profits and reduced debt. Although the Andersen accounting firm attested to its client’s accurate recording, the auditors apparently overlooked the fact that Enron practices were inherently unethical.

Lesson learned: Finding the loophole may make something legal, but it doesn’t necessarily make it right. Every transaction you make must reflect the integrity of Northrop Grumman and must be honestly and accurately recorded.

Understand the Big Picture

According to Arthur Andersen, the Enron board of directors “rubber-stamped” the company’s off-balance sheet deals and did not see the full picture as it emerged. Enron employees, who spoke with reporters after the company’s failure, explained they knew individual transactions they were logging were intended to make the company’s finances look better,

but they had no idea that the practice was widespread throughout the company. Some analysts contend that many of Enron’s transactions were too complex to be easily understood.

Lesson learned: It is important to understand your role in the big picture. Take responsibility, ask questions and be sure you understand the implications of every action you take.

Don’t Ignore Concerns

Last year, several Enron employees, including some high-ranking executives, attempted to warn Enron CEO Kenneth Lay of serious accounting issues. One person’s claim was apparently taken seriously but no changes were filed; another key advisor was removed from his job; and a former employee was promised an investigation—which never came.

Lesson learned: As an employee, have the courage to raise or question potential problem issues. As a manager, never ignore or retaliate against legitimate concerns—listen and take appropriate action.

Good Business Beats Profits

Enron had a reputation as a brash, aggressive company, and it rewarded employees for making deals that closed fast and booked big profits. In time, employees learned how to help make their numbers by restructuring deals to make them appear profitable. Enron employees indicated that teamwork and cooperation gradually disappeared, replaced with cutthroat competition and dangerous business practices that eventually imploded on the company.

Lesson learned: No success is important enough to be achieved at the price of dishonest or illegal activities. Doing good business, according to our Corporate Values, is far more important than making numbers.

Northrop Grumman is committed to supporting ethical decisions in every part of its business—we count on every employee to act ethically in order to accomplish that goal. If you have any questions or concerns, speak to your manager or your local Ethics and Business Conduct Officer, or call the OpenLine at 1-800-247-4952.

For more information, log on to the Ethics Web sites: Intranet—<http://w789900.md.essd.northgrum.com/> and Internet—<http://sensor.northgrum.com/ethics/default.htm>.

