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**Public Relations Lessons from Enron**

**Overview**

The philosopher George Santayana said, “Those who cannot remember the past are condemned to repeat it.” Enron Corporation was an American energy, commodities, and services company that misled shareholders and stakeholders by inaccurate accounting practices. In 2000, Enron reported $101 billion in revenues and boasted of assets worth $67.3 billion. However, Enron created these profits by buying and selling energy several times over in privately traded marketplaces and failing to record their amassing debt on the balance sheets. In October of 2001, Enron began to unravel as investors questioned their oversimplified earnings releases, the CEO resigned in August, and finally Enron filed for bankruptcy on December 2, 2001. The Enron case is intriguing to me because it was a high profile scandal that had a large impact on the investment market and government regulation. The Enron case applies to many areas of public relations including: ethical and legal communication, crisis communication, employee communication, investor relations, and communicating trust.

**Ethical & Legal Communication**

Business leaders have an ethical responsibility to communicate and model appropriate organizational values and to remain aware of organizational operations. Kenneth Lay, the former CEO, and Jeffery Skilling, the founder of Enron, claimed they were unaware of the financial misconduct of their subordinates and therefore were not personally accountable. In response, the Sarbanes-Oxley Act was passed in 2002; it focused on the communication based responsibilities of senior managers. Management is now held directly accountable for the financial reports filed with the SEC. Sarbanes-Oxley also increased the penalties for those who violate security laws.

Publicly traded companies must comply with the SEC guidelines for disclosure. Mandated disclosures must be made to all investors, including employees. Enron did not follow the SEC disclosure guidelines. For example, Enron would hold a conference call with their investors and then submit an SEC filing that included material not disclosed in the conference call. Their larger violation of the SEC guidelines was their intentional inaccurate accounting, endorsed by their auditing firm. The subsequent Sarbanes-Oxley Act also created the Public Companies Accounting Oversight Board to oversee audit firms.

**Crisis Communication**

It is clear there was no crisis management plan for Enron. Crisis must be managed or it will destroy a company. Even if Enron had attempted crisis management, it had no credibility or respect to carry it through the crisis.

An interesting insight is provided by Mark Palmer, the managing director of corporate communications at Enron. After the crooked accounting was announced, Palmer had to deal with rage from the media and employees. Palmer attempted to retrieve information to communicate, but finding the truth became difficult as people clammed up, afraid of criminal prosecution. The next wave quickly hit when Enron’s bankruptcy was completed in four days and 5,000 employees were laid off. Instead of communicating individually with each employee, floor meetings were held and employees were told to go home and return only if they were called to do so. In Palmer’s defense, there was no time for proper communication. However, the best practice is to focus on internal communications and be as personal as possible.

**Employee Communication**

Enron chose to communicate only the good news to its employees. The surge of income was highlighted, and the gloomy reality was hidden. For Enron and many publicly traded companies, their largest number of stockholders is employees, and therefore internal communication should be the focus. Morale and trust have the best chance of staying high if senior management shares the ups and downs.

**Investor Relations**

One reason the SEC regulates disclosures is because it has become abundantly apparent that companies avoid communicating when times are tough. Enron adopted an arrogant attitude toward Wall Street. As analysts pushed for more thorough accountings, Enron became more reticent. Enron basically told investors not to worry about the accountings but to look at their stock price and trust them.

After Enron, investors are wisely more skeptical, and most publicly traded companies have responded by providing information beyond the SEC requirements. Investors expect companies to use traditional financial evaluation tools and clearly communicate the state of their business.

**Communicating Trust**

Kenneth Lay did an excellent job of manufacturing trust. That trust fed on itself and multiplied for a short period of time. I found it most interesting that Enron and Arthur Anderson (Enron’s accountant) were not destroyed solely by the government. When these companies lost the trust of their clients and publics, their outcome was sealed. Public relations specialists communicate with the intention of building trust and corporate reputation. However, decades of trust dissolves when the public opinion shifts.

**Summary**

All sources consider Enron an extreme case to learn from. Some attribute more blame to Enron for false accountings, and others criticize stockholders for turning a blind eye to the inadequate accountings. I believe that although Enron initiated the fraud, stockholders should have been more diligent to discover the fraud earlier. My key learning from this case is to remember that for many public companies, their largest number of stockholders is their employees, and although it is natural to focus on external investors, it is vital to highlight internal communications. The Enron case demonstrates the importance of ethical and straightforward communication from every employee and representative to all company stakeholders.

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