Nurturing Human Leaders: Analysis From Past Business Fraud

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Abstract

Having a good education doesn't promise one to be a successful leader in business itself. The best situation to represent the previous statement is the Enron Corporation Scandal. This paper studies the background of Enron Corporation and unveils chain of events that leads to the collapse of Enron, the biggest bankruptcy in the United States. Being a successful leader itself is not important, but nurturing a human leader is the most important aspect. Youths are said to be the country’s future business leaders whom will enhance the progress in the economic growth of a country. In this paper, we will also examine on what is meant by to be a human leader thus providing the characteristics need to be developed by the younger generation to be better business leaders.

Keywords: Enron, human, leaders, youth, bankruptcy, corruption

I. Introduction

Business practices have always been connected with fraud and have always been affected by financial collapses. Recent accounting scandals like Enron, WorldCom, Parmalat, Tyco etc have cost not only billions of dollars to the stakeholders but also have damaged the accounting profession. Frauds are “the on purpose misleading presentation of financial information by one or more persons, who are member of the company’s personnel or management, as a consequence of manipulation, creation or falsification of documents or files, withholding assets, registration of fictive transactions, false appraisals and valuations, etc.” (I.B.R.1998)

Enron is the largest bankruptcy in the US corporate history. In just fifteen years Enron grew as one of ten largest US companies and became the shining example of the US corporate world. Enron stock price rose to $83.3 in 2001 and its market capitalization exceeded $60 billion. Enron was rated the most innovative company in America in fortune magazine (Palepu 2002) but the Enron’s success was based on inflated earnings and fraudulent accounting practices. The dramatic fall of Enron has shaken the confidence of investors.
The Enron scandal, revealed in October 2001, eventually led to the bankruptcy of the Enron Corporation, an American energy company based in Houston, Texas, and the de facto dissolution of Arthur Andersen, which was one of the five largest audit and accountancy partnerships in the world. In addition to being the largest bankruptcy reorganization in American history at that time, Enron was attributed as the biggest audit failure.

Enron was formed during 1985 by Kenneth Lay. During 1985, Kenneth Lay merged the natural gas pipeline companies of Houston Natural Gas and InterNorth to form Enron. During the early 1990s, he helped to initiate the selling of electricity at market prices and, soon after, the United States Congress approved legislation deregulating the sale of natural gas. The resulting markets made it possible for traders such as Enron to sell energy at greater prices, thereby significantly increasing its revenue. After producers and local governments decried the resultant price volatility and asked for increased regulation, strong lobbying on the part of Enron and others allowed for the proliferation of crony capitalism.

As Enron became the largest seller of natural gas in North America by 1992, its gas contracts trading earned earnings before interest and taxes of $122 million, the second largest contributor to the company's net income. The November 1999 creation of the Enron Online trading website allowed the company to better manage its contracts trading business.

In an attempt to achieve further growth, Enron pursued a diversification strategy. The company owned and operated a variety of assets including gas pipelines, electricity plants, pulp and paper plants, water plants, and broadband services across the globe. The corporation also gained additional revenue by trading contracts for the same array of products and services as with which it was involved.

Enron's stock increased from the start of the 1990s until year-end 1998 by 311% percent, only modestly higher than the average rate of growth in the Standard & Poor 500 index. However, the stock increased by 56% in 1999 and a further 87% during 2000, compared to a 20% increase and a 10% decrease for the index during the same years. By December 31, 2000, Enron's stock was priced at $83.13 and its market capitalization exceeded $60 billion, 70 times earnings and six times book value, an indication of the stock market's high expectations about its future prospects. In addition, Enron was rated the most innovative large company in America in Fortune's Most Admired Companies survey.

Several years later, when Jeffrey Skilling was hired, he developed a staff of executives that, by the use of accounting loopholes, special purpose entities, and poor financial reporting, were able to hide billions of dollars in debt from failed deals and projects. Chief Financial Officer Andrew Fastow and other executives not only misled Enron's board of directors and audit committee on high-risk accounting practices, but also pressured Andersen to ignore the issues.
Shareholders lost nearly $11 billion when Enron’s stock price, which achieved a high of US$90 per share during mid-2000, decreased to less than $1 by the end of November 2001. The U.S. Securities and Exchange Commission (SEC) began an investigation, and rival Houston competitor Dynegy offered to purchase the company at a very low price. The deal failed, and on December 2, 2001, Enron filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code. Enron’s $63.4 billion in assets made it the largest corporate bankruptcy in U.S. history until WorldCom’s bankruptcy the next year.

