

**The shadow in the balance sheet:
The spectre of Enron and how accountants use the past as a
psychological defence against the future**

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Abstract

Accounting frameworks play a crucial role in enabling us to make sense of business. These frameworks provide a common language for individuals, organizations and broader economic groupings to understand and make decisions about the commercial realm in which they operate. From a psychodynamic perspective, the language of accounting also plays an important role. On the one hand it offers a way to tame the uncertainty and unknowability of the future by representing it in the same comforting terms as it does the past, thus reducing anxiety. Accounting provides a 'shorthand', which achieves a balance between positive and negative, debit and credit, asset and liability. On the other hand, accounting can also provide an arena in which fantasies about the future can be staged. However, the use of accounting language is problematic, particularly when it comes to dealing with the future. First, accounting frameworks are inherently backward looking and second, the reassuring sense of clarity and predictability they give are bought at the price of unrealistic simplification. The shadow is never far away and is a constant source of surprises in the unfolding future of a business. Rationalizing and sanitizing the shadow through accounting language may alleviate anxiety but fails to provide an escape from its effects, and echoes from the shadow side of business are capable of shaking the world in the form of accounting scandals. Governments and businesses have reacted to scandals such as Enron and Worldcom by tightening legislation and refining accounting standards but little, if anything, has been done to bring us any closer to confronting the shadow of business where these scandals have their roots.

This paper explores the ways in which accounting frameworks provide a source of psychological defence against the future. In particular, it will look at how accounting for 'intangibles' serves to symbolically contain both the fearful and the fantastic side of the future thus meeting the psychological needs of a number of key stakeholder groups. As such, intangibles form a representation of the shadow of the future, albeit an ambiguous one. The ideas developed in the paper are explored by considering the case of Enron.

The paper shows how the gap between a psychoanalytic and an accounting view of business might be bridged. The themes of the paper provide a vehicle for demonstrating how psychoanalytic principles can contribute to the understanding of business, in particular those risks which, if unmanaged, can lead to the obliteration of huge corporations.

Keywords: Shadow, Accounting, Intangibles, Systems Psychodynamics, Defence Mechanism

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Introduction

Achieving a coherent reconciliation between the past, present and future is arguably one of the most critical challenges facing an organization's leadership. Stakeholders in the business, members of the organization, analysts and other interested observers look to the Chief Executive and board members to account for the past, make decisions about the future and pilot the business on its journey between the two. Accounting systems play a fundamental role in planning, charting and documenting this journey. The language of accounting reduces past and future business events to equivalent terms, linking them seamlessly and giving a sense of continuity. It is seen to provide a means of 'regularising organizational functioning across time and space' (Baxter and Chua, 2003, p.101). Beyond that, it offers the enticing possibility of playing with time. Alternative accounting treatments can provide alternative accounts of the past. They can also be used to generate an infinite range of future scenarios. In fact, it is not possible to describe the past in accounting terms without anticipating and imagining the future (McSweeney, 2000). Perhaps most appealing is the way accounting can be used to freeze the present and enrich it with desired future outcomes through the creation of intangible assets. Intangible assets have no physical substance and cannot easily be converted into cash in the present but are deemed to be capable of producing value in the future. The aim of this paper is to explore some of the psychoanalytic aspects of accounting representations, with particular focus on 'intangibles' and their potential for sanitising or fantasising the shadow of the future. Intangibles include factors such as the value of a brand (the name Heinz is apparently worth more than the factories the company owns), Intellectual Property (for example a drugs firm might have a number of unrealised patents and inventions) and goodwill (for instance a corner shop might have a large number of satisfied customers). The following discussion will argue that intangibles serve a powerful organisational purpose, which goes well beyond their 'official' accounting function. Viewed from a systems psychodynamic perspective, they can, on the one hand, present the future in safe, rational terms as a means of defence against anxiety. On the other hand they provide a screen in the balance sheet onto which future fantasies can be projected and played out. All of this is achieved in a way which connotes rationality and competence on the part of management.

The paper begins by considering some of the problems businesses face when making sense of, and accounting for the future. As the commercial landscape becomes increasingly complex, the future becomes less predictable and accounting for business performance in terms of 'tangible' accounting measures is more difficult. Against this backdrop, intangibles have emerged as means of accounting for the value latent within a

business to reflect the future success it will bring. The discussion then moves to the unconscious currents which run through businesses. Here, it is suggested that the shadow of the future has two faces. On the one hand, the future is something to be feared. Growing complexity makes it harder and harder for management to make sense of the commercial environment in which they operate. Whilst presenting themselves as rational experts, able to discern relationships and make decisions which will boost shareholder value in the future, on an unconscious level they are constantly seeking defence against the anxiety provoked by the chaos and complexity which the future holds. On the other hand, the future is a realm of fantasy, where anything is possible and an idealized form of the organization can be created. Accounting frameworks offer the means of dealing with both of these faces of the future, as their shadow is cast in the present. The use of accounting means that past, present and future business events can be presented in an orderly, systematic fashion. Here, the balance sheet provides a safe refuge against complexity and uncertainty and serves to reinforce a sense of predictability and controllability. Accounting for the intangible is particularly appealing as it offers to bridge the gap between the certainty of the present and the chaos of the future. Intangibles are also key when it comes to dealing with the fantastic future. Here, they provide a means of accounting for, and thereby rationalizing, hubristic and narcissistic decisions. It is argued then that accounting representations serve to contain both fears and hopes about the future and, as such become a shadow of the future to come.

