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Walden University

College of Management and Technology

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Susan Bishop

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Walden University
2015

Abstract

Adelphia: An Exploratory Case Study

of Corporate Culture and Ethical Judgment

by

Susan K. Bishop

MBA, Fordham University, 1985

BA, Briarcliff College, 1968

Dissertation Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Philosophy

Organizational Leadership and Change

Walden University

November 2015

Abstract

White collar corporate corruption continues to be prevalent in the United States, costing shareholders billions of dollars annually. This study of the collapse of Coudersport, PA firm, Adelphia Communications, explored how and why leadership of this prominent andsuccessful company made unethical decisions, created an atmosphere of moral disengagement, and led to the downfall of the company. Taped interviews with 10 executives who were employed at the company during the years of its rise and demise (1996–2006) were transcribed, hand coded, and analyzed to explore the ethical culture and leadership practices at Adelphia. These insights offer a possible explanation for the behavior that resulted in the collapse of the company. The theoretical framework for this qualitative case study included ethical work climate, moral cognitive theory, and the theory of moral disengagement. Results showed that the collapse of Adelphia was enabled by intense family control, low empowerment, and extreme greed and entitlement on the part of the founders who never made a clear business transition from being family-owned to a publicly-traded corporation. Additionally, proper oversight by the board and outside auditors was lacking. These findings may contribute to positive social change in the areas of ethical training and in creating and operationalizing corporate values in day-to-day decision making in the corporate environment. These findings also suggest further need for new legislative issues beyond existing law to hold external consultants involved in fiduciary responsibility more accountable.

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Dedication

To Wyatt Lily

Acknowledgments

I could not have had access to the information I needed for this study without the help of Adelphia lawyers, executives, and consultants from both before and after the collapse of the company, who were willing to lead me to public documents and share their personal perspectives and information. I am eternally grateful to you all.

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Chapter 1: Introduction to the Study

Introduction

In the United States, corporate fraud has brought attention to the lack of fiscal accountability on Wall Street, yet few corporate leaders have been openly punished for the collapses of companies and the economic market (J. Cohen, Ding, Lesage, & Stolowy, 2010). As part of this study, I used early cognitive moral development theories (Kohlberg, 1981, 1984; Piaget, 1971) to examine moral disengagement (Bandura, 1986, 1999) and the foundations of ethical work climate (Victor & Cullen, 1987) to seek insight into how and why Adelphia Communications Corporation, the fifth largest cable company in the United States during the late 1990s (Healy & Fabri, 2000), went bankrupt. The problem statement, purpose, and nature of the study are presented in this chapter and the conceptual framework is proposed. The significance of the study and implications for social change are explained.

Background

Corporate values and codes of ethics are often overlooked in day-to-day decision making (Detert, Treviño, & Sweitzer, 2008; M. Moore, 2008). Proposed explanations for unethical decisions include: (a) lack of personal moral values (Bryant, 2009; Dean et al., 2010), (b) insufficient education (Etzioni, 2002; Fang, 2006), (c) high stress levels at work (Selart & Johansen, 2010), (d) tainted corporate culture (Holian, 2002), (e)greed fed by corporate reward systems (Dean et al., 2010), (f) gender issues (Gilligan, 1982), (g) high ego/status (Galperin, Bennett, & Aquino, 2011), (h) inability to recognize ethical

issues (Mayer, Kuenzi, & Greenbaum, 2010), (i) the structure of the corporation as an entity (Bakan, 2004; Kelly, 2002), and (j) low personal cognitive moral development (Kihl, 2007; Kohlberg, 1984; White, Bandura, & Bero, 2009), among other variables.

Very little practical research has been conducted on the collapse of specific companies resulting from unethical behavior and decisions within senior management. An in-depth look at one company provided contextual insight into the issues behind such a collapse. Interviewing senior managers at one company allowed deep investigation into the details of culture, personalities, executive directives, and decision making not available through a broader review of corporate collapse from a financial standpoint. Because the former executives of Adelphia were available for personal interviews, Adelphia was a worthwhile focus for this study.

Moral disengagement was first posited by Bandura (1986), who remarked that unethical decisions are made when the personal moral compass that generally self-regulates an individual is deactivated (M. Moore, 2008). Bandura argued that moral disengagement explains why seemingly moral people are able to behave in unethical ways without feeling guilty. Some researchers have made the correlation between moral disengagement and unethical decision making (Detert et al., 2008; M. Moore, 2008; Ntayi, Eyaa, & Ngoma, 2010; White et al., 2009), but evidence of that correlation in a practical real-life situation has been lacking, pointing to a gap in the knowledge base. A single-case study provided an opportunity to document and analyze the situation of a well-publicized case through the words and experiences of those who were employed at the company at the time of the fraud. Descriptive information gathered through interviews revealed information that helps explain how the organizational environment

and personalities of senior managers influenced the corrupt behavior that led to the end of Adelphia Communications.

Adelphia was founded in 1952 by John Rigas, who purchased a small cable franchise in Coudersport, Pennsylvania for $300 (Healy & Fabri, 2000). The company grew and incorporated in 1972, eventually making an initial public offering in 1986 (Healy & Fabri, 2000). By 1999, the company stock was traded as high as $87 per share, and company operations had expanded beyond the core cable business into a telephony business, a sports channel business, and a radio station (Adelphia Communications Corporation, n.d.). The Rigas family owned 77% of all voting rights; John Rigas was the chief executive officer and his sons, Tim, Michael, and James, and son-in-law Peter Venetis served as chief financial officer, vice president of operations, vice president of strategic planning, and head of the board of directors, respectively (Healy & Fabri, 2000).

The Rigas family was well-known and had won awards for its outstanding achievements and contributions to the community and to the cable industry (L. R. Johnson & Rudolph, 2007). Adelphia sales grew to over $300 million during the early 1990s (Healy & Fabri, 2000). The company grew naturally, as well as through several major acquisitions; by 2000, their subscriber base included more than 5 million customers (Healy & Fabri, 2000). Debt increased as a result of these acquisitions and, in 2002, the company disclosed $2.3 billion in previously undisclosed debt through co-borrowings between the company and the family (Adelphia Communications corporate history, n.d.). That announcement proved to be the start of a financial downturn for the company because the Rigas family could not repay the debt and Adelphia was responsible for it (Healy & Fabri, 2000). An investigation into the financial dealings

indicated that the money borrowed by the family was used to fund such excesses as private airplanes, construction of a private golf course, and maintaining a personal staff including a chef. It was also discovered that the family had overstated cash flow, subscriber count, and sales numbers to make the company look more financially stable than it was (Mahony, 2005).

The announcement of financial misdeeds triggered an SEC investigation, numerous shareholder lawsuits, the resignation of the entire family from the board of directors and their various operating roles in the company, the delisting of the stock, a bankruptcy filing, and ultimately the arrest and 20-year jail terms for John and Timothy Rigas (Healy & Fabri, 2000). In a period of approximately three years, a once highly regarded company was destroyed. Adelphia filed for bankruptcy in March 2002 (Mahony, 2005) and the company no longer exists. Through the lens of those who worked at Adelphia during the time of these unprecedented events, this case study explores how and why such corruption prevailed and develops some suggestions as to how corporations might avoid similar scenarios in the future.

Statement of the Problem

Scandals involving unethical decisions in corporate America do not seem to be on the decline (Barsky, 2011; White et al., 2009). Corporate executives enrich themselves at the expense of their employees and shareholders, causing harm to individuals as well as to their companies; examples include: ImClone, WorldCom, Enron, and HealthSouth (Thompson, 2010). Corporate leaders, including Bernard Madoff, who was sentenced to 150 years in prison and showed little, if any, remorse for his illegal actions (Wearden, 2011), which destroyed businesses and individuals' lives. News Corporation, owned by

Rupert Murdoch, was undermined by unethical and illegal phone hacking among its journalists, triggering the resignation of several key employees and the demise of the 168-year-old *News of the World*, the most widely read newspaper in London (Greene, 2011).