Many executives at Enron were indicted for a variety of charges and were later sentenced to prison. Enron’s auditor, Arthur Andersen, was found guilty in a United States District Court, but by the time the ruling was overturned at the U.S. Supreme Court, the company had lost the majority of its customers and had closed. Employees and shareholders received limited returns in lawsuits, despite losing billions in pensions and stock prices.

As a consequence of the scandal, new regulations and legislation were enacted to expand the accuracy of financial reporting for public companies. One piece of legislation, the Sarbanes-Oxley Act, increased consequences for destroying, altering, or fabricating records in federal investigations or for attempting to defraud shareholders. The act also increased the accountability of auditing companies to remain unbiased and independent of their clients.

II. Literature Review

Baker (2003) has analyzed the fall of Enron from different perspectives he discussed the business model of Enron and external factors such as deregulation of industry in that era. He has examined the growth of Enron which transformed itself from regulated gas distribution Company into an international trading company and through all the stages of its collapse he investigated Enron as American public private partnership.

Then Baker (2005) views Enron’s bankruptcy as an accounting failure in which the investors and creditors of the company were misled and presented with false financial information. In his view the bankruptcy losses of the investors could have been reduced to some extent if they had been provided with the transparent financial information and its result.

Here the onus of proof lies on the auditing company which was responsible to present the fair view of its financial statements which was Arthur Andersen but special purpose entities were audited by KPMG. The auditor’s role in the whole episode has been in lime light. However the point of concern is that no claims with respect to amending on the Accounting Standards has arisen in litigation surrounding corporate collapse however the auditors has been target of criticism. According to business week (2002) major U.S investigations / Lawsuit in 2002 were as below.

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Morrison (2004) investigates the transparency of the financial information and she explores the role of the Arthur Andersen in Enron and deals with the two important questions:

1. Did Andersen participate in the Enron Fraud?
2. Did Enron obstruct Justice?

In her paper she explored the evidences available publicly related to Enron and Andersen, and the roles of politicians and financial institutions. After a series of event studies at transaction levels she concluded that:

“Andersen could not have participated in the frauds because Andersen was never auditor of the SPEs where the frauds were committed. The frauds were committed by Enron officers within SPEs in collusion with numerous supposedly reputable financial institutions who were also not Andersen clients.”(Baker 2002)

Sharon Watkins raised her concerns over the accounting treatment of funds to Mr. Ken Lay CEO at Enron.

“Has Enron become a risky place to work? For those of us who didn’t get rich over the last few years, can we afford to stay …..? We have recognized 550 million of fair value gains on stock via our swaps with Raptor, much of that declined significantly-Avinci by 98%, from $178 million to $5 million, the new power Co by $70%, from $20/share to$ 6/share.” (Watkins 2003 p.361).

According to some researchers the model of financial reporting has not been successful to value drivers in the new economy. The continuous expansion of Enron into intangible form of business such as technology processes created the business model in which true value was difficult to determine. This produced gap in the book value and market valuation of many companies. In the past years this trend has been quite aggressive. In earlier study by Collin et al. (1997) shows that intangible intensive industries have been increased from 7% to 21% in 1993.

Chatzekal (2002) view that the changing nature of finance enterprise and accounting capability should be in parallel and the one way to achieve is through reviewing the accounting for intangibles and he raises the important question of how to reduce the opportunity for new Enron in future.

According to Howell (2002) the most problematic asset to evaluate are financial instruments whose values are reflected by underlying asset not reflected on the balance sheet itself. In his view Enron and other companies valued their assets highly and shown increment in the earning of the company. Enron itself created a lot of special purpose entities whose debts were not reflected in the balance sheet.

The timing of the expense and revenue recognition, debt obligation is thought to be other accounting issues which have impact on the financial condition of the
company. The misuse of these concepts has resulted in the creation of the Enron scandal.

