CORPORATE TOXICITY: THE WORLDCOM/MCI SCANDAL

ABSTRACT

This case study provides a real-world example of corporate toxicity to illustrate the toxic triangle model and show how situations like this one come to pass (Padilla, 2013). The primary focus will be on WorldCom/MCI and the events leading to the world famous accounting scandal that came to light in 2003. This case briefly examines the three major triangle elements, (1) the role of the leader, (2) the enabling efforts of colluding and conforming followers, and (3) the conducive nature of the specific organizational context, all in correlation with the eventual destruction of the organization. Identifying these elements provides an opportunity for students to analyze an actual account of corporate toxicity through critical thinking and discussion. The questions provided are intended to stimulate a discussion focused on the: (1) events leading to the demise of the organization, (2) characteristics of the primary leader and followers, (3) role the environment played in escalating the situation, and (4) the influences of social pressures.

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Introduction

As one of the largest incidents of financial fraud in history, the WorldCom/MCI scandal serves as an illustration of the destruction that corruption can lead to. The events leading to the collapse, those individuals involved, and the environment in which the corruption bred will be reviewed. In this particular case study, built from public record of the situation, toxicity was revealed by "…constant layoffs and firings, unrealistic expectations, favoritism, financial trouble, and bullying" (Hughes, 2014).

The Collapse of WorldCom/MCI

Shortly after 1997, when WorldCom, an already well-established communications company, acquired MCI the now join company's profits began to decline alarmingly. Though this effect is not uncommon after an acquisition occurs, WorldCom's CEO, Bernard (Bernie) Ebbers, decided not to admit the losses incurred and instead took steps to hide them from all interested parties. In an effort to disguise deficits, WorldCom's executives began manipulating their reserves by moving several billion dollars into the revenue section of their financial statement. They also proceeded to reclassify operating expenses as long-term capital investments, so they changed what would ordinarily be considered a loss into a gain (di Stefano, 2005).

"Power corrupts, and absolute power corrupts absolutely."
Lord Acton

One of the most important methods for preventing toxicity developing in leadership situations is having a strong accountability system (Padilla, 2013). In today's corporate culture it has become more difficult for companies to avoid and remove checks and balances entirely, in large part because of requirements imposed by industry and government to prevent issues just like what occurred in this case. In fact, WorldCom's deception was eventually exposed during an internal audit when the company failed to produce documentation proving their 'expenditures'. It was the company's controller, David Myers, who eventually admitted that the statements had been adjusted and that he had permitted the knowingly false entries to be generated (di Stefano, 2005). The financial mismanagement could have been stopped much sooner, or may never have developed in the first place, if audits has been more common in the company. Ebbers' persistent refutation of anything that would adversely affect his or his company's image, and his influence to cheat, lie, and to reduce the checks and balances of the system, makes the deficient auditing structure less shocking.

Before the Securities Exchange Commission (SEC) launched an investigation, WorldCom filed for the third largest bankruptcy in the U.S. After a thorough investigation, Ebbers faced a sentence of 25 years in prison, the maximum he could receive. While other members of the executive team did serve time in prison, they were found less responsible or were willing to assist during the investigation which reduced their penalties (di Stefano, 2005).

A Toxic Leader: Ebbers

According to the article, “The Toxic Triangle,” toxic leaders typically exhibit most of the following characteristics: (1) charisma, (2) personalized needs for power, (3) narcissism, (4) negative life themes, and (5) an ideology of hate (Padilla, Hogan, & Kaiser, 2007). Of these five toxic characteristics, at least three are clearly evident in the actions of Bernie Ebbers; (1) charisma, (2), personalized needs for power, and (3) narcissism.

After working as a milkman, basketball coach, and middle school teacher, Ebber was one of the initial investors of a communications firm called LDDS, and climbed the ladder in that arena to eventually become the leader of WorldCom. Over 4 years, Ebbers grew WorldCom into a competitive company through acquisitions. His efforts were focused on making a bigger, wealthier company but in retrospect it appears he forgot the need for strong organizational development - to his own detriment and the detriment of all the people employed and serviced by WorldCom.

Those who surrounded Ebbers clearly expressed that he preferred being uninformed about anything negative; they also stressed his unrealistic performance expectations. In the event that someone needed to inform him of something less than desirable, they had to prepare themselves for an outburst of anger. Success was not a goal for Ebbers; instead, it was a requirement that he paired with an arrogant “no one can break us” mentality. Of course, Ebbers did not only have his pride at risk but also a lavish lifestyle he coveted, potentially as evidence of his success. For a short time the success he feigned with WorldCom temporarily provided him with his lifestyle of choice (Lewis, 2002).