The focus of this research is on one company and sheds light on the dynamics involved in large-scale unethical behavior by asking, "Why did the leaders of Adelphia Communications make unethical decisions when so much was at stake?" Financial scandals such as the one that engulfed Adelphia expose organizational and leadership shortcomings (Bakan, 2004; Kuhn & Ashcroft, 2003). Corporate leaders at Adelphia willfully chose to cause financial harm to those who worked for them and benefitted from their own financial malfeasance, behaving without guilt or remorse (Dash, 2011; Horovitz, 2002; Samuelson, 2006). Why does this behavior happen? While much supposition has been made and research conducted on the possible causes of unethical decisions by senior leaders across industries (e.g., banking, education, law enforcement), and across specific functional areas (e.g., sales, marketing, finance), exploration of scholastic sources and business databases including EBSCOhost, Business Source Complete, and ProQuest yielded fewer than 10 research articles since 2007 that deeply explored a specific scandal in one company.

The problem is that corporate leaders continue to behave unethically, shareholders continue to be injured, and there is little understanding on a case-by-case basis of what drives leaders to these ethical transgressions. In what sort of organizational environment does corporate scandal flourish? We are left to conjecture about cultures of greed, power, and personal demons, but never really know what happened to cause management to

engage in highly unethical behavior and take the risks executives did with no outward signs of guilt or remorse.

Purpose of the Study

The purpose of this study was to explore how and why leadership of this formerly prominent and successful company made unethical decisions, created an atmosphere of moral disengagement, and destroyed the company. I sought an understanding of the ethical environment of the culture and leadership at Adelphia Communications during the period between the public offering in 1986, the bankruptcy in 2002, and the dissolution of the company in 2006. The following research questions lead to an understanding of the influences involved in unethical decision making and corporate corruption. My findings may benefit leaders of other publicly traded consumer service organizations as they try to understand what triggers unethical decisions.

Research Questions

My research questions were as follows:

1. Why did the leadership of the highly regarded Adelphia Communications make massive unethical financial decisions that led to corporate collapse?
2. What was the ethical culture and climate at Adelphia, and how did it affect unethical behavior and moral disengagement?
3. How were employees drawn into supporting, ignoring, or initiating unethical behavior?

Conceptual Framework

Moral development and ethics have roots in psychology, sociology, and philosophy, so a broad conceptual framework was necessary (Bandura, 1986; Bishop,

2010; J. Cohen et al., 2010; Duska & Whelen, 1975). The framework guiding this study was informed by a combination of theories including cognitive moral development (CMD) by Kohlberg (1981, 1984), Piaget (1977), and Maslow (1999); the social cognitive theory of moral agency (specifically the theory of moral disengagement) by Bandura (1986, 1999, 2002); and Victor and Cullen's (1987) research in ethical organizational climate/culture as a foundation for ethical decision making.

Cognitive Moral Development

Piaget (1896–1980). Piaget (1977), who is credited with developing the theory of cognitive development in the mid-1900s, believed that people, as children, pass through four stages of increasing intellectual capacity and capability. Those four stages build on each other, making cognitive development and emotional capacity cumulative (Piaget, 1977). Part of that developmental process includes learning a sense of right and wrong (moral development). Piaget (1977) remarked, "All morality consists in a system of rules, and the essence of all morality is to be sought for in the respect which the individual acquires for those rules" (p. 13). Critical to this study is the question that, if respecting the rules is the core of morality, how does someone learn to respect the rules? Why does respect for the rules often differ so dramatically from the practice of those rules? Children who do not grasp the rules see no "fault" in lying (Piaget, 1977). Only later, when children are old enough to understand the need for cooperation in society, does guilt or a sense of remorse come into play. The theory of cognitive development laid the foundation for Bandura, Barbaranelli, Caprara, and Pastorelli (1996), who stated that moral disengagement allows an individual to feel no remorse for unethical behavior.

Moral disengagement is relevant background for the lack of respect for rules and absence of remorse for unethical decisions at Adelphia Communications.

Kohlberg (1927–1987). Kohlberg (1981, 1984) extended Piaget's (1977) theories, exploring the same moral developmental stages beyond childhood. While Piaget believed moral development was completed in childhood, Kohlberg (1984) believed it evolved throughout one's lifetime in six stages (Duska & Whelen, 1975). Those six stages were split into three levels, two of which Kohlberg (1984) believed were attainable during one's lifetime. The third level was considered extraordinary and probably attainable by only highly morally dedicated people, such as Jesus Christ or Mother Teresa. Because few lead a totally pure and selfless life, Level 3 was more of an ideal than a reality for most human beings (Kohlberg, 1984).

Kohlberg (1984) believed it was possible to develop physically but to be stunted morally, a distinction that offers interesting possibilities for studying unethical leaders. Because achieving a higher moral stage requires first passing through the lower stages, one's moral development could be arrested at the lower level. Both Piaget and Kohlberg agreed that moral development advances to a higher level through interaction and socialization (Bishop, 2010). This universal understanding of moral development characteristics, important to the present study, has been defined as:

> The process by which an individual, born with behavior potentialities of an enormously wide range, is led to develop actual behavior confined within the much narrower range of what is customary and acceptable for him according to the standards of his group. (Child, as cited in Kohlberg, 1981, p. 105)

Personal moral development, according to Kohlberg (as cited in Bishop, 2010), is the outcome of taking our own external cultural influencers and creating internal norms for ourselves. One's moral atmosphere is defined as being a "bridge between judgment and action" (Kohlberg, 1984, p. xxxiv). While Kohlberg focused on societal culture rather than organizational culture, the environment in which one works becomes a highly influential culture (Cullen, Victor, & Stephens, 1989). In this single-case study of Adelphia Communications, I explored whether that bridge of moral atmosphere was weakened, allowing unethical decisions to be made. Moral action generally conforms to the moral stage of the individual (in this case, the leader of the company), and the environment in which one lives and grows greatly stimulates that moral development (Bishop, 2010).

Maslow (1908–1970). Maslow's (1999) beliefs were similar to those of Kohlberg (1981, 1984) in that both theorists posited there are stages through which individuals must work to attain what Maslow termed "self-actualization" (p. xix). In other words, we must come to terms with our basic, innate needs before we can understand how to be true, honest, and authentic in any way (Maslow, 1999). According to Maslow (1969), our basic needs are physiological/for survival (e.g., food, water, oxygen), safety (basic protection and security of a job, family, and a sense of personal well-being), and love and belonging or social needs (to feel part of something bigger than oneself). Similar to the theories promoted by Piaget (1977) and Kohlberg (1981, 1984), Maslow (1969) believed each new level was a stepping stone beyond the previous one, and one could not advance out of sequence. All these needs, according to Maslow (1969), are steps on the path to self-actualization—the ability to become all one can possibly become (Bishop, 2010).

Maslow (1969) believed in a basic human goodness: we individually yearn to be everything we can be, and we strive to achieve our best throughout our lives. Self-actualization, according to Maslow, stresses the importance of moral and ethical behavior within a framework of values that will lead an individual naturally to discovering and then becoming himself or herself. Whereas Kohlberg (1981, 1984) and Piaget (1977) believed that moral awareness is the result of external influences in one's life, Maslow believed the desire to become a morally aware person resides within each of us and needs to be nurtured.

Piaget's (1977), Kohlberg's (1981, 1984), and Maslow's (1969, 1999) theories of moral cognitive development suggest possible foundational issues underlying the leadership and the corporate structure and decisions at Adelphia Communications. The culture of any firm is influenced by the level of personal moral awareness and moral development of leadership (Cullen et al., 1989). While an understanding of the moral development of the leadership at Adelphia provided foundational insight into the culture and unethical decisions that were made, this moral development would be impossible to fully assess accurately without a psychological evaluation tool. Cognitive moral development (CMD) was not used as an explanation for unethical decisions, but it is important to note that CMD is a foundation on which other theories are established. It is useful to include this background because we cannot look at moral disengagement or ethical climate without some understanding of CMD.