When senate investigated the role of financial institutions in the bankruptcy of Enron it was found that investment banks helped the company disguised its financial position. The Associated press was reported:

"The evidence indicates that Enron would not have been able to engage in the extent of the accounting deceptions it did, involving billions of dollars, were it not for the active participation of major financial institutions willing to go along with and even expand upon Enron's activities," investigator Robert Roach said at the hearing" (http://www.nysscpa.org/home/2002/702/4week/article29.htm)

Coffee (2003) has discussed the same issue in his working paper “what caused Enron” states: as in late as October 2001 sixteen or seventeen security analysts recommended buy or strong buy for Enron's stock however the stock price of Enron already in 2000 was six times of its book value and 70 times earnings, however the first brokerage firm which recommended “sell” recommendation for Enron was prudential securities which at that time was not engaged in the investment banking business.

Giovanni and Andrew (2002) discussed the institutional activism in Europe they argued that crisis in public model security and reforms in stock market exchanges and birth of the single market in Europe has changed the domestic institutional investors approach towards Corporate Governance. European institutional investors are now looking outside Europe boundaries for greater profits and competencies and they are putting more pressure on their portfolio companies to increase the shareholder value. (Carriere 2002)

According to Cariola (2005) view the most valuable asset of the firm is the human capital and ‘talent’ which is involved in conducting the business activities which builds up “complementarities” with the asset in place.

III. Research Findings

Enron : The Smartest Guys In The Room

Kenneth Lay, former chairman and chief executive officer (CEO) of Enron Corp., is quoted in Michael Novak's book Business as a Calling: Work and the Examined Life as saying, “I was fully exposed to not only legal behavior but moral and ethical behavior and what that means from the standpoint of leading organizations and people.” In an introductory statement to the revised Enron Code of Ethics issued in July 2000, Lay wrote: “As officers and employees of Enron Corp., its subsidiaries, and its affiliated companies, we are responsible for conducting the business affairs of the companies in accordance with all applicable laws and in a moral and honest manner.”

Lay went on to indicate that the 64-page Enron Code of Ethics reflected policies approved by the company's board of directors and that the company, which enjoyed a reputation for being fair and honest, was highly respected. Enron’s
ethics code also specified that “An employee shall not conduct himself or herself in a manner which directly or indirectly would be detrimental to the best interests of the Company or in a manner which would bring to the employee financial gain separately derived as a direct consequence of his or her employment with the Company.”

Enron’s ethics code was based on respect, integrity, communication, and excellence. These values were described as follows:

- **Respect.** We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness and arrogance don’t belong here.

- **Integrity.** We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, then we won’t do it.

- **Communication.** We have an obligation to communicate. Here we take the time to talk with one another . . . and to listen. We believe that information is meant to move and that information moves people.

- **Excellence.** We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.

Given this code of conduct and Ken Lay’s professed commitment to business ethics, how could Enron have collapsed so dramatically, going from reported revenues of $101 billion in 2000 and approximately $140 billion during the first three quarters of 2001 to declaring bankruptcy in December 2001? The answer to this question seems to be rooted in a combination of the failure of top leadership, a corporate culture that supported unethical behavior, and the complicity of the investment banking community.

**IV. Enron’s Top Leadership**

In the aftermath of Enron’s bankruptcy filing, numerous Enron executives were charged with criminal acts, including fraud, money laundering, and insider trading. For example, Ben Glisan, Enron’s former treasurer, was charged with two-dozen counts of money laundering, fraud, and conspiracy. Glisan pled guilty to one count of conspiracy to commit fraud and received a prison term, three years of post-prison supervision, and financial penalties of more than $1 million. During the plea negotiations, Glisan described Enron as a “house of cards.”

Andrew Fastow, Jeff Skilling, and Ken Lay are among the most notable top-level executives implicated in the collapse of Enron’s “house of cards.” Andrew Fastow, former Enron chief financial officer (CFO), faced 98 counts of money laundering, fraud, and conspiracy in connection with the improper partnerships he ran, which included a Brazilian power plant project and a Nigerian power plant project that was aided by Merrill Lynch, an investment banking firm. Fastow pled guilty to one charge of conspiracy to commit wire fraud and one charge of conspiracy to commit wire and
securities fraud. He agreed to a prison term of 10 years and the forfeiture of $29.8 million. Jeff Skilling was indicted on 35 counts of wire fraud, securities fraud, conspiracy, making false statements on financial reports, and insider trading. Ken Lay was indicted on 11 criminal counts of fraud and making misleading statements. Both Skilling and Lay pled not guilty and are awaiting trial.