In this paper we explore the role of accounting practices from a systems psychodynamic perspective: that is to say, we focus attention on the role of unconscious processes in the organisation, particularly those that collectively drive people (Neumann and Hirschhorn, 1999). We are particularly interested in emotion in organisations—not intelligence or individual awareness of emotion, but the role of emotions in the broader system- their meaning; what they have to say about the organisation as a system in context (Armstrong, 2000). In order to explore these dynamics in relation to accounting practices, we have chosen Enron as a case to explore the application of these ideas. It is well known with much material in the public domain, but has largely been explored in terms of the personalities of key players (e.g. Lay, Skilling, Fastow) and the ethics and legality of decisions. In using Enron in this paper we are not seeking to provide an alternative/ better explanation—it may well be that these individuals had personal motivations or personalities that were significant in determining Enron's decisions. We do suggest however, that some aspects of Enron's downfall can be explored from the perspective of collective and unconscious emotion and emotionality, specifically that accounting practice can provide an importance social defence and influence how executives take up their roles in the organisation. There are many interesting aspects of Enron that are not explored in this paper; we are limiting our analysis to those that we think central to the concepts in this paper.

These ideas about the future and the shadow it casts in a company's balance sheet are illustrated through reference to the events leading up to the collapse of Enron. There are several aspects of the Enron case, which make it interesting within the context of the current discussion. Of particular relevance is that fact that Enron was overtly pursuing what was referred to as an 'asset light' policy, where increasing emphasis was placed on

the importance of intangible assets. Another key aspect is the central role played by accountants, both inside and outside the organization. Accountants in Enron's Global Finance Department and its auditors, Arthur Andersen helped to create and legitimise the complex financial structures which made Enron look so successful. Furthermore, it was towards the accountants that much of the blame was directed in the aftermath of the scandal. The fact that Enron is perhaps 'the most intensively dissected company in the history of American business' (McLean and Elkind, 2003, p. vii) means that there is a large body of data relating to the case against which the ideas set out in this paper can be tested.

It will be argued that, for Enron and its senior management, the fearful and the fantastic faces of the future both provoked extreme responses. The ferociously competitive environment in which Enron operated, the overwhelming complexity of the markets it was attempting to develop and the lightening speed with which analysts reacted to its performance compounded feelings of uncertainty and anxiety about the future. The abundance of high intellect employees, the seemingly limitless possibilities for establishing new markets, all under the management of narcissistic leaders combined to exaggerate the possibilities of a fantastic future, which for a long time, employees and investors were more than happy to believe. The story of Enron's growth and success was predicated on mastery of the future and Enron relied on its accountants to frame that future in accounting terms. Looking at the financial statements produced by Enron's accountants, the shadow of its future to come is clearly discernable. Though due to the ambiguity of the language of accountancy, coupled with both individual and group mechanisms, strangely (or perhaps not) it seems that it was not discernable at the time. If 'Words and articulate speech are wonderful inventions [yet] still in their infancy' (Bion; 1979, p128) then the language of accountancy is a far more recent invention, and thus even less developed. The fantastic future, with its promise of greater success to come, is encapsulated by the large proportion of total value which existed in the form of intangible assets. This reached a peak in August 2000, approximately half of Enron's \$70 billion market valuation, related to parts of its business for which great things were promised for the future but which had not yet generated any earnings at all. Within the context of the current discussion, it could be argued that by August 23rd, 2000, when Enron's share price reached its all time high of \$90, the market was valuing the shadow of its future at \$35 billion. However, the fact that so much of Enron's value had no physical foundation, and was built more on hubris and hope than tangible assets, meant that its value was able to evaporate almost instantly. For Enron, this was the future which came to be. Hence, the shadow of the fearful future (which, for Enron's employees and investors, has now become part of its tragic past) is also discernable in its balance sheet.

The references to the Enron case made below are not intended to imply that a psychodynamic interpretation of intangibles provides a definitive explanation of corporate catastrophe. The aim is merely to illustrate how purportedly rational and objective accounting representations lend themselves to more cryptic interpretations. Thus accounting representations can actually be seen not only to represent economic events and relationships but also as representing the shadow of the future.

Making sense of the future

Making sense of and attempting to manage the future is a primary challenge for any business. The process of defining strategy, making decisions and pursuing a vision for the business is predicated on a meaningful appreciation of the future. To understand and manage risk it is necessary to view what is known in the present in terms of its future implications. Indeed, it could be argued that the ontological basis for successful business planning and management is rooted in a view of the business which unites past present and future.

The task of reflecting the past, present and future of business falls to accountants, through the operation of financial reporting systems. Accounting systems present the past, present and future in a consistent way, united as part of a narrative whole (Carr, 1986). Financial statements and management accounts show what has gone before and business plans and budgets indicate what is to come and both time periods are expressed in equivalent terms. Any given moment, past, present or future can be frozen and expressed in terms of assets and liabilities in a balance sheet. McSweeney (2000) suggests that financial reporting straddles time by presenting a view of what Augustine (discussed in Ricouer, 1984) described as the 'triple present' (the present of the past, the present of the present, the present of the future). Perhaps it is this mastery of time which helps contribute to what Mattesich (1968) described as 'the authoritative character' of accounting (p. 414). In any event, the claims of objectivity and impartiality which are made for accounting make it an ideal framework upon which to build a 'rational' view of the world. Arguments and explanations framed in accounting terms imply rationality and serve to underpin the idea that the world is predictable and manageable. It is not surprising then, that accounting is seen as the language of business and that accountants have risen to senior positions within many organizations (Armstrong, 1985, 1987).