The Conducive Environment

While there is a competitive nature to “Corporate America,” it would appear that Ebbers fostered a toxic culture at WorldCom. Instead of constructively working through financial hardships, he chose to ignore them. His self-chosen ignorance, while serving in the influential role of CEO, affected the entire organization. It could be said that Ebbers created an environment where cheating was the only way to meet his expectations, because they were so unrealistic. In addition he enthusiastically exercised his power as CEO in an arrogant manner, making it clear that it was meet his expectations or you’re out. When employees would approach him with a concern, they were often disregarded or brushed off. Those that would blatantly disagree with him would find themselves without a job. Even outsiders who drew attention to the wrongdoings of the company could find their livelihoods in jeopardy (this is not unlike the Enron scandal). Unfortunately, since he was unable to accept any shortcomings, he was inadvertently smothering communication throughout the company. For those who weren’t as morally inclined, the environment further developed their ethically questionable actions (Beresford, Katzenbach, & Rogers Jr., 2003). And as history shows situations can pressure even those usually ethical to contribute to crises like this one, or worse, when they feel powerless to go against the tide.

During his trial, Ebbers insisted that he was unaware of the accounting documents that had been engineered. If Ebbers was unaware, or even "turning his head the other way," it became apparent through examination of the company that this flimsy excuse could only be valid as of a result the culture he developed (Lewis, 2002). Due to obvious inattentiveness, it was widely felt that the Board of Directors was partially to blame for the scandal and its magnitude.

Employees as Followers

Collusion

Ebbers, even as the primary stakeholder and CEO, could not create such an intricate web of lies on his own, which is supported by Padilla et al. (2007) who indicates that regardless of a leader's planning, their tactics alone cannot perpetuate a toxic environment without the assistance of others. As demonstrated by Figure 1, Ebbers required the assistance of others, and he was predominantly in

collusion to those close to him hierarchically.

Figure 1. Snapshot of WorldCom's hierarchy of primary colluders. This figure illustrates the executive roles of Barnard Ebbers, Scott Sullivan, and David Myers and their criminal sentencing (Beresford et al. 2003).

According to Padilla et al. (2007) "colluders support destructive leaders because they want to promote themselves…" The former CFO, Scott Sullivan, who blamed Ebbers for the corruption, was a participant for what appeared to be his own benefit. Ebbers was not the only one personally benefiting from the deceit and, as mentioned above, the full scale of the corruption would have been difficult for him to accomplish alone. Ebbers set a precedence that made the behavior acceptable, and Sullivan was an individual that took advantage of the environment created by his superior (di Stefano, 2005). The Board of Directors, much like some of the other managers, were either oblivious or intentionally overlooked the actions Ebbers and his accomplices.

Conformity

Sullivan was viewed as more of an accomplice and less cooperative in the investigation than Myers, and he was sentenced to five years in prison (Markon & Sandberg, 2002). Myers was also aware of the disaster unraveling around him. As someone who was responsible for the approval of financial transactions, he couldn't claim ignorance. Myers, however, acknowledged his permission of these events as a disgrace. Unlike Ebbers and Sullivan, who clung to excuses in order to justify their actions, Myers accepted responsibility, expressed remorse, and aided the investigation on WorldCom. In his own words, while speaking to Baylor accounting students, "I allowed Scott, his morals and ethics override mine. Everything I built in life, all the things my parents had told me, everything I entrusted in myself, I let him override that" (Mathew, 2010). Individuals that are not fully developed psychologically can often fall victim to a persuasive leader – especially when it affects their livelihood (Padilla, 2013).

Myers was given a shorter sentencing than both Ebbers and Sullivan, and his entire persona differed from theirs (di Stefano, 2005). In fact, Judge Jones openly expressed her appreciation for his cooperation and was regretful that he was required to serve time at all. A year and a day later, after being released from prison, Myers made it his goal to spread the word about ethics and toxicity. He visits colleges and other institutions to tell his story and, to those around him, his efforts appear to be genuine (Young, 2005).

Discussion

This case gives us an example of how it takes all three elements to result in a deeply toxic leadership situation developing (1) a toxic leader, (2) enabling followers, and last but not least (3) a conducive environment.

1. What were the events that led to the collapse of WoldCom/MCI?
2. What leadership characteristics did Ebbers employ that would be considered toxic?
3. At what point did the environment/culture become conducive for toxicity? For toxicity to breed, does a corporate culture need to support the toxic leader?
4. Describe the two types of followers. How do their ethics vary?
5. How strong is the influence of the environment in this case (within and/or without the organization)?
    a. Were there pressures which led the leadership to take these actions?
    b. Are there pressures on employees in toxic situations which cause them to collude or conform?
    c. Would you excuse anyone in this case for their actions based on these outside pressures acting on them? (Ebbers? The conforming followers? Etc.?)
6. What possible preventions exist (or should) to prevent this scenario from happening again

Further Reading

- Time.com: Top 10 Crooked CEOs: Bernie Ebbers
- Biography: Bernie Ebbers
- Washington Post: Ebbers Gets 25-Year Sentence for Role in WorldCom Fraud
- Washington Post: Witness Describes Ebbers's Leadership
- Wharton Business School, UPenn: What Went Wrong at WorldCom?
- Markklula Center for Applied Ethics, Santa Clara U.: WorldCom

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