The activities of Skilling, Fastow, and Lay raise questions about how closely they adhered to the values of respect, integrity, communication, and excellence articulated in the Enron Code of Ethics. Before the collapse, when Bethany McLean, an investigative reporter for Fortune magazine, was preparing an article on how Enron made its money, she called Enron’s then-CEO, Jeff Skilling, to seek clarification of its "nearly incomprehensible financial statements." Skilling became agitated with McLean’s inquiry, told her that the line of questioning was unethical, and hung up on McLean. Shortly thereafter Andrew Fastow and two other key executives traveled to New York City to meet with McLean, ostensibly to answer her questions “completely and accurately.”

Fastow engaged in several activities that challenge the foundational values of the company’s ethics code. Fastow tried to conceal how extensively Enron was involved in trading for the simple reason that trading companies have inherently volatile earnings that aren’t rewarded in the stock market with high valuations—and a high market valuation was essential to keeping Enron from collapsing. Another Fastow venture was setting up and operating partnerships called related party transactions to do business with Enron. In the process of allowing Fastow to set and run these very lucrative private partnerships, Enron’s board and top management gave Fastow an exemption from the company’s ethics code.

Contrary to the federal prosecutor’s indictment of Lay, which describes him as one of the key leaders and organizers of the criminal activity and massive fraud that lead to Enron’s bankruptcy, Lay maintains his innocence and lack of knowledge of what was happening. He blames virtually all of the criminal activities on Fastow. However, Sherron Watkins, the key Enron whistleblower, maintains that she can provide examples of Lay’s questionable decisions and actions. As Bethany McLean and fellow investigative reporter Peter Elkind observe: “Lay bears enormous responsibility for the substance of what went wrong at Enron. The problems ran wide and deep, as did the deception required in covering them up. The company’s culture was his to shape.” Ultimately, the actions of Enron’s leadership did not match the company’s expressed vision and values.

V. Enron’s Corporate Culture

Enron has been described as having a culture of arrogance that led people to believe that they could handle increasingly greater risk without encountering any danger. According to Sherron Watkins, “Enron’s unspoken message was, ‘Make the numbers, make the numbers, make the numbers—if you steal, if you cheat, just don’t get caught. If you do, beg for a second chance, and
you’ll get one.” Enron’s corporate culture did little to promote the values of respect and integrity. These values were undermined through the company’s emphasis on decentralization, its employee performance appraisals, and its compensation program.

Each Enron division and business unit was kept separate from the others, and as a result very few people in the organization had a “big picture” perspective of the company’s operations. Accompanying this emphasis on decentralization were insufficient operational and financial controls as well as “a distracted, hands-off chairman, a compliant board of directors, and an impotent staff of accountants, auditors, and lawyers.”

Jeff Skilling implemented a very rigorous and threatening performance evaluation process for all Enron employees. Known as “rank and yank,” the annual process utilized peer evaluations, and each of the company’s divisions was arbitrarily forced to fire the lowest ranking one-fifth of its employees. Employees frequently ranked their peers lower in order to enhance their own positions in the company.

Enron’s compensation plan “seemed oriented toward enriching executives rather than generating profits for shareholders” and encouraged people to break rules and inflate the value of contracts even though no actual cash was generated. Enron’s bonus program encouraged the use of non-standard accounting practices and the inflated valuation of deals on the company’s books. Indeed, deal inflation became widespread within the company as partnerships were created solely to hide losses and avoid the consequences of owning up to problems.

VI. Complicity Of The Investment Banking Community

According to investigative reporters McLean and Elkind, “One of the most sordid aspects of the Enron scandal is the complicity of so many highly regarded Wall Street firms” in enabling Enron’s fraud as well as being partners to it. Included among these firms were J.P. Morgan, Citigroup, and Merrill Lynch. This complicity occurred through the use of prepay, which were basically loans that Enron booked as operating cash flow. Enron secured new prepay to pay off existing ones and to support rapidly expanding investments in new businesses.