The portrayal of business reality as financial reality, through the use of accounting, is therefore an attractive option, as it enables the future to be presented with a similar degree of order and certainty as the past. Moreover, the neat symbolism of accounting representations connotes rationality, expertise and understanding. Accounting language provides a means of managing complexity and demonstrating control serving to legitimise the power and rewards which business leaders enjoy. However, the dominance of accounting as a means of representing reality is conditional on its ability to adapt as that reality changes. The essence of risk management is managing the gap between the present and the future – the greater the gap the greater the risk. Although accounting is able symbolically to stand outside the spatio-temporal continuum, the fact remains that it is rooted in the past yet has to make sense of the future. At a time when economic growth is increasingly characterised by constant innovation, the rapid development and implementation of new technologies, the effective management and communication of information, and the establishment of more flexible and sophisticated organizational structures, the future is less and less like the past. Factors such as globalization, increased complexity and shifting economic and political structures are all powerful influences which are fundamentally changing the environments in which businesses operate

(Johanson, Marytensson and Skoog, 2001). Against this backdrop of profound change, traditional accounting descriptions of ‘tangible’ assets are not nearly as significant as they were. Instead, the primary drivers of business growth are now seen as being ‘intangible’ (Lev and Zambon, 2003).

Accounting and Intangibles

As described above, the need to account for intangibles has grown as accountants have sought ways to reflect the capacity of business to generate value in the future. Faced with an increasingly complex reality and an ever changing future, pressure has mounted for accountants to make sense of the correspondingly complex process of value creation. As Fincham and Roslender (2003) say:

“...attempts to devise new ways of making ‘hidden value’ visible have met with a growing awareness that the dynamics of value creation are not adequately represented”
(p. 782).

Intangible assets are assets which, in contrast to tangible or ‘hard’ assets such as buildings or equipment, have no physical substance. The value of intangible assets lies in their ability to generate value in the medium to long term future. The costs of certain intangible assets, such as licences, patents, franchises and trademarks can be clearly separately identified and the process by which they will generate value is relatively clear and predictable. Accounting principles permit companies to reflect the value of these intangibles assets in their balance sheet. Intangible assets also include ‘goodwill’ which relates to the idea that a business has a further value above and beyond the book value of all of its assets taken together. Goodwill is a general term which relates to the value of all the elements which give a business its competitive advantage and enable it to achieve greater profits than other similar firms. A key component of goodwill is intellectual capital. This refers to the intelligence and management ability of its people and the way in which these qualities can be harnessed to achieve competitive advantage. The goodwill of a company cannot be identified and valued separately from its other assets and companies are not permitted to include the value of their own goodwill within their financial statements. However, when one company acquires another and pays a premium over and above the fair market value of its assets, this is described as ‘purchased goodwill’ and they are permitted to then include this in their financial statements.

The brief description above sets out the official, value-reflective, purpose of intangibles. Before considering the unconscious aspects of intangibles and their link to the future, it is worth highlighting two differences between intangible assets and other categories of asset. Firstly, whereas accounting measures usually take a pessimistic view of value, and emphasise the basic accounting principle of prudence, the accounting treatment of intangibles takes an implicitly optimistic view – particularly of an organization’s leadership team. As discussed above, a core element of intangible assets is the notion of intellectual capital, a category which aims to somehow reflect the future value arising from the intellectual capability latent within the organization. This is linked to the upbeat

management philosophy encapsulated in the oft quoted phrase ‘people are our greatest asset’. However, evidence for the value generative capacity of ‘human assets’ is, at best, mixed. In fact, when accounting scandals and catastrophic company collapses are analysed their causes can often be traced to flawed actions and decisions on the part of senior management. In such cases people could accurately be described as the organization’s greatest liability, yet accounting provides no equivalent means of reflecting intellectual liabilities where the organization’s leadership is incompetent or self-serving. By failing to provide a means of reflecting the value destructive potential of leadership, it could be argued that accounting is giving an unrealistically rosy view. This gives rise to a further difference between the accounting treatment of intangibles and the treatment of other assets. For tangible assets, the amount shown in the balance sheet represents the total of many smaller amounts so tangible assets can be separated and broken down. Intangible assets however, cannot be broken down in the same way. Goodwill, for example, may represent billions of dollars of value but cannot be broken or further analysed. This difference between intangible assets, which cannot be broken down, and tangible assets, which can, brings to mind Douglas’s (1987) description (cited in Brown 1997, p.656) of the way institutions “create shadowed places in which nothing can be seen and no questions asked” and “other areas show finely discriminated detail” (p.69).

Attaching large blocks of value to intangible assets means that if the future fails to unfold as envisaged and the organization does not unleash to value embedded within its intangible assets then, large amounts of value can be lost very suddenly. Moreover, tangible categories of assets usually have some recovery value, even if the company is liquidated, the value of intangible assets is much more contingent upon the materialisation of a particular future scenario. If the assumptions upon which this scenario is predicated prove inaccurate or if unforeseen events come to pass, then large blocks of value can evaporate in an instant with far reaching and destabilizing consequences. Some of the most significant adjustments to companies’ financial statements are linked to the revaluation of writing off of intangible assets.

