

Running head: WORLDCOM SCANDAL: IMPACT OF ORGANIZATIONAL
BEHAVIOR ON COMPANY FAILURE

WorldCom Scandal: Impact of Organizational Behavior on Company Failure

Alexandre Boudreau

University of Phoenix

October 13, 2008

WorldCom Scandal

Over the course of its operations, WorldCom has successfully acquired a total of 65 companies, of which 11 were acquired between 1991 and 1997, and in that course has accumulated around \$41 billion in debt (Moberg & Romar). By the time it declared bankruptcy in 2002, the organization had a combined loss of \$73.7 billion (Romar & Calkins, 2006). Among other factors, the organization's growth strategy through acquisitions, its loans to senior executives, and poor corporate governance have all contributed to the fall of the company. Through a series of fraudulent activities and unethical behavior, the company has fallen from a leader in the telecommunications industry to a company filing for bankruptcy.

Through the analysis of Organizational Behavior and principles of management and leadership, the following paper discusses how the WorldCom failure could have been predicted, as well as why it has failed.

WorldCom Leadership and Management

Following WorldCom's failure and scandals, studies have demonstrated that Bernard Ebbers and Scott Sullivan, the CEO and CFO of the organization at that time, had created an organizational ideology, or culture, in which leaders and managers were not to be doubted or questioned (Scharff 2005). A great deal of focus was put on "team work" and being a strong "team player", which is said to have been a strategy to reduce dissenting opinions, eventually leading the organization to follow a "groupthink" attitude (Scharff 2005). Groupthink is a thought process that individuals tend to adopt when they are deeply involved in cohesive groups where unanimity is the prime objective. The characteristics of groupthink include feelings of invulnerability, moral superiority, group pressure, and self-censorship. As a result, organizations

that follow such thought processes tend to inadequately examine alternate course of actions and avoid examining the involved risks (Scharff 2005).

The groupthink theory provides strong evidence that WorldCom's leadership and management approach was a key factor in the organization's failure. The culture and atmosphere discouraged dissenting opinion and ensured "followers" would conform. In one particular instance, when questioned about the company's human resource policy, one particular executive responded "if you don't like the policy, you can leave" (Scharff 2005). With such leadership figures and constant pressure, most employees would feel too insecure to bring forward suspicious or fraudulent practices.

Entrenched Culture

In addition to the organization's leadership and management approach, there are indications that improper conduct and fraudulent actions were taking place in most levels and parts of the organization. First, the organization's strategic apex participated in fraudulent activities on a regular basis. For instance, the CEO had submitted falsified SEC reports and pressured other executives to achieve expected financial results by all means, including fraud. The strategic apex acted in such a way as to lead the organization's middle line to ignore and commit fraudulent behavior, and was propagated down to the operating core in multiple occasions. As certain email communications illustrated, certain employees part of the operating core were well aware of the accounting irregularities and participated in hiding such practices (Scharff 2005). In addition, the technostructure was at a certain point also taking part in this downward spiral of falsified reports and suspicious accounting practices. Their auditors, Arthur Andersen failed to identify the accounting irregularities and didn't persist in trying to identify

them. Above all, the organization's *Ideology* had poor values, ethics, and promoted fraudulent conduct.

In one instance, following the attempts of certain employees to establish a corporate Code of Conduct, Ebbers, the CEO, reportedly described this effort as a "colossal waste of time" (Scharff 2005). In another specific incident, WorldCom's board of directors lent \$415 million from the company's coffers to help Ebbers cover some of his personal debts, mounting to more than \$800 million, in an attempt to avoid a massive sell of company stock by the CEO which would have further driven down the company stock (Pulliam et. al, 2002).

Organizational Structure

In addition to the organizational behavior, WorldCom's organizational structure, or lack thereof, significantly contributed to its failure. In what first seemed to be a successful growth strategy, one significant business reality hadn't been considered: mergers and acquisitions are costly, time consuming, and represent significant managerial challenges (Moberg and Romar). WorldCom had acquired 11 companies in only six years, from 1991 to 1997, but had failed to properly integrate them in the organization. In fact, following the acquisitions, conflicting and repetitive systems remained and billing systems were not coordinated (Moberg and Romar).

Conclusion

With all the above factors put into perspective, there are clear indications that WorldCom's organizational behavior, leadership, management practices, corporate governance, and organizational structure have all contributed to the company's failure. In addition, the constant fraudulent practices and improper conduct should have, without doubt, raised concern among stakeholders and auditors, both internal and external. The officer's unethical conduct and attempts of cover-ups were clear indications of serious issues at the organization's core, which

with the proper installment of corporate governance and policies would have been uncovered and avoided all together.

References

- Mintzberg, H., Lampel, J., Quinn, J. B., & Ghoshal, S. (2003). *The strategy process: Concepts, contexts, cases* (4th ed.). Ch.8. Upper Saddle River, NJ: Prentice Hall.
- Robbins, S. P., & Judge, T. A. (2007). *Organizational behavior* (12th ed.). Ch. 1. Upper Saddle River, NJ: Pearson Education.
- Scharff, M.M. (2005). Understanding WorldCom's accounting fraud: did groupthink play a role?. *Journal of Leadership & Organizational Studies*. Retrieved on October 12, 2008 from:
<http://www.entrepreneur.com/tradejournals/article/132353947.html>
- Moberg, D., Romar, E. WorldCom. Retrieved October 12, 2008 from:
<http://www.scu.edu/ethics/dialogue/candc/cases/worldcom.html>
- Romar, E., Calkins, M. (2006). WorldCom Case Study Update. University of Massachusetts-Boston. Retrieved October 13, 2008 from:
<http://www.scu.edu/ethics/dialogue/candc/cases/worldcom-update.html>
- Pulliam, S., Solomon, D., Mollenkamp, C. (2002). Former WorldCom CEO Built An Empire on Mountain of Debt. *The Wall Street Journal*. Retrieved October 13, 2008 from
<http://academic.udayton.edu/LawrenceUlrich/EbbersAquisition.htm>