Ethical Climate Theory

In the case of Adelphia Communications, it is important to understand the moral atmosphere and its influence as the "bridge between judgment and action" that Kohlberg

(1984, p. xxxiv) defined. Treviño, Weaver, and Reynolds (2006) recommended further research be conducted into why people's moral identity disengages under certain circumstances. The theory of ethical climate (Victor & Cullen, 1987), as embedded in the culture of the organization, was used as a theoretical foundation in this study.

Ethical climate theory is related to Kohlberg's (1984) theory of CMD in that it is considered to involve a series of levels or dimensions of development within the ethical climate of an organization (Victor & Cullen, 1987). The determinants of ethics within an organization include "the environment in which a firm functions, the form of the organization and the company's history" (Cullen et al., 1989, p. 50). Ethical conflict arises when there is differing or diverse commitment to the values of the established culture (Arnaud, 2010; Cullen et al., 1989; Duh et al., 2010).

Most of the body of knowledge on ethical work climate is based on the research of Victor and Cullen (1987), who created a framework for much future study. A new and broader theory and construct was posed by Arnaud (2010). While Victor and Cullen focused on moral judgment and collectively shared moral reasoning as the key components to the ethical work climate, Arnaud expanded Victor and Cullen's premise to include other components of ethical decision making. Arnaud's (2010) four key components include "collective moral sensitivity, collective moral judgment, collective moral motivation, and collective moral character" (p. 348). As Arnaud (2010) explained, "organizational climate emerges from shared perceptions of individual organizational members" (p. 348); in other words, the shared norms of an organization create a collective climate for the performance of work and a collective moral character of the organization. In the case of Adelphia, the theory of ethical climate served as the

underpinning to study the collective climate of the organization, along with the individual moral disengagement of its leaders.

Social Cognitive Theory (Moral Disengagement)

Bandura (1925–). As defined in social cognitive theory (Bandura, 1986), moral reasoning is "translated into actions through self-regulatory mechanisms rooted in moral standards and self-sanctions by which moral agency is exercised" (Bandura, 1999, p. 193). According to social cognitive theory, self-regulation is highly influenced by one's social environment (Bandura, 1986). For example, in an organization, it is possible that social isolation could be the result of status differentiation, and social isolation could suppress personal moral identity (White et al., 2009). Strong identity with the status group to which the individual belongs and the resulting suppression of moral concern could cause a leader to engage in practices that outsiders might find unethical. Bandura (1999) referred to this suppression of moral identity without any seeming self-regulatory mechanism as "moral disengagement" (p. 193). Moral disengagement occurs when an individual displaces any feelings of guilt or responsibility for unethical actions (Bandura 1999). These individuals make a habit of "suspending the self-regulatory processes that socio-cognitive theory suggests govern moral behavior" (C. Moore, 2008, p. 129).

Bandura (1986) suggested that moral disengagement works through mechanisms that allow an individual to find ways to compensate and explain questionable actions in a positive way, making those actions appear less harmful than they are. Blaming other people, reframing and distorting consequences, finding justification, and even blaming the victim are all methods of restructuring an action to make it appear less harmful (Bandura, 1986). These mechanisms "disengage the self-sanctions that socio-cognitive

theory claims drive individual moral behavior" (C. Moore, 2008, p. 131). Moral disengagement was a strong possibility in the case of Adelphia Communications, and helped to explain the ethical work culture and decision making that occurred at the company.

Bandura (1986, 1999), C. Moore (2008), M. Moore (2008), and White et al. (2009) studied morality in terms of behaviors and actions. More recently, an emerging field of behavioral ethics describes the field as "the study of individual behavior that is subject to or judged according to generally accepted moral norms of behavior" (Treviño et al., as cited in De Cremer, Mayer, & Schminke, 2010, p. 2). Inherent in this definition is the idea that people must have some level of moral awareness and identity, which is often defined as a person's integrity (De Cremer et al., 2010). It is this moral identity that can become deceptively disengaged when one's urge is to maximize one's own interest (Bandura, 1986, 1999). The field of behavioral ethics often refers to moral disengagement as a "reframing" of one's actions or as "ethical fading" (Tenbrunsel & Messick, 2004, p. 223).

There was little discussion found in the literature of the level of morality in inaction and silent complicity due to fear for one's self or pressure to conform. Can one be ethical and ignore what is happening around him or her if one's surroundings are not ethical? At Adelphia, I probed any consequences of inaction rather than the consequences of having the courage to "blow the whistle."

Nature of the Study

Two qualitative methods of inquiry could have been be used for this type of study: phenomenology and case study. Moustakas (1994) said phenomenology should be

used “to determine what an experience means for the persons who have had the experience and are able to provide a comprehensive description of it” (p. 13). In other words, phenomenology is about understanding the essence of the experience of a small group of people around a certain phenomenon or event. A case study is the exploration of a “bounded system” (Stake, 1995, p. 2) over time, through in-depth data collection and analysis, and with multiple sources of information (Yin, 2009). Case study research generally answers the questions of how or why a complex situation or specific event occurred (Stake, 1995). Creswell (2002) identified case study as “an in-depth exploration of a bounded system (e.g., an activity, event, process, or individuals) based on extensive data collection” (p. 485)

Adelphia was a bounded system involving a complex situation, and extensive data exist in the public domain (bankruptcy documents, court hearings transcripts, human resource documents, financial statements, and SEC filings). The former executives of the company were available for personal interviews. A case study of Adelphia seemed to be the appropriate method for my study to understand how unethical decisions and an immoral atmosphere contributed to the demise of a company. Yin (2009) stated that a single-case study can explain a phenomenon through data or can “represent the critical test of a significant theory” (p.48). This study used theory as background but did not critically test it. Rather, I sought to develop an explanation of the situation through the voices of those who were there and through the examination of documents that are in the public domain from the bankruptcy of Adelphia.

While I explored and developed possible explanations, I also considered Bandura’s (1986, 1999) theory of moral disengagement and Victor and Cullen’s (1987)

ethical climate theory through interview questions on the culture that was created at the firm, including how corporate values and morals were implemented (or not implemented) throughout the organization. A single-case study provided an opportunity to further the understanding of the environment that leads to or promotes corporate corruption on the scale demonstrated at Adelphia.

Many universities and business schools use case study methodology, and thousands of ethical case studies exist. For example, a search of *Harvard Business Review* case studies yielded more than 500 case studies on corporate ethics. Several of these same institutions maintain case study databases (see Appendix A), and a search of these databases indicated most previous studies were based on empirical data such as marketing initiatives, sales data, and financial reports (budgets, P&L, balance sheets, quarterly results) to identify quantifiable mistakes rather than investigate possible qualitative causes of the unethical leadership behind the financial data. I sought and reviewed existing research but did not find any qualitative ethical case studies published in peer-reviewed journals or the business press (e.g., *Fortune*, *Forbes*, *Business Week*) that used open-ended interviews to explore the cause of the moral disconnect underlying unethical decisions at one organization.

Several books have been written about the causes of corporate scandals, leaning heavily on blaming the structure of the American corporation as the weak link in allowing corruption (Bakan, 2004; Kelly, 2002). The fact that the primary objective of a public corporation is to maximize returns to the shareholders can lead to decision making that is less than moral and at times unethical (Bakan, 2004).

This study was conducted using a purposive sample of 10 executive and midlevel managers (vice president level or higher) who were employed by Adelphia Communications during the time frame 1996–2006. This purposive sample of 10 executives was compiled from a published list of more than 100 executives who worked at Adelphia, about 50 of whom were contacted after receipt of approval from the Walden University Institutional Review Board (IRB). Details on the selection and contact process are provided in Chapter 3.