Intangibles and the unconscious

The unpredictable, ambiguous and essentially chaotic nature of the future is an ever present source of anxiety. Even during times of relative stability, the future is a threatening place, which we move towards at a pace beyond our control, where there are no certainties apart from the fearful prospect of death (Becker, 1973). However, Nowotny, Scott and Gibbons (2001) point out that our perspective on the future has shifted in recent decades from a long perspective (including our hopes for the afterlife) to a much shorter horizon. Actions, choices and decisions are positioned on a temporal axis that links the present to the future and the future is linked to the present by an imaginary time-space filled by a potential presumed to be open and responsive to human action, desires and fears. What has changed is that ‘the future has been dramatically foreshortened and is now experienced as an extended present.....the conviction that the future can be shaped, provided it is imagined and anticipated correctly.....has grown

much more powerful'. This argument is a comment on society at large; it indicates an extensively held belief that the future can be choreographed. On the other hand anxiety about the future is compounded as the pace and scope of change increases and the emerging future is less and less like the past we know and increasingly difficult to predict. Economic, social and organizational changes make it difficult for executives to extrapolate from past experience into the future. The importance of 'vision' and 'strategic capability' has increased currency as if executives can manage future uncertainties. The related increase in the importance of intangibles as a means of accounting for reality therefore take on an added significance when considered from a psychodynamic perspective.

For business leaders, anxiety related to future uncertainty is especially pronounced as their 'success' is directly linked to their ability to anticipate and evaluate the future. As business performance is widely reported, any failure will be highly visible and painful, leaving the self more vulnerable. Failure to accurately gauge the future can lead to losses on a commercial and psychological level and, as Schott (1999) says: "loss is the most disorganising event to the sense of self" (p.66). For business leaders then, understanding and mastering the future becomes an important element in the wider challenge of preserving self-esteem (Brown, 1997, Erez and Earley, 1993). Here, intangibles can be seen as offering a convenient mechanism for denying the mystery of how they will create value in the future. By emphasising the value of intellectual capital, leaders can create a putative model of value generation through harnessing the intellectual capacity of their people without having to elaborate how this will be achieved. This also facilitates a process of attributional egotism. Intangible assets do not have to be broken down in the same detail as tangible assets and the casual chain through which they create value is not specified. This makes them ripe for the application of post hoc explanations for success, even if, in reality this is the result of events outside the control of the organization such as luck or errors on the part of competitors.

However, as well as being threatening, the future may also emerge as being better than the past, and changes in the market and technology may enable success on a previously unimagined scale. From this perspective, the future is a realm where anything is possible and an idealized version of the business can be enacted. Here, intangibles can become significant instruments of self-aggrandizement, which can support the pursuit of narcissistic behaviour (Brown, 1997, Kets de Vries and Miller, 1985). The flexible, subjective nature of intangibles and the ease which they can be manipulated and multiplied also makes them ideal as a means of supporting fantasies of power and control (Gabriel, 1991, Lasch, 1978). Here, financial statements, despite their claim to be prudent, objective reflections of reality, become the script from which organizational fantasies are read. The case of goodwill is particularly relevant in connection with narcissistic behaviour in the context of mergers and acquisitions. As described above, goodwill is calculated as the difference between the price paid for a company and the value of its underlying assets. The computation of goodwill is a purely numerical exercise. It does not distinguish between overpayments which are the result of the sophisticated and accurate appreciation of future synergies and those which are the result of unrealistic, hubristic or overoptimistic decisions. Here, flawed decisions which could,

and should, be challenged are given added legitimacy by expressing them in accounting terms.

The possibility of accounting for intangibles can also be seen to serve certain unconscious needs of the accountants themselves. As described above, the principles of accounting for intangibles have been developed in response to the demands placed on accountants to represent business reality. Whilst business leaders' sense of self is contingent upon their ability to understand and manage the future, for accountants, the preservation of self-esteem depends on their capacity to provide plausible representations of reality, even if that reality is changing. The rewards for this are considerable. As mentioned above, accountants are allowed to occupy many senior positions within organizations. Schwartz (1990) ascribes the superior status enjoyed by accountants to their capacity to feed narcissistic tendencies through the provision of corroborative financial analysis:

“I suggest that the financial worldview can be understood as a kind of latter-day Pythagoreanism in which the world is seen as mere instantiation of number, and as imposing no bounds on the imagination's flights. Everything seems possible as long as the numbers can be made to work, and the one who can make them work can take this as a sign of omnipotence” (p.65).

For accountants, the development of more sophisticated techniques, such as intangibles, can be seen as a step to preserve their dominant, omnipotent status. To fail here would mean a loss of identity, legitimacy and self-esteem. As Fincham and Roslender (2003) point out:

“The spectre of existing methods persistently failing managers in the modern corporation has long haunted accountancy” (p. 789).

Accounting for intangibles can therefore be seen as the most recent round in a high stakes game in which business leaders and accountants are mutually dependent. If accountants succeed in providing frameworks which support the impression that business leaders are in control of the future they are rewarded with high status but if they fail they run the risk of losing their identity and of being dismissed as being irrelevant. As Lev and Zambon (2003) state:

“...themes of relevance and irrelevance find more generalized expression in notions of success and failure and the attendant emotions of security and fear” (p. 790).

The psychodynamic interdependency of business leaders and accountants in preserving one another's status and identity can also be seen to feed the needs of a much wider stakeholder group – the investment community. For this group, business leaders and accountants assume heroic status, having gained mastery over the complexities of business and tamed the shadow of the future. As Mattesich (1968) suggested:

“...the effectiveness of accounting lies not in the preciseness of information to management for maximizing profit or any other entrepreneurial goal, but in its authoritative character.” (p. 414).

The foregoing discussion has shown how the official purpose met by the accounting treatment of intangibles is matched by a more subtle purpose; from a psychodynamic perspective we suggest that it serves to contain anxiety about the future. The intangibles on the balance sheet both ‘sanitize the future’ by providing an optimistic view of organisation assets and avoid the acknowledgement of organisational liabilities (such as the behaviours of key executives) and simultaneously ‘fantasize the future’ by providing a screen onto which any positive future scenario can be projected. During a time of rapid social, economic and technological change intangibles serve as means of reflecting a more complex chain of value creation. The increasing proportion of total value accounted for by intangibles reflects the idea that the business’s capacity to create value in the future is increasingly attributable to its ability to draw on strengths and abilities which cannot be broken down into traditional, more ‘tangible’ assets. On an unconscious level, intangibles offer the means of symbolically containing the shadow of the future. They create a comforting link between the future and the past, making the complexity manageable, yet providing a canvass on which idealized future scenarios can be presented. Both aspects of intangibles are, however, problematic.