One of the related party transactions created by Andrew Fastow, known as LJM2, used a tactic whereby it would take “an asset off Enron’s hands—usually a poor performing asset, usually at the end of a quarter—and then sell it back to the company at a profit once the quarter was over and the ‘earnings’ had been booked.” Such transactions were basically smoke and mirrors, reflecting a relationship between LJM2 and the banks wherein “Enron could practically pluck earnings out of thin air.”

VII. Epilogue

The Enron Code of Ethics and its foundational values of respect, integrity, communication, and excellence obviously did little to help create an ethical environment at the company.
The full extent and explanation of Enron’s ethical collapse is yet to be determined as legal proceedings continue. Fourteen other Enron employees—many high level—have pled guilty to various charges; 12 of these are awaiting sentencing, while the other two, one of whom is Andrew Fastow’s spouse, have received prison sentences of at least one year. Juries have convicted five individuals of fraud, as well as Arthur Andersen, the accounting firm hired by Enron that shared responsibility for the company’s fraudulent accounting statements. Three of the convicted individuals were Merrill Lynch employees involved in the Nigerian barge deal with Fastow. Ken Lay and Jeff Skilling, along with Richard Causey, Enron’s former chief accounting officer, are awaiting trial. Lay faces 11 criminal counts, Skilling faces 35 criminal counts, and Causey faces 31 criminal counts. Five executives from Enron’s broadband division are also awaiting trial. Three bank executives from Britain who had been involved in a complicated series of deals in a Fastow partnership are fighting extradition. In addition, there are 114 unindicted co-conspirators in the federal government’s case against Lay and Skilling.

VIII. WAYS TO DEVELOP TODAY’S YOUTH INTO HUMAN BUSINESS LEADERS

When we are talking about the ways on developing the youths into a successful human business leaders, we may say that one should have high education as one of the aspect. This is where most of people went wrong. For an example, Jeffrey Syiling (former president of Enron Corporation) obtained his Masters in Business Administration from Havard Business School. Does that education prevents him from being involved in the corruption? Absolutely the answer will be a NO.

Therefore, a change should be initiated from the inner heart itself to prevent someone from being involved in this kind of fraud. President Barack Obama has once said that, “Change will not come if we wait for some other person or some other time. We are the ones we have been waiting for. We are the change that we seek”. Therefore, the main factor in developing today’s youth into successful business leaders definitely would be developing the self-esteem or in other words, it can be said as “transcendent being is the vision”.

We may recognize our own human spirits by our capacity to step outside of ourselves and look back. Usually our consciousness is focused on specific contents: the projects we happen to be working on at the moment, the room we are in, the people who share it with us, our internal fantasies and worries, listening to what someone else is saying, watching television, or reading this cyber-sermon.

Such is the stuff of consciousness. In every waking moment we are conscious of something. And even when we are semi-conscious in dreaming, specific scenes still play on the screen of our minds. But once in a while, consciousness itself comes to our attention. In such moments we become aware of ourselves, we notice that we exist.

Does a cow ever notice that it exists? Or is its ‘consciousness’ entirely occupied
by what is sees and feels? A moment of self-transcendence takes place when we not only notice the beautiful sky and clouds, but in addition we notice that we notice. We discover that we are present in the magnificent scene. Such 'moments of vision' or transcendence might occur spontaneously, without any expectation or preparation on our part. Any element of nature—dramatic or simple—might cause self-transcendence.

Or we human beings might create our own 'moments of vision'. For instance, art might be an attempt to facilitate self-transcendence. Something significant has happened to the artist; and he or she wants to stimulate similar experiences in others. The artist invites others to step outside of themselves for a moment. History is cluttered with triviality, but occasionally something calls us out of ourselves. Such historically-induced moments of self-transcendence might be caused either by important public events (Many who were alive in 1963 remember just where they were when President John F. Kennedy was shot.) or by intensely personal and private happenings (Sex can become a moment of self-transcendence).