Operational Definition of Terms

Following are operational definitions of the terms used in this study.

Cognitive moral development. A process/evolution of moral growth and maturity that occurs in stages paralleling an individual's mental (cognitive) growth (Kohlberg, 1981).

Cultural values. "The embedded moral compass through which a community defines good, bad, right, wrong, honorable, and dishonorable" (Thompson, 2010, p. 20).

Ethical climate. The overall moral atmosphere of an organization, as shown through the overall employee perception of the moral environment (Victor & Cullen, as cited in D. V. Cohen, 1993).

Ethical decision. A choice that is both legal and morally acceptable to the general population (Jones, as cited in Selart & Johansen, 2010).

Moral agency. A conceptual framework through which one's moral conduct is "motivated and regulated through the exercise of evaluative self-sanctions" (White et al., 2009, p. 41).

Moral disengagement. “The ability to convince oneself that certain moral standards are not applicable to oneself” (Ntayi et al., 2010, p. 96).

Moral issue. “A moral issue is present where ever individual actions, when freely performed, may harm or benefit others”(Jones, as cited in Selart & Johansen, 2010, p. 129).

Self-regulation. Controlling one’s own behavior using the three steps of self-observation, judgment, and self-response (Bandura, 1986).

Social cognitive theory. Attributed to Bandura (1986), this behavioral theory is based on self-regulation and social modeling.

Social modeling. The ability and inclination of people to observe, learn, and copy what other people do.

Unethical decision. A decision that is “either illegal or morally unacceptable to the larger community” (Jones, as cited in Selart & Johansen, 2010, p. 129).

Values. A belief system or set of ideals to which a person or organization of people is committed (Ludwick & Silva, 2000).

Assumptions

It was assumed that unethical actions occurred at Adelphia Communications based on the fact that the company founders and two other senior executives were found guilty of fraud and remain incarcerated. Another assumption was that the founders were not known as “bad people;” they had no other criminal record and no publicly known ethical misconduct in any other part of their lives. Finally, it was assumed that those people with whom I spoke did not engage in any illegal actions. Those individuals might or might not have been culpable for their actions or inactions.

Limitations, Delimitations, and Scope

Limitations to the study must be acknowledged. One obvious limitation was that the two key people involved in the downfall of Adelphia are currently incarcerated and one of them is seriously ill. I was not able to interview them. In addition, because several years have passed since the dissolution of the company, I was counting on each individual's personal recall of past feelings and cultural issues and had to look for possible inconsistencies and ways to resolve them as they occurred.

Delimitations included the fact that the study involved only Adelphia Communications, which was a public company at the time of its demise. Public companies must adhere to strict rules of financial management, and it was through financial reporting during a particular period of time that the unethical behavior of its leadership became apparent. Behavior of leadership during the early days of the company, when it was a private enterprise, was not directly investigated.

At its peak, Adelphia employed more than 4,000 personnel. Of those personnel, only a relative few had contact with and influence on the top leaders and their decisions. I interviewed 10 top-level executives who worked at Adelphia Communications during the time the company went from success to dissolution.

Significance of the Study and Implications for Social Change

This study fills a gap in the literature through investigation of a single company and its well-publicized demise to understand what happened from an ethical perspective. Extensive broad theoretical research was conducted on ethical decision making, ethical climate, and moral disengagement, and some of this literature is highlighted in Chapter 2. An exhaustive search yielded no in-depth studies of a single company, making this study

significant. Also significant is the connection between the conceptual framework underlying this study and its application of those theories to practical corporate unethical situations that have already occurred and from which we might learn.

Potential professional application lies in the ability to suggest lessons for other corporations to create processes that might encourage ethical behavior and closely follow espoused corporate values. These processes might lead to training programs in ethical decision making and for more accurate checks and balances during the hiring process. Understanding the need for collective norms and corporate value statements that go beyond words on paper and are brought to life in everyday decisions and actions should be an objective of every organization that seeks to represent itself as a good corporate citizen.

Positive social change might come about through further understanding of collective moral disengagement, which can lead to better ethical training and testing within work groups and the creation of processes to assist in the early detection of collective moral disengagement or unethical behavior. Ethical work climates and collective ethical decision making in companies must be topics for open discussions; these concepts must be instilled in the company workforce throughout all layers of the organization and be consistently demonstrated by its leaders. The more we understand how and why the unethical decisions of corporate leaders affect others in and beyond the organization, the more chance we have to live in a trustworthy and ethical social community.

Summary

This study employed the foundation of cognitive moral development (Piaget, 1977), and the conceptual frameworks and theories of ethical climate (Victor & Cullen, 1987), and moral disengagement (Bandura, 1986, 1999) to investigate and explain the actions of the leaders of Adelphia Communications. Through interviews with 10 senior executives of Adelphia Communications, I explored answers to questions of how and why the company failed to do the right thing for its owners, its employees, and its shareholders. The interviews tell a story that will prove helpful to leaders of other organizations in understanding the need to develop, maintain, and promote an environment that encourages sound moral and ethical judgment. A review of literature on this topic and the conceptual framework underlying this research are offered in Chapter 2.

Chapter 2: Literature Review

Introduction

The purpose of this single-case study was to investigate corporate fraud by examining the possible reasons for the unethical decisions that were made by leaders of Adelphia Communications. A review of recent literature on the topic of unethical decision making and its causes in American corporations is presented in this chapter. Particular attention is paid to research on moral cognitive development, moral disengagement, and ethical work climate. Unethical corporate behavior is not a new problem and researchers have evaluated the phenomenon, resulting in several viable theories to explain the problem, as well as leaving gaps that present opportunities for additional research. The intent of this review of literature is to support and substantiate the conceptual framework, offer details on the problem, and develop connections between previous research and the questions used in this study.

Documentation

Research for this literature review was conducted by searching multiple scholarly and business databases including ProQuest, EBSCOHost, Business Complete, LexisNexis, and Hoovers, as well as peer-reviewed journals available in the Sage journals, ABI/INFORM, and Emerald management journals databases. Searches were also conducted for textbooks, dissertations and abstracts, and electronic materials. Internet searches were performed using Google Scholar and Google. Key terms used to

retrieve information on ethical decision making and corporate fraud included *ethics*, *morality*, *corporate fraud*, *corporate scandal*, *morality in the workplace*, *fraud in the workplace*, *ethics in the workplace*, *ethical decision making*, *business ethics*, *ethical work climate*, *ethical culture*, *moral disengagement*, *moral cognitive development*, *values*, *ethics training*, and *moral leadership*.

Searches pertaining to research and case studies on corporations that have experienced fraud and unethical decisions were conducted using key words and phrases including *Adelphia Communications*, *Enron*, *Martha Stewart*, *HealthSouth*, *John Rigas*, *NewsCorp*, *WorldCom*, *Tyco*, *AIG*, *Global Crossing*, and *Qwest*. These various searches returned peer-reviewed journal articles, newspaper reports, magazine articles, books, and websites. Ninety-three articles, 28 books, and 15 websites and case study databases were used for this review.

Case study research in this context needs to be distinguished from educational case study, which is used to teach business in many universities. Practical exploration of theoretical studies creates a great learning opportunity, and case study used in the classroom may promote skilled decision making and engaged discussion around a real-life situation. However, the criteria for producing classroom case study materials do not include the same rigor as case study research used either to test theory or to explore areas of current limited knowledge (Darke et al., 1998; Yin, 2009).