It can be argued then, that accounting for the intangible aspects of business addresses needs arising from both the threatening and the fantastic aspects of the future. On the one hand, they represent a symbolic victory in the battle to manage, control and predict by collapsing the complexity and unpredictability of the future into the present. Alternatively, they can facilitate and sustain the generation of narcissistic fantasies. It could be argued therefore that, for organizations where the fearful aspect of the future (due to significant complexity, change and competition) and the fantastic aspect of the future (an organization faced with many new possibilities and a narcissistic leadership team) one might expect a greater emphasis on accounting representations of reality, and on intangibles in particular. These hypotheses are tested below using the Enron case study.

The case of Enron

The story of Enron took place against a backdrop of profound change for all businesses. During the 1990s, the unfolding future was less and less like the past. Both the fearful and the fantastic faces of the future became a preoccupation for many business leaders. The world of business at this time has been described as being ‘hypercompetitive’. Wall Street became preoccupied with the internet and the ‘new economy’. Analysts scrutinized companies’ performance as never before and market reactions became as fast as electric impulses (Fox, 2002). All businesses then, were confronted with an increasingly complex and competitive market place where the challenge of beating analysts’ expectations was harder than ever. Long (2002) has suggested that by the late 20th century a ‘perverse’ culture had emerged through the mass operation of narcissism,

greed and consumerism. Long suggests that the Enron case epitomises the wider culture of ‘perversion’ in which it was operating.

The markets in which Enron was operating were perhaps more complex than most. Indeed, the trend for deregulation in energy markets meant that many of these markets had not previously existed and the future was very much up for grabs.

For Enron then, the future was both complex and unpredictable. The pressure to succeed was compounded as every decision and business result was subject to scrutiny from Wall Street. Enron’s future was also exciting - brimming with possibilities for developing and exploiting new markets.

In exploring the systems psychodynamics that might be operating during the rise and fall of Enron, their relationship to the future and the role played by accounting representations, it is useful to separate out the various stakeholder groups who affected and were affected by the case. The discussion below therefore considers actions and reactions of the following groups: Enron’s senior management, Enron’s accountants, Enron’s employees, and the stock market and its analysts and how the unconscious emotions in the organisation system might have influenced how they took up their roles.

Enron’s senior management

Of all the groups implicated in Enron’s collapse, it is probably the company’s management which has attracted the most attention and the most blame. The three key individuals were: Kenneth Lay, Enron’s former Chairman and Chief Executive, who created Enron out of Houston Natural Gas in the mid 1980s and remained its figurehead until it collapsed in 2002; Jeffrey Skilling, the ex McKinsey partner who masterminded Enron’s strategy and rose to the position of Chief Executive Officer between February and August 2001, when he left the firm; and Andrew Fastow, Enron’s Chief Financial Officer, who led the Global Finance Group and created the financial structures upon which its success (as reported) was based.

In looking at Enron’s orientation to the future and the significance of intangibles, Jeffrey Skilling is perhaps the most significant of the three. Skilling joined Enron in 1990 as Chief Executive Officer of Enron Gas Services. In his previous role as a partner at McKinsey, Skilling had acted as the firm’s main strategy consultant. From the outset, Skilling emphasised the importance of Enron following what he referred to as an ‘asset-light policy’. This was based on a belief that the real source of future value was intellectual capital as embodied by a company’s people and their ideas, rather than hard assets such as buildings and machines, which tied up cash and weighed down the balance sheet (Fusaro and Miller, 2002). At an oil and gas symposium, sponsored by Arthur Andersen in 1996, Skilling expounded his vision of future value creation:

“... we don’t know what the products and services are going to look like five to 10 years from now, so you will have to have people creatively designing those. I think their competitive advantage won’t be based on assets any longer. It won’t be based on pipes

and wires and generating facilities: it will be based on intellectual capital". (Fox, 2003, p.75-76).

Four years later, when Skilling had been able to implement his strategy and Enron's value was at its peak, Enron's management were still emphasising the significance of intellectual property. The following quote is taken from a letter sent to Enron's shareholders, together with the 2000 annual report:

"We are participating in a new economy and the rules have changed dramatically. What you own is not as important as what you know. Hard-wired businesses, such as energy and communications have turned into knowledge-based industries that place a premium on creativity. Enron has always been and always will be the consummate innovator because of our extraordinary people. It is our intellectual capital – not only our physical assets – that makes us Enron. Move our assets to another company, and the results would be markedly different" (quoted in Fusaro and Miller, 2002, p.69).

Drawing on the account of Sherron Watkins, who was Enron's head of corporate development, Swartz (2003) suggests that Skilling's strategy was driven by two preoccupations:

"..to discover the next thing that would dramatically enhance the company's numbers and get rid of anything or anyone he believed was a drag on the balance sheet" (p.112).

It is therefore clear, that for the architect of Enron's strategy, Jeffrey Skilling, intangibles were seen to be significantly more important for Enron's current and future success than traditional, 'hard' assets. However, as discussed above, companies are not permitted to simply book intellectual capital in their balance sheets. What they can do, however, is argue that having access to the intellectual capital of its people means that it is justified in paying a premium to acquire other companies. The argument here is that the assets of the acquired company are worth more when harnessed to the superior skills of the acquirer. As mentioned above, the overpayment is reflected in the acquirer's balance sheet as 'goodwill'. In understanding the amount one company is prepared to pay for another, it can therefore be argued that the greater the premium or overpayment, the higher the value the acquirer is placing on its own intellectual capital.