As we develop spiritually, we can create 'moments of vision'. We learn how to open the doors of our being: We can decide to look deeply into ourselves. We might actually spend considerable time looking inward. Such exploration might be either constructive or destructive, depending on the basic condition of our spirits. As a result of our capacity to step outside of ourselves, we can evaluate our selves, look back self-critically. When we step back for a better view, we notice qualities we like and qualities we dislike. We can examine our traits as persons much as we would examine the character of another person, except that we have the tremendous advantage of direct access to our own thoughts and feelings, whereas we know the thoughts and feelings of others only indirectly thru what they say and do.

"Self-consciousness" is a related capacity of our spirits. Usually when we say that we are "self-conscious", it means we worry too much about what other people think of us. We might be aware of some genuine faults in ourselves, or we might be exaggerating our 'faults' far out of proportion, even becoming incapacitated by imagining other people's critical eyes.

But this spiritual capacity for self-criticism also empowers us to appreciate good dimensions of our beings—for instance our creativity and our power to make free choices. When we notice these powers within, we might resolve to enhance these spiritual capacities. And even if we get sidetracked from spirit by other concerns, new spontaneous moments of self-transcendence might occur, reminding us of spiritual depths temporarily lost in the daily rush.

More often we associate the notion of "self-criticism" with the discovery of faults we would like to correct. But as flawed as we might be, we have one thing to our credit—that we have enough spirit to notice our faults. If we were completely spiritless, we would never notice our defects. Self-criticism
can uncover failings we didn't notice before. And eventually our self-critical capacity might empower us to change.

The most important moments of transition in our lives were probably shaped by this capacity of spirit—self-criticism. We looked deeply at our current lives. We found something profoundly wrong or off-center about what we were doing. Sometimes without any significant pressures from outside of ourselves, we just decided a different course for our lives: Self-transcendence empowered us to step beyond our daily concerns. Self-criticism enabled us to see some basic miss-direction of our lives. And our freedom allowed us to begin our lives over again.

In becoming a successful human leader, youth should develop ethical leadership. One of the most famous of not having an ethical leadership is in the company Enron Corporation. The chairman of Enron may have either Master's degree or Ph.D but this higher education skills does not mean that you have enough ethical leadership. Basically, what is meant by ethical leadership.

Traditionally, the view of leadership has been that the main goal of leaders is to increase production and profits. The traditional view of leadership is slowly diminishing, as more theorists in the 21st century are asserting that leaders also have the responsibility for ensuring standards of moral and ethical conduct. Good leadership refers not only to competence, but to ethics and transforming people as well.

All leadership is responsible for influencing followers to perform an action, complete a task, or behave in a specific manner. Effective leaders influence process, stimulate change in subordinate's attitudes and values, augment followers' self-efficacy beliefs, and foster the internalization of the leaders' vision by utilizing strategies of empowerment. It is believed that the nurturing aspect of leaders can raise organizational cultures and employee values to high levels of ethical concern. Ethical leadership requires ethical leaders. If leaders are ethical, they can ensure that ethical practices are carried out throughout the organization.

Ethical leadership is leadership that is involved in leading in a manner that respects the rights and dignity of others. “As leaders are by nature in a position of social power, ethical leadership focuses on how leaders use their social power in the decisions they make, actions they engage in and ways they influence others”. Leaders who are ethical demonstrate a level of integrity that is important for stimulating a sense of leader trustworthiness, which is important for followers to accept the vision of the leader. These are critical and direct components to leading ethically. The character and integrity of the leader provide the basis for personal characteristics that direct a leader’s ethical beliefs, values, and decisions. Individual values and beliefs impact the ethical decisions of leaders.

Leaders who are ethical are people-oriented, and also aware of how their decisions impact others, and use their social power to serve the greater good instead of self-serving interests. In
ethical leadership it is important for the leader to consider how his or her decisions impact others. Motivating followers to put the needs or interests of the group ahead of their own is another quality of ethical leaders. Motivating involves engaging others in an intellectual and emotional commitment between leaders and followers that makes both parties equally responsible in the pursuit of a common goal. These characteristics of ethical leaders are similar to inspirational motivation, which is a style component of transformational leadership. Inspirational motivation “involves inspiring others to work towards the leader’s vision for the group and to be committed to the group”. Similarly, ethical leadership “falls within the nexus of inspiring, stimulating, and visionary leader behaviors that make up transformational and charismatic leadership”. Ethical leaders assist followers in gaining a sense of personal competence that allows them to be self-sufficient by encouraging and empowering them.