Corporate Ethical Dilemma

In 2002, President George W. Bush created the President's Corporate Fraud Task Force to restore confidence in American business. Since that time, there have been more than 1,300 corporate fraud convictions of 200 chief executive officers, more than 120

vice presidents, and more than 50 chief financial officers from companies across America (U.S. Department of Justice, Office of the Attorney General, 2012). President Obama, building on Bush's Fraud Task Force, created a Financial Fraud Enforcement Task Force in 2009 to hold accountable those who had caused past financial crises and to prevent them in the future (U.S. Department of Justice, Office of the Attorney General, 2009). By the end of 2011, there were 242 indictments and 241 convictions of corporate criminals in the United States, along with more than 1,800 securities and commodities fraud pending cases (U.S. Department of Justice, Federal Bureau of Investigation, n.d.). There have been fewer convictions under Obama's administration overall, although the Obama administration came down hard on SAC, a major hedge fund firm, for illegal activity, which made major headlines (Lattman & Protess, 2013). And data available from the U.S. Department of Justice, Federal Bureau of Investigation (n.d.) show monthly indictments and convictions averaging 15 or more per month.

Despite the crackdown on corporate fraud and legislation put in place to require executives to be aware of fraudulent financial activities in their organizations (Sarbanes-Oxley Act of 2002, n.d.), the unethical behavior continues. Companies like Enron, Adelphia, Tyco, and Lehman Brothers collapsed under mismanagement, and unethical decision making is at the core of the mismanagement (Copeland, 2005; Duska, 2005). Many companies have standard *legal* principles on which they base decisions (Bowen & Heath, 2005), so perhaps more attention should be paid to *ethical* principles.

The concept of ethics has been applied to the study of business since the 1950s, with the topic of corruption headlining much of the research (Rabl, 2011). Through the evolution of ethics and morality theory, the early discussion and application was

primarily from a societal perspective rather than a business perspective (Ciulla, 2004). Moral cognitive development theories offered by Piaget (1977), Maslow (1969, 1999), and Kohlberg (1981, 1984) proposed stages of moral development in human beings, but did not apply the characteristics of those stages to the business community or to leadership capabilities. Ethics as a critical part of business leadership was barely a topic of research as late as 1974, when the third edition of *Bass & Stogdill's Handbook of Leadership* (Bass, 1974/1990), a top leadership "bible," was published. Of the 1,150 pages in that work, fewer than four were devoted to ethics (Bass, 1974/1990).

As the 20th century wound to a close, theorists started to link ethical leadership to the styles of servant leadership and transformational leadership. However, the broader public acceptance of a connection between ethics and leadership was not achieved until the collapse of Enron in 2001, when fraud by corporate leadership made front-page news around the world. Enron quickly became notorious for unethical leadership, and its collapse brought to light the excess privilege and deceit of its leaders, none of whom stepped forward to accept responsibility (C. E. Johnson, 2005).

In 1985, a survey conducted jointly by *The New York Times* and CBS indicated 58% of Americans believed corporate executives were dishonest. While there was certainly corporate fraud prior to Enron, there was none as large and as publicly covered as Enron was at the time. In the 10 years since passage of the Sarbanes Oxley Act of 2002-- the post-Enron reform that was supposed to end questionable financial accounting practices-- stories of fraudulent behavior make it unclear whether anything has changed:

- 2002: "Prosecutors indicted ex-Tyco International CEO Dennis Kozlowski, former CFO Mark Swartz and ex-general counsel Mark Belnick Thursday on

charges of orchestrating a web of deals that looted the company of at least $600 million" ("Three Tyco execs indicted for fraud," 2002).

- 2003: "SEC charges HealthSouth Corp. CEO Richard Scrushy with $1.4 billion accounting fraud" (U.S. Securities and Exchange Commission, 2003)
- 2004: "A federal jury found Adelphia Communications Corp. founder John J. Rigas and his son Timothy, the former chief financial officer, guilty of conspiring to loot the cable television company of millions of dollars" (Masters & White, 2004).
- 2005: "New York Attorney General Eliot Spitzer sued American International Group Thursday, alleging the firm manipulated its books to deceive regulators and the investing public" ("Spitzer sues AIG," 2005).
- 2008: "Bernard Madoff, a prominent money manager and former chairman of the Nasdaq Stock Market, has confessed to losing $50 billion of his investors' funds in a Ponzi scheme" ("Madoff fraud hits investors worldwide," 2009)
- 2011: "Britain's biggest selling Sunday newspaper will close after failing to hold itself to account in the phone hacking scandal, it was announced last night" (Wells & Willetts, 2011)
- 2012: "JPMorgan's black eye nears $6B as bank says traders may have tried to conceal losses" (Wagner & Gogoi, 2012).

One website, WanttoKnow.info ("For Those Who Want to Know," n.d.), lists 50 pages of corporate corruption news stories for 2012 alone. Public outcry has been strong. Results of a 2009 poll indicated the vast majority of Americans gave corporate America a grade of either D or F for honesty and ethical conduct, with 58% of respondents saying

that leadership in corporate America was "poor"(Knights of Columbus & Marist College Institute for Public Opinion, 2009).

Frameworks for Ethical Leadership and Decision Making

With unethical corporate leadership a topic of increasing interest, research and analysis on ethical leadership and decision making has increased since 2000 (Kish-Gephart, Harrison, Treviño, & Klebe, 2010; M. Moore, 2008; Rabl, 2011; Selart & Johansen, 2010). Searches of major business databases using the general terms of ethical decision making and ethical leadership yielded more than 3,000 peer-reviewed articles, an indication of the interest in understanding more about this topic.

Researchers in the past have attempted to understand a variety of aspects of ethical conduct in the workplace and approached the issue from multiple perspectives or frameworks including sociology, psychology, philosophy, and organizational science (Rabl, 2011; Treviño, Brown, & Hartman, 2003; Treviño et al., 2006). However the framework for this study was informed by a combination of early cognitive moral development theory (Piaget, 1977), ethical climate theory (Victor & Cullen, 1988), and moral disengagement theory (Bandura, 1986, 1999).

Ethical Decisions and Cognitive Moral Development

Researchers from the perspective of organizational science have generally considered ethical decision making to be "a conscious, intentional, and deliberative process" (Zhong, 2011, p. 2). This analytic and cognitive point of view was influenced by Kolhberg's (1981, 1984) cognitive moral development theory, which describes moral reasoning as something that is developed in multiple stages as an individual matures.

Some people are able to attain higher levels of cognitive morality than are others, according to Kohlberg (1984).

Kohlberg's (1981) three stages of development (preconventional, conventional, and postconventional) all focus on a rational decision being based on conscious reasoning and analysis of a moral situation, as if one were a judge weighing its fairness. The preconventional stage is seen mostly in children. This stage is self-serving and decisions are based on consequences (possible punishment). Conventional thinking comes later, when the individual is able to consider the impact on people around him or her. The individual who is capable of postconventional thinking adheres to rules, laws, or standards; employing postconventional thinking becomes a way of "promoting general social welfare" (Zhong, 2011, p. 2) in which a decision is based on more complex reasoning.

Critical to cognitive theory is the ability of the individual to recognize a moral dilemma so that he or she may make a rational decision. Rest (1986) proposed that one must first recognize a moral dilemma, judge it, establish moral intent, and then make a decision regarding it. Basic moral awareness is fundamental to moral behavior and thus to the ability to recognize a moral dilemma (Blum, 1991; VanSandt, Shepard, & Zappe, 2006). An exploration of more than 90 research articles on ethical decision making leads one to the realization that moral awareness is not enough to make an ethical decision. The environment in which one makes the decision has much to do with how the decision is made.

Ethical Climate Theory as a Predictor of Moral Awareness

Most early research on ethical climate is attributed to Victor and Cullen (1987, 1988), who proposed a framework for ethical culture by building on Kohlberg's (1984) three stages of cognitive moral development. While Kohlberg referred to the preconventional, conventional, and postconventional stages of moral development, Victor and Cullen (1988) stated that ethical climates might be formed in three similar levels of ethical theory: egoism, benevolence, and principle. An egotistic climate is self-serving, and employees in this climate will form decisions in their own self-interest. In a benevolent climate, employees will tend to take others into consideration when they make decisions. If the culture is principled, decisions will be based on codes and rules (Victor & Cullen, 1988). These three classifications, described in terms of an organizational environment, exhibit the same sequencing of personal moral reasoning as Kohlberg applied on an individual level (Ambrose, Arnaud, & Schminke, 2007; VanSandt et al., 2006).