As Enron grew, it continued to acquire other companies, often paying significant premiums above their market value. Amongst others, Fox (2003) mentions the following examples:

- a 42% premium paid for Portland General, which was described as a 'strategic acquisition'
- a 28% premium paid for the acquisition of Wessex Water
- the amount it paid on acquiring water and sewerage concessions in Buenos Aires was \$ 100 million more than even the company's own analysts estimated

- It paid \$ 1.3 billion for Elebro in Brazil, when the Brazilian government's asking price was \$ 670 million

These significant premiums suggest considerable confidence on the part of Enron in terms of its ability apply its intellectual capital to generate future value. Within the context of the current discussion, it is significant that between 1997 and 2000 intangibles accounted for an average of 30% of Enron's total net assets.

The fact that Enron was operating in a rapidly changing, unpredictable and therefore, high risk, environment does not appear to have prompted any fear of the future. Instead, Enron continued to make bolder and bolder claim about its future, promising its shareholders an annual growth in earnings per share of 15%. If achieved, this would define Enron clearly as a 'growth company' and ensure colossal financial rewards for its leaders (McClellan and Elkind, 2003). From a psychodynamic perspective, it might be argued that, through its senior management, Enron denied the fearful face of the future by focussing all of its energy on the fantastic. The implication then, is that Enron's predictions of future growth and success were driven more by fantasy than by the operation of sound strategic understanding and analysis. This idea is supported by the statements and actions of Enron's management, which suggest a considerable level of narcissism. It is worth noting for example that, not only did Jeffrey Skilling have no previous experience of working in the energy sector, before joining Enron, he had never run any business before (McClellan and Elkind, 2003). Even after six years with Enron,

“..he still thought like a consultant, enamoured, always, of the Big Idea, with surprisingly little appreciation of how one got things done in the real world. He had zero interest in the nuts and bolts of operations.” (p.101).

Far from being daunted by the risk which framed Enron's operations, Skilling relished it -

“We like risk because you make money taking risk.” (Fox, 2003, p.96)

Skilling's part of the business, which came to be named Enron Capital and Trade Resources (ECT) prided itself on its cutting edge trading techniques and its capacity to manage colossal trading risks. Fox (2003) suggests that the mood of ECT went on to influence the personality of the whole company:

“As Skilling's stock was rising within the company, Enron took on more of the entrepreneurial and extremely competitive personality that he hoped to fashion. Unfortunately, it could also be a greedy, self-involved, overconfident personality – and those characteristics sowed the seeds of hubris.” (p.97)

It is interesting that, whilst Enron made increasingly bold promises about the future, its focus was increasingly on the here and now and there was little long-term strategic planning.

“To some, Skilling’s emphasis on moving quickly seemed like he was all surface, not interested in digging deep to understand the fundamentals..” (Fox, 2003, p.104)

Over time, there were fewer voices to challenge Enron’s pursuit of the fantastic future. A key event was the departure in 1996 of Richard Kinder, who had been the company’s president and CEO. Fusaro and Miller (2002) point out that he embodied an ‘old economy’ approach to trading, which involved always looking for the economic sense of a deal and challenging deals which did not make sense. When he left, there was little to hold the remaining senior management back:

“Without Kinder, Lay and Skilling had no foil to ensure their visionary ambitions would remain grounded” (Fox, 2003, p.104).

Enron was now free to invest money in new lines of business such as broadband. McLean and Elkind (2003) point out that to succeed in this venture Enron would have need two things – management expertise and patience – neither of which it possessed.

We suggest that Skilling’s behaviour was supported by a system that colluded in the fantastic future painted by him;

- The auditors (Arthur Anderson) did not point out any difficulties with the accounts presented to them and approved inflated earnings
- Arthur Anderson were happy to take up a dual role of auditors and consultants to Enron
- The Board of Directors failed to control the Executive (Lord Wakeham, a non-executive director, was an accountant but failed to scrutinize the books)
- The audit commission failed to grasp what was happening
- Regulators exempted Enron from certain key aspects normally requiring scrutiny
- Wall St. allowed itself to be bullied into complicity
- Politicians were happy to be paid off
- Staff incentive (share options) /fear scheme (rank or yank) reinforced compliance

Enron’s accountants

The collusion had to include the accounting profession to ensure that the whole affair appeared rational and solid. Enron’s own accountants, led by their Chief Financial Officer Andrew Fastow, together with Arthur Andersen, its auditors, played a central role in its pursuit of a fantastic future. During the late 1990s, CFOs grew significantly in importance within American corporations and against this backdrop, Fastow became one of the most powerful, doubling the headcount in Enron’s Global Finance department, of which he was head. To gain a sense of the key role Fastow took in this system it is worth considering the description given by McClean and Elkind (2003):

“Fastow became Enron’s Wizard of Oz, creating a giant illusion of steady and increasing prosperity. Fastow and his team were financial masterminds, helping Enron bridge the gap between the reality of its business and the picture Lay and Skilling wanted to present to the world.” (p.133).

Fox (2003) makes a similar evaluation of Fastow:

“Enron understood Fastow as the wizard who somehow juggled accounting rules so that the company could preserve its credit rating.” (p.156).

Fastow’s mystical abilities are also alluded to by Swartz (2003):

“Whatever Skilling wanted, Fastow seemed magically able to provide.” (p.167)

Fastow had an appetite for complex financial structures and prided himself in his ability to achieve what the business wanted whilst still following the rules to the letter.