In organizational communication, ethics in leadership are very important. Business leaders must make decisions that will not only benefit them, but also they must think about how the other people will be affected (Stansbury 33). The best leaders make known their values and their ethics and preach them in their leadership style and actions. It consists of communicating complete and accurate information, where there is a personal, professional, ethical, or legal obligation to do so (McQueeney 165). When practicing ethics, you gain the respect and admiration of employees, with the satisfaction of knowing you did the right thing. If you never make clear what you want, and expect, then it can cause mistrust.

Being unethical in the workplace can include anything from taking personal phone calls while at your desk, telling someone the "check is in the mail", when in fact it hasn’t even been written yet, and even taking office supplies home for your personal use. Most organizations create an ethical code, which is usually a list of rules that tells you what behaviors are right and what are wrong in the company.

Moreover, corruption is seen as one of the worst factor that could flop down a business. Corruption is the abuse of entrusted power for private gain. It is damaging to a country because decisions are taken not for the public benefit but to serve private interests. Corruption undermines good governance, fundamentally distorts public policy, leads to misallocation of resources, and particularly hurts the poor. Controlling it is only possible with the cooperation of a wide range of stakeholders in the integrity system, including most importantly, the state, civil society, and the private sector.

In Malaysia, the prevalence of corruption has been acknowledged by the Government and various steps have been taken to prevent and eradicate it. Anti-corruption legislation has been enacted, an Anti-Corruption Agency established and other administrative mechanisms like the Public Complaints Bureau set up. Despite these measures however the incidence of corruption has escalated. The spread of corruption, incompetence, malpractices, abuse of
power, fraud and other unethical behaviour as well as the lack of work motivation, have been attributed to the decline in integrity among individuals, organizations and society at large.

When Dato’ Seri Abdullah Ahmad Badawi became Prime Minister on 31 October 2003, he pledged to eradicate corruption and promote good governance and ethical values. Since assuming office, the Prime Minister has launched the National Integrity Plan and the Integrity Institute of Malaysia as new measures to combat corruption.

These measures appear to be the right choice according to the following quotation:

“Integrity is one of several paths; it distinguishes itself from the others because it is the right path, and the only one upon which you will never get lost.”

M. H. McKee

It must be acknowledged that dishonest officials always manage to find loopholes in the best systems. Bribes may be organized in such a way that the procedures fixed by law are circumvented. The bottom line therefore is the integrity of the individual. Each and every person must exhibit absolute integrity in the exercise of his functions. Even when he has the opportunity to take a bribe, whether one that is offered or one which he can ask for easily, he should be so motivated that he will refuse to do so.

Likewise, those who are asked to pay bribes or consider offering them in order to avoid an inconvenience like a traffic summons or to obtain a benefit like a procurement contract, should be similarly motivated to refuse to pay and to act with integrity at all times even if the inability to secure a contract may mean that his small business will not prosper. To achieve this, awareness-raising of the consequences of corruption to the nation, religious education as to the sin involved and general character building is required. In other words, integrity has to be inculcated in everyone. People with integrity can be counted on to do the right thing at all times.

The National Integrity Plan [NIP] emphasizes the preventive approach to combating corruption by inculcating in individuals and Malaysian society as a whole, the values of honesty, integrity and ethics. The NIP has the overall objective of establishing “a fully moral and ethical society whose citizens are strong in religious and spiritual values and imbued with the highest ethical standards.”

The NIP will be implemented in five-year stages beginning with 2004 - 2008, named Target 2008. This first phase of the plan, has five priority targets:

- Effectively reduce corruption, malpractices and abuses of power;
- Increase efficiency in the public service delivery system and overcome bureaucratic red tape;
- Enhance corporate governance and business ethics;
- Strengthen family institution;
- Improve the quality of life and people’s well-being.

IX. Conclusion
Youth should realize that having a doctoral degree doesn't promise them to be a successful leader in future. A successful leader is not judged primarily by his achievement and success in business but how he communicates, how is the leadership, the self-confidence, and able to survive strongly during hard times. Therefore, youth should be diligence, self-esteem, solitude, strong communication skills, and enthusiasm. Having all these skills will develop youth to be not only a successful business leader, but a human leader itself.

References