An ethical culture reflects "the collective ethical values and behaviors of all employees, managers, and leaders" (Gebler, 2006, p. 337). Such a culture involves shared moral reasoning and will influence employees to be loyal and to make the best possible ethical decisions when challenges arise (Ambrose et al., 2007; Duh et al., 2010; Van Aswegen & Engelbrecht, 2009; Victor & Cullen, 1987). Research indicates that an ethical work climate is a "primary predictor of individual moral awareness" (VanSandt et al., 2006, p. 409).

Companies and their leaders do not set out to be unethical; most companies have established elements in place to protect against unethical behavior. The Sarbanes-Oxley Act of 2002 (n.d.) was passed to respond to the growing number of instances of corporate fraud and the resulting decline in investor confidence. The legislation requires every public company to adopt a code of ethics, a mandate that was intended to help deter unethical behavior (Schminke, Arnaud, & Kuenzi, 2007). In general, companies that have a code of ethics and a set of corporate values show an intent to practice high integrity (Mayer et al., 2010; Parboteeah et al., 2010), but unless codes of ethics and sets of corporate values are enforced through specific and targeted management practices, they will not create an ethical culture (Schminke et al., 2007; Stevens, 2008). Leaders must exhibit the characteristics of the code and be accountable for enforcing it. They must "walk the talk" with actions that support ethical decisions and behaviors, even if the company might suffer financially. For example, if research in a pharmaceutical company shows a product to be harmful, the leader in an ethical culture must make the decision to pull the drug from the market and to alert customers who have bought it. As Van Aswegen and Engelbrecht (2009) remarked, "An organization's ethical climate should be a natural overflow of leaders' commitment to ethical principles and values expressed in their daily struggle to live by them" (p. 176).

Because organizational climate is, by definition, the way the employees and management of a company perceive the company, there is a need to look at the factors affecting that perception. Those factors could relate to individual characteristics such as age, gender, and job satisfaction, or to situational variables within the company such as one's department or position in the hierarchy (D. V. Cohen, 1993; Gebler, 2006). It is

also possible to have different climates in different divisions of the company, especially within groups whose members work together for a long period of time and develop a level of trust and understanding (Martin & Cullen, 2006; Vardi, 2001). The form of the company may play a role in determining the perception of ethical climate. Whether the organization is a corporation, a not-for-profit entity, or a family-owned business, that structure may predict different perceptions of ethical climate (Martin & Cullen, 2006; Schminke et al., 2007). The orientation of the firm (entrepreneurial versus bureaucratic, for example) and its leadership and management style will also affect ethical climate perception (Ambrose et al., 2007; Cullen et al., 1989).

For the purpose of this study, it was critical to explore the role of corporate leaders in creating, promoting, and maintaining ethical climate. Work climate can affect behavior, attitude, and overall corporate success or failure (Schminke, Ambrose, & Neubaum, 2005). Leaders need to model correct behavior, which in turn will help enforce the employee behaviors that are acceptable in the workplace (Clement, 2006). Stringer (2002) stated, "the single most important determinant of an organization's climate is the day-to-day behavior of the leaders of the organization" (p. 12). This correlation was reinforced in a recent study by Mayer et al. (2010), empirically confirming a link between ethical leadership and employee misconduct.

Rest (1986) proposed individual ethical decision making could only come about through the psychological processes of moral judgment, moral sensitivity, moral motivation, and moral character. More recently, others have suggested that individual morality also applies to the moral climate of the workplace, and that shared moral norms are essential for an ethical organizational climate (Arnaud, 2010; Mayer et al., 2010;

Victor & Cullen, 1988). Tension may arise in organizations in which there is a disconnect between the leaders' values and those of the employees, influencing the employees' attitudes toward loyalty, job satisfaction, and the desire to leave (Schminke et al., 2005). Schminke et al. (2005) empirically proved a relationship between the extent to which a leader uses his or her moral reasoning and the ethical climate of the organization. What might we find in the levels of moral awareness if research were conducted using a group of corporate leaders who have all been found guilty of corporate corruption? An extensive search of literature yielded no such study and such an investigation exceeded the scope of the current study.

As part of a leader's moral responsibility, Parboteeah et al. (2010) suggested lack of communication and poor empowerment of employees are two major threads in corporate climates in which ethical scandals have been experienced. Managers and leaders can promote adherence to ethical standards through strong written and verbal communication, frequent group meetings, and constant application of corporate standards to employee actions and decisions (Parboteeah et al., 2010). Lack of consistent reinforcement by management may make it difficult for employees to make their own moral decisions, while empowered employees generally make decisions that benefit the workplace (Elçi & Alpkan, 2008).

Leaders' values generally help shape the climate of an organization (Brown & Mitchell, 2010), and an ethical leader can be a strong role model in a company (Treviño et al., 2006). When leaders exhibit unethical behavior, few employees will remain untouched. The overall climate will be one of poor communication, low morale, and a lack of personal empowerment (Parboteeah et al., 2010; Stevens, 2008; Uhl-Bien &

Carsten, 2007). Some executives are aware of the connection between their behavior and those of their employees. In a speech in 2006, Boeing CEO Jim McNerney (as cited in Uhl-Bien & Carsten, 2007) said, "If an organization's leaders don't model, encourage, expect and reward the right behaviors, why should anyone in that organization exhibit those behaviors?" (p. 187).

A premise of hierarchical organizations is that those individuals at the higher level make the rules and those individuals at the lower level follow them. Often, employees believe or are told it is not their job to question, creating a climate of blind obedience, rather than one in which employees are empowered to openly communicate with and challenge their leaders. These sentiments can encourage an unethical climate in which silence and fear are the norms and dialogue is forbidden (Uhl-Bien & Carsten, 2007). Environments in which dialogue is discouraged may lead employees to fear retaliation for exposing unethical behavior (such as was the case at Enron, Adelphia, and WorldCom). The worst consequences of silence and following a leader unwaveringly were exemplified in the horrors of the Jonestown Massacre ("Inside the Jonestown massacre," 2008), in which most of the followers of a charismatic cult leader drank poison and died. In studying ethical climate and its predictors, little research appears to have been conducted on empowerment of lower level managers to provide ethical leadership upward when it is seemingly lacking at the top. Remaining silent out of fear of retaliation should not be the standard in any environment.

Can individuals with varying degrees of moral development coexist successfully? Kohlberg(1984) believed they could, while Victor and Cullen (1988) pointed out that "behavior compliance with a group or organizational climate incongruent with an

individual's level of moral development may lead to adaptive reactions such as stress or whistle blowing" (p. 105). People may behave unethically when they do not feel attached to the organization. In other words, when there is a disconnect between personal values and needs and those exhibited by the management of the corporation, the employee may no longer feel a commitment to the organization (Kapstein, 2011). Corporations seem to have their own sets of ethics that define them, just as individuals do, but in a corporate situation, individuals are more prone to follow the guidelines and pressures of the corporation than their own personal values (Cullen et al., 1989; Kapstein, 2011; Thompson, 2010), possibly opening a door to fraud.

Moral Disengagement as an Enabler to Unethical Behavior

According to Bandura's (1986, 1999) theory of moral disengagement, some people, through their own cognitive process, are able to ignore or override their personal ethical codes of behavior without any feelings of guilt. This suspension of personal ethics allows individuals to make decisions that would be considered unethical by the population in general (Bandura, 1999). Carrying this logic into the workplace, if there is any apparent moral disengagement on the part of the leader, moral disengagement will reflect into the ranks of the organization, making it possible for moral disengagement to play a role in the creation of corporate corruption (M. Moore, 2008).

