Selling Enron

In the late 1990s, the state of California deregulated many of its electricity markets, opening them up to private sector energy companies. Enron Corporation had long lobbied for deregulation of such markets and would likely have profited greatly had California's experiment succeeded and become a model for other states.

Enron CEO Ken Lay wrote a public statement saying that Enron "believes in conducting business affairs in accordance with the highest ethical standards… your recognition of our ethical standards allows Enron employees to work with you via arm's length transactions and avoids potentially embarrassing and unethical situations." At the same time, Tim Belden, a key Enron employee in its energy trading group, noticed that California's "complex set of rules…are prone to gaming."

According to Bethany McLean and Peter Elkind, authors of *The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron*, "In one scheme, Enron submitted a schedule reflecting demand that wasn't there… Another was a variation of the Silverpeak experiment: Enron filed imaginary transmission schedules in order to get paid to alleviate congestion that didn't really exist… Get Shorty was a strategy that involved selling power and other services that Enron did not have for use as reserves…"

Some Enron employees admitted that their schemes were "kind of squirrelly," but used them because they were profitable. The impact on customers was clear: electricity prices rose and rolling blackouts occurred. Enron's profits, however, quadrupled. An Enron lawyer later wrote that the Enron traders did not think "they did anything wrong." Another employee admitted, "The attitude was, 'play by your own rules.' …The energy markets were new, immature, unsupervised. We took pride in getting around the rules."

In October 2001, Enron's unethical and illegal business practices became public knowledge. Enron's stock prices plummeted, and the company filed for bankruptcy in December 2001.

Discussion Questions:

1. How did Enron's CEO and employees frame their business model? How did differences in their framing affect their actions?

2. How might framing affect people's approaches to business conduct? Explain your reasoning.

3. Can you think of other framing tactics used by different businesses? How does framing affect the products they sell and the actions of their consumers?

4. How do you react to the following recorded conversation between two Enron employees? What does it tell us about framing, if anything?

Greg: "It's all how well you can weave these lies together, Shari.
Shari: I feel like I'm being corrupted now.
Greg: No, this is marketing.
Shari: OK."

5. The Enron scandal affected the lives of many employees who had no responsibility in Enron's framing tactics. If you were a new employee starting your career at Enron and you learned of the framing tactics in this case study, what would you do? Why?

Resources:

Conspiracy of Fools: A True Story
http://www.worldcat.org/title/conspiracy-of-fools-a-true-story/oclc/57192973

Enron: The Rise and Fall
http://www.worldcat.org/title/enron-the-rise-and-fall/oclc/50549063

Sidetracked: Why Our Decisions Get Derailed, and How We Can Stick to the Plan
http://www.worldcat.org/title/sidetracked-why-our-decisions-get-derailed-and-how-we-can-stick-to-the-plan/oclc/807028907

The Ethical Executive: Becoming Aware of the Root Causes of Unethical Behavior: 45 Psychological Traps that Every One of Us Falls Prey To
http://www.worldcat.org/title/ethical-executive-becoming-aware-of-the-root-causes-of-unethical-behavior-45-psychological-traps-that-every-one-of-us-falls-prey-to/oclc/225875973

Experimental Ethics: Toward an Empirical Moral Philosophy
http://www.worldcat.org/title/experimental-ethics-toward-an-empirical-moral-philosophy/oclc/881387881
The Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron
http://www.worldcat.org/title/smartest-guys-in-the-room-the-amazing-rise-and-scandalous-fall-of-enron/oclc/52418094

I Survived Enron
http://www.bloomberg.com/bw/stories/2006-02-05/i-survived-enron

Author:
Robert Prentice, J.D.
Department of Business, Government and Society
McCombs School of Business
The University of Texas at Austin