Skilling also made extensive use of accountants in his Risk Assessment Control Group (RAC) who were charged with analysing the risks of deals undertaken by ECT. This group worked under tremendous pressure and, like the ‘wizard’ Fastow, were responsible for making the business’s wishes a reality. Swartz (2003) describes how they worked:

“They were usually told on Friday that deal originators needed valuations for presentation to Jeffrey Skilling the following Monday. This required them to spend the next forty eight hours poring over spreadsheets and calculations trying to come up with any number that would allow a given deal to close.” (p.93)

It is therefore clear that Enron’s own accountants were perceived to play a crucial role in making its fantastic vision of the future a reality and that Andrew Fastow’s role was to be as a mystic or wizard on behalf of Enron.

However, Enron’s activities required external verification and it was here that Arthur Andersen, its statutory auditors, also came to play a key role. As external auditors it was the job of Arthur Andersen to sign off on Enron’s activities and vouch for the accuracy of its financial statements. Although Andersen was one of the world’s most respected professional accounting firms, Enron’s collapse would ultimately lead to its own collapse. A central problem was that, rather than break the accounting rules, Enron was aiming to exploit their complexity to do what it wanted whilst staying within them. This made it difficult for Andersen to take exception. Moreover, it is clear that over time Andersen allowed the lines of independence between it and its client became blurred. Not only did it earn more and more fees from Enron (reaching a peak of almost \$100 million in a single year) but many of the accountants working with Enron were, themselves, recruited from Arthur Andersen.

The internal and external groups of auditors were rewarded handsomely both in monetary terms and in terms of the status and respect they were accorded, but it is clear that this was contingent on their capacity to continue to enable Enron's plans. As mentioned above, whilst Arthur Andersen participated in the fruits of Enron's success, it also ended up paying the highest possible price for its failure. A shadow of Andersen's cataclysmic future was evident during Enron's 2000 Christmas party. Following Arthur Andersen's objections to Enron's broadband deal involving video on demand (VOD), the firm was lampooned in a presentation entitled 'The Grinch who stole VOD' where Andersen was cast in the role of Grinch in "the story of how the mean heartless auditors tried to ruin the deal.."(McClellan and Elkind, 2003). As Enron began to unravel, its senior management who had once feted the accountants, made conspicuous attempts to distance themselves. Fusaro and Miller (2002) point out that during his trial, Jeffrey Skilling's 'mantra' was "I am not an accountant".

Enron's employees

Beyond Enron's senior management and its accountants, the company's employees represent another stakeholder group who had a substantial investment in Enron's fantastic future and who colluded in its attainment. Indeed, the company's growing preoccupation with the accounting version of reality was codified in the guidelines, which its employees used to guide their activities:

"Reported earnings follow the rules and principles of accounting. The results do not always create measures consistent with underlying economics. However, corporate management's performance is generally measured by accounting income and not underlying economics". (Taken from the Enron Capital and Trade Resources Manual, 1996-1997, cited in Fox, 2003).

The employees' growing pride in, and increasing dependence on, Enron's success was enacted through mass participation in the Enron employee stock plan. From his earliest days with the firm, Skilling had viewed Enron's share price as his 'report card' (McClellan and Elkind, 2003) but as more and more employees tied up their life savings in Enron stock a kind of stock price mania erupted, with more and more people tracking its value (Fox, 2003). From a psychodynamic perspective, shares in Enron could themselves be seen as shares in the shadow of its future. This obsession with share price was not unusual among large corporations, where an increasing share price can often provoke a cycle of self-referential corporate narcissism, reflected in the Wall Street saying that if a company's stock doubles, the ego of its management quadruples. The emotional as well as the financial investment which employees made in Enron is reflected by the pride and optimism which led them to hold on to their Enron shares, those fragments of its future shadow, even when its irreversible decline was obvious and senior management had started to liquidate their own shareholdings in large blocks.

The collusion can perhaps be illustrated by an incident involving staff at the headquarters in Houston. Margaret Ceconi, a former Director of Enron Energy Services in a BBC Panarama programme describes how in 1998 a new dealing room was supposed to be

operational. Financial analysts were due to visit and Enron was keen to impress them. Secretaries and other non-traders were roped in to pretend to do deals by phone and provide an illusion of an up and running trading floor. Later Ceconi asked people what they were thinking of and why they did it. The typical response was that people thought nothing of it –‘they asked me to do and so I did’.

Market analysts and the stock market

As discussed above, Enron’s management saw its share price as the ultimate measure of its success. Within the context of the current discussion, this is significant, as financial theory states that the share price which financial markets ascribe to a company reflects the present value of its future success and as such can be seen as the shadow of its future, broken down into tradable units. Enron’s share price represented not only a visible badge of its success, which could then fuel the narcissism of its management. It also represented the means by which its senior management could earn considerable wealth, way beyond their salaries. Fox (2003) points out that all Enron’s executives had enormous stock options and, for some, an increase in share price of only \$1 could translate into a \$5 million increase in wealth. Enron’s relationship with the analysts and Wall Street was therefore critical, and presenting the firm as favourably as possible (however unrealistic that was) was key:

“...Skilling created impossible expectations and unbearable internal pressures by holding Enron out to Wall Street as something that it simply wasn’t. He created a wild, out-of-control experiment yet presented it as a well-oiled machine that generated steadily growing profits. He offered the world a powerful, even charismatic, vision of the new Enron. But the Enron Skilling was describing ... wasn’t even close to reality” (McClellan and Elkind, 2003).