Theoretical research exists on moral disengagement in areas such as predicting behavior in adolescents, as a possible explanation for aggression in the military, and in exploring political violence (Bandura et al., 1996). Prior to 2000, little research existed in the use of moral disengagement to explain corporate corruption. Since 2000, the world has witnessed corporate scandals of epic proportion (e.g., Enron, Tyco) and more

attention is being paid to the moral conduct of the leaders of those companies (White et al., 2009).

White et al. (2009) studied how the removal of self-censuring from harmful practices can affect the world of corporate research (in this case, the study involved research in the tobacco, lead, vinyl chloride, and silicon industries). The researchers found that moral disengagement is not always practiced by just one individual in an organization, but it can become part of the collective force, or “members acting together on shared beliefs” (White et al., 2009, p. 42). If members can act badly together, then collective moral disengagement can result from the group interaction and the cultural dynamics (Zimbardo, 2008). White et al.’s study shows a clear collective force of negative influence in a group, and it seems likely (although more research is necessary) that this same collective force could be the case in a family-managed business such as Adelphia. If at least one member (in this case, the head) of that family was morally disengaged, other family members could easily follow.

Moral disengagement appears to be a common tool for activating the on-off switch of ethical behavior (Bandura, 1986). This deactivation of moral behavior is done through eight mechanisms: (a) moral justification, (b) advantageous comparison, (c) euphemistic labeling, (d) displacement of responsibility, (e) diffusion of responsibility, (f) disregarding or distorting the consequences, (g) dehumanization, and (h) attribution of blame (Bandura et al., 1996). Each of these mechanisms allows an individual with high self-concept to eliminate personal blame for his or her actions. In other words, the individual uses these various mechanisms to allow for dishonesty without guilt. It is important to the individual to maintain his or her self-regard, and employing the

disengagement mechanism allows the individual to act within the scope of what is considered "acceptable dishonesty" (Mazar, Amir, & Ariely, 2008, p. 642).

From a psychological point of view, moral disengagement could be considered a form of self-deception. It is possible to act in one's personal interest while falsely believing the intent is moral/ethical (Tenbrunsel & Messick, 2004). The psychological factors that are at work to allow ethical behavior to fall aside as part of self-deception are very similar to the "excuses" that are formed during moral disengagement. Tenbrunsel and Messick (2004) referred to this thought process as "ethical fading": the ability to excuse actions in self-interest as moral and ethical. Both Bandura (1999) and Tenbrusel & Messick (2004) agreed that we create language to displace unethical behavior with something more neutral. For example, the term *right-sizing* instead of *lay-offs* helps to put a positive spin on the situation (Tenbrunsel & Messick, 2004).

Although ethics is a communal endeavor, the leaders of some organizations seem to believe they need not be part of that collective (Ciulla, 2004). The idea that individuals rationalize their unethical behavior is not new, but it is only in the last few years that moral disengagement has been studied to any extent in the workplace. Now there are studies to justify the hypothesis that the mechanisms used for moral disengagement are solid predictors of unethical behavior in the workplace (Barsky, 2011; Detert et al., 2008; M. Moore, 2008; Naso, 2006). By quashing the feelings of psychological discomfort, moral disengagement may actually lay a fertile foundation for corporate corruption (M. Moore, 2008).

It is up to the leader to set the tone for the company. If employees perceive they will advance more quickly through unethical practices, and if leaders do not punish those

measures, but instead seem to reward them, those employees will further embed potentially corrupt practices into the organization (Ashforth & Anand, 2003; M. Moore, 2008). It makes sense that there would be little reason to feel badly for behavior that is acceptable to the leader and for which an individual does not have to take personal responsibility.

Summary

Ethical climate and moral disengagement have been found to be underlying reasons for unethical decisions in the workplace (Ambrose et al., 2007; Gebler, 2006; VanSandt et al., 2006). Little exploratory qualitative case study research exists on the subject of corporate climate and the possible moral disengagement of the leadership from the perspective of the employees. Databases filled with business ethics case studies are maintained by many organizations and universities (see Appendix A), but case study research on moral behavior of corporate leaders, and more specifically immoral behavior of leaders of defunct corporations and what causes it, is lacking. I sought to begin to fill this gap in the case study literature with a specific exploratory case study of Adelphia Communications.

Moral awareness, ethical climate, and moral disengagement are clearly all related to ethical behavior in a corporation (Bandura, 2002; Mayer et al., 2010; Stevens, 2008). Just how each of these factors tie together and produce unethical behavior needs to be explored in a real-life situation. An exploratory case study of Adelphia Communications provided a window to what went wrong in one company, which may help future leaders of corporate America to understand the ethical responsibility before them.

Chapter 3: Research Method

Introduction

The purpose of this study was to explore and analyze the culture, leadership, and breakdown in ethical and moral decision making that occurred at Adelphia Communications. This chapter presents the details of the research design and its rationale, my role as the researcher, the specific methodology including the instruments and procedures I used, and the treatment and analysis of data. Dependability and reliability of the study, and any ethical concerns, are also addressed.

Research Design, Methodology, and Rationale

The research questions explored in this study are as follows:

1. Why did the leadership of the highly regarded Adelphia Communications make massive unethical financial decisions that led to corporate collapse?
2. What was the ethical culture and climate at Adelphia, and how did it affect unethical behavior and moral disengagement?
3. How were employees drawn into supporting, ignoring, or initiating unethical behavior?

Through interviews, I explored the experiences of a group of former senior employees of Adelphia Communications, and related and analyzed their interpretations of the ethical environment and the actions of the leadership to answer the research questions.

Qualitative research is descriptive and usually employs a purposeful sample, while quantitative research uses more numbers than words to describe an issue, and generally uses a random selection for sampling (Creswell, 2007). Obtaining answers to the research questions required me to obtain rich descriptions of events from a purposive sampling of past executives, underscoring the need for qualitative rather than quantitative research. Finally, I, as researcher, was the primary instrument through which the data were collected, rather than a scale, survey, or other inanimate instrument, another distinction of qualitative research (Merriam, 2009).

Case study was the appropriate form of research design for my research. Because the unit of analysis was one company and one group of executives within that company, it could be described as a bounded system, and study of a bounded system calls for case study as the research design (Yin, 2009; Zivkovic, 2012). Yin (2009) described the case study as “an empirical inquiry that investigates a contemporary phenomenon within its real life context” (p. 18).

While case study can be used to achieve a variety of end results, it can provide description and exploration where knowledge may be lacking (Darke et al., 1998). In this case, we know that Adelphia went bankrupt, that the founder and his son are in prison, and that the company was dissolved. The opportunity to hear firsthand from past employees about the corporate climate and the level of moral awareness and engagement of the leadership was an opportunity to explore and learn about the culture of Adelphia and personalities of its leaders that led to its collapse. Interviews are best used to find out things we cannot observe directly. In a catastrophic situation that happened in the past,

such as that experienced by Adelphia, the best way to learn about it and from it is by talking with those who were there and experienced it firsthand.

Role of the Researcher

I contacted 71 former executives of Adelphia Communications from a list I compiled using the online database LinkedIn (n.d.). I sent them each a consent form via e-mail explaining the nature of my dissertation study and asking for their participation. I expected at least a 20% acceptance rate from this letter, but actually got over 40%. I then narrowed the field of willing participants to 10 who had direct contact with the senior management team and who were at Adelphia just before and after the bankruptcy. To collect data, I conducted interviews using the specific prepared interview questionnaire. All questions were open-ended, so I participated in drawing out and listening to each person.

Some of the possible 71 participants I contacted were casual business acquaintances. I did have Adelphia as a business client before the scandals took place, and many of the former executives of Adelphia are now working elsewhere in the cable industry. Because of my activities in executive recruitment in that industry, several of the names of the executives I interviewed were familiar to me, and three were people I had met casually at some point over the previous 10 years. My previous experience with these individuals or my activities in executive recruitment did not influence or control the answers I received. My identity in the industry is one of high integrity and confidential work, so it may have been positive for me to be known, if only by reputation, by some of the people I contacted.