During the period of Enron’s rise, the audience of analysts and the wider financial community were willing subscribers to the story of Enron’s success. Lay, Skilling and Fastow were lauded by the financial press and publications such as Fortune, Business Week and The Wall Street Journal were generous with their praise, lauding them as heroes of the new economy. Swartz (2003) points out that this was reflective of the mood of the time, when Wall Street was enamoured of the ‘new economy’ and indulged in a kind of collective denial of negative indications and the underlying risks. Fox (2003) talks about the way analysts became ‘cheerleaders’ for Enron as part of the wider market mood of “unsustainable optimism and self-justifying momentum” (p.195).

But we can sometimes extrapolate effectively from what we know ‘It was probably the Future casting its shadow before; sometimes it is disguised as the Past casting its memory forward’ (Bion; 1979,p 38), there were tell tail signs but the need for collective collusion was such that no attention, somehow, was paid to thee glimmerings.

Discussion

The current discussion allows only a superficial consideration of the Enron case. However, the various elements described above and the actions and interests of its different stakeholder groups do support the idea that Enron used the accounting version of reality, and the emphasis on intangibles which that enabled, to try and tame the shadow of the future. The examples above show the facility to create intangible assets can provide a vehicle for widespread rationalization. Inappropriate, self-serving decisions and hubristic overvaluations can be framed in rational terms and made plausible by the mere fact of being presented in accounting language. Intangibles can act as an instrument of collective fantasy and idealization. Decisions which may ultimately destroy value and jeopardize the survival, let alone the success, of the organization, escape challenge and well founded questioning. However, the financial statements of Enron do also contain shadows of the future which did materialise, although it is better hidden. Enron's 2002 annual report was the last one Enron would produce and is pervaded with a mood of breathtaking optimism about the future. Given Enron's obsession with the future, it is not surprising that the document frames its performance in the form of what are known as 'Forward Looking Statements'. Despite the optimism of the document, it is possible to find traces of the shadow of the future on page 29 in a section entitled 'Information Regarding Forward-Looking Statements', although the following 252 word sentence is rather less accessible than some of the more positive messages:

“Important factors that could cause actual results to differ materially from those in the forward-looking statements herein include success in marketing natural gas and power to wholesale customers; the ability of Enron to penetrate new retail natural gas and electricity markets (including energy outsourcing markets) in the United States and foreign jurisdictions; development of Enron's broadband network and customer demand for intermediation and content services; the timing, extent and market effects of deregulation of energy markets in the United States, including the current energy market conditions in California, and in foreign jurisdictions; other regulatory developments in the United States and in foreign countries, including tax legislation and regulations; political developments in foreign countries; the extent of efforts by governments to privatize natural gas and electric utilities and other industries; the timing and extent of changes in commodity prices for crude oil, natural gas, electricity, foreign currency and interest rates; the extent of success in acquiring oil and gas properties and in discovering, developing, producing and marketing reserves; the timing and success of Enron's efforts to develop international power, pipeline and other infrastructure projects; the effectiveness of Enron's risk management activities; the ability of counterparties to financial risk management instruments and other contracts with Enron to meet their financial commitments to Enron; and Enron's ability to access the capital markets and equity markets during the periods covered by the forward-looking statements, which will depend on general market conditions and Enron's ability to maintain the credit ratings for its unsecured senior long-term debt obligations.”

Some theorists have suggested that the symbolic representations which form the basis of accounting have now evolved into a simulacrum, or self-referential hyperreality

(Macintosh, Shearer, Thornton and Welker, 2000). When considering the area of intangible value, this is a persuasive argument, as it is difficult to accurately locate intangible assets in a reality which is external to the accounting representations themselves. However, such denial and detachment from reality is dangerous, especially when it is associated with the legitimacy which accounting language affords. The underlying complexity and unpredictability of the world remains. The management of risk and complexity on a symbolic level may provide a welcome respite from the psychological challenges presented by a chaotic world but in reality it cannot keep the unravelling chaos of the future at bay. Accounting for intangibles can be seen as a means of perpetuating the myth of management control (Gabriel, 1998). As long as organizations select simplistic representations as a means of making sense then they will remain rooted in the false certainty and security of the past and consequently be unprepared for the surprises which the shadow of the future presents.

Conclusion

The growing emphasis on intangibles can be understood as a survival strategy – a means of ensuring the continued dominance of accounting representations under the looming shadow of an uncertain future. This paper has not sought to suggest that the use of accounting representations is invalid. Rather, it has aimed to illustrate that it is equally valid to consider the psychodynamic needs which accounting representations may serve. Until the processes described above are recognised there is little prospect of adequately appreciating the gap between the past and the future. If businesses fail to take a broader view then the future will be a repetition of the past but on a more and more catastrophic scale. The growing value accounted for in the form of intangibles can be seen to represent the shadow of the future but in a cryptic form.

As Bion suggests (1979, p128) “In those situations in which the disguise – the conventional costume – excites psychiatric attention, they are liable to be described as participating in a folie-a-deux. If they excite the attention of the Board of Trade they may become known as a famous business venture, although the dividing line – caesura? – between that and a bankruptcy, or criminal association may not be so easy to determine.”

Uncertainty about the future cannot be contained in a balance sheet and the illusion of certainty provided by accounting frameworks puts stakeholders in an increasingly precarious position. The response to accounting scandals and business collapses continues to centre on more regulation and increased requirements for accounting disclosure. If our thesis is correct, then these mechanical measures will simply perpetuate the illusion of control, while denying the inevitability of the underpinning psychological reality. A more realistic response would go further to acknowledge the shadow of the future and recognize that individuals and groups are intangible liabilities as much as assets.

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