My current role in my company demands the utmost confidentiality and often anonymity as well, and I am able to convey that protection to others, a characteristic I called upon in my role as researcher. I did not use names or identifying factors in the study. In addition, my ability to interview, listen, assemble contextual information, make assessments, and maintain confidentiality, were important in my role as researcher. I did not anticipate any ethical issues or issues of bias to surface.

Methodology

Participant Selection

As Cullen et al. (1989) remarked, “The best way to find out about an organization’s ethical climate is to ask the people who work there about it” (p. 53). I interviewed 10 former executives of Adelphia Communications for this study. These former executives were men and women who worked at the level of vice president or above, and who worked at the company during the years 2000–2006, right before the scandal erupted and during the bankruptcy. I identified more than 1,300 former Adelphia employees, and I initiated contact with 71 of them after I received approval to proceed from the Walden IRB. I received a positive response and narrowed the field by seniority, diversity of role within the company, and reporting relationship. I wanted executives with direct reporting contact to the Rigas family.

The population I targeted was directly involved in strategy, human resources, procedure, and decision making at Adelphia during the time that fraud was discovered and the company collapsed. Of this population, four people were indicted, and two of them were convicted and are in prison. I worked on obtaining permission to meet with the two incarcerated individuals; they are held in a low-security federal prison. However, I

was unable to secure timely permission to meet with them and I was confident I could complete a thorough study without them. The remainder of the sample population reported directly or indirectly to the people indicted and had interesting and sometimes differing points of view about what occurred. The sample of 10 previous employees was ideal because the size allowed me to speak with enough people to get varying points of view and to hear about the company from different functional perspectives. Viewing the company through the lens of different executives in different departments added to the context needed for validity.

Instrumentation

After receiving a signed consent form from each participant, I scheduled phone interviews at mutually convenient times. I had planned to travel to meet with each person, but the distance and timing proved impossible to manage. I decided to allow the executives to choose their own location for a call, a process intended to put them at ease and make the interview as convenient as possible.

The questions posed in the interviews were formulated to allow for personal interpretation by the interviewee, allowing him or her to describe the culture, leadership characteristics, and personal point of view of the company during his or her years at the firm (see Appendix B). Each interview was recorded (with the interviewee's permission) and later transcribed for further analysis. I anticipated each interview would require 60–90 minutes, which was accurate. No phone follow-ups were required. I prepared for my interviews by accessing legal and Securities and Exchange Commission documents, all in the public domain, and reviewing the business press on the collapse of Adelphia to reinforce my understanding of the timeline and facts leading up to the actual bankruptcy

and collapse of the company. Several books written on the issue of corporate corruption lent additional context to the business climate at the time. Human resource documents such as a mission statement or code of ethics were not found.

I debriefed each participant at the conclusion of our interview by confirming the confidentiality of their name and specific comments, and offering to share the findings of the study with them. I thanked them for their participation, emphasizing the need for studies such as this one to help to better understand how a corporate collapse such as Adelphia occurred. Data from the interviews and the materials collected were analyzed and coded by connection to each research question.

Trustworthiness

The primary ethical issue in this study pertained to the treatment of human participants. I did not need institutional permission from Adelphia because the company no longer exists. I did need an individual consent from each former executive, and I either received that on the consent form or recorded a verbal consent at the outset of our telephonic interview. The individuals did not have any ethical concerns about participating in this study because the company has dissolved and the indictment of the chief executive officer and chief financial officer are facts of public record.

All data collected for this study have been and will be kept confidential. None of the comments have been attributable to any individual by name. The study has strong credibility and dependability, given the level of the participants' positions in the company and proximity to the key leadership. Any specific facts pertaining to the bankruptcy were triangulated with materials from the Securities and Exchange Commission and national news reports, as well as the court records.

Tape recordings of the participants were transcribed, and the transcripts and the tapes were kept in a locked safe in my office. After analysis, the tapes and written data were moved to a secure lock box, and all data will be destroyed after five years. Only the researcher had access to identifiable data because they were de-identified before transcription.

Summary

This qualitative single case study investigated the culture, unethical decisions, and moral disintegration of Adelphia Communications, as told by the executives who witnessed it. Care was taken to choose the appropriate method and research design for this study, select a sample population of senior-level executives who were there at the appropriate time, and to provide an ethical study with total trustworthiness. As the researcher, I am comfortable that I maintained an objective point of view, that I had no conflicts, and that I have met the purpose of the study. Answers to the research questions may provide information that could lead to positive social change in the area of business ethics in corporate America.

Chapter 4: Presentation and Analysis of Findings

Introduction

The purpose of this study was to explore how and why leadership of this formerly prominent and successful company made unethical decisions, created an atmosphere of moral disengagement, and destroyed the company. The research questions were the following:

1. Why did the leadership of the highly regarded Adelphia Communications make massive unethical financial decisions that led to corporate collapse?
2. What was the ethical culture and climate at Adelphia, and how did it affect unethical behavior and moral disengagement?
3. How were employees drawn into supporting, ignoring, or initiating unethical behavior?

The purpose of this chapter is to document and present the findings from the data collected. The selection of participants and method of collecting data are described in this chapter, as are any patterns and themes arising in the process. An introductory setting and background of the case are presented to help contextualize the findings. The results are analyzed in Chapter 5.

Setting and Background

It is important to recognize the facts of the Adelphia story to fully understand and contextualize the results of this study. A full timeline of Adelphia's history is provided in Appendix C.

Adelphia Communications was founded in 1952 and incorporated in 1972 by John Rigas and his brother, Gus, who had acquired several small cable television franchises in New York and Pennsylvania (Mahar & Fischer, n.d.). In the early 1980s, John's three sons joined the firm: Michael was vice president of operations, Tim was chief financial officer, and James was head of strategic planning and also chief executive officer of a small business subsidiary (Gilson & Villalonga, 2010). The family decided to take the company public in 1986, creating two levels of stock (one of which assured voting control), and kept several cable properties private (Mahar & Fischer, n.d.).

The Rigas family continued to acquire cable properties, both for the private entity and for the public one. Lowenstein (2004) reported in *The New York Times* that John felt if something ever went wrong with Adelphia, he would always be able to count on the private business—as if going public had been some newfangled experiment he hadn't quite bought into. Psychologically he didn't make the transition to being public (p. 3). In the early days of cable television, cable systems were often family-owned and family-operated businesses. Comcast Cable, Century Communications, and Cablevision Systems were a few of the companies started by a father and son team (Gilson & Villanova, 2010). As late as 2005, the eight largest cable operators had strong family control, with over 50% of the U.S. cable population being controlled by those eight companies (Gilson & Villalonga, 2010).

Since its inception in 1952, Adelphia was headquartered in Coudersport, Pennsylvania, a small farm community that experienced tremendous growth with the rise of Adelphia. The Rigas family hired many of the townspeople and improved the area greatly for those who lived there (Mahar & Fischer, n.d.). However, besides community expansion, the Rigas family began to finance family expenses and investments through Adelphia once it went public in 1986, and borrowed Adelphia money without revealing the debt on the company balance sheet (Gilson & Villalonga, 2010).

In the late 1990s, the cable industry was struggling with a slowing economy and increased competition. Adelphia, then the sixth largest cable operator in the country, was highly leveraged, having acquired multiple cable systems and other businesses over the previous decade (Gilson & Villalonga, 2010; Lowenstein, 2004; Mathisen & Foley, 2006). By 2002, primarily through these acquisitions, Adelphia grew to over $3 billion in sales, serving nearly 5 million subscribers, and having over 15,000 employees nationwide ("Adelphia Communications corp," n.d.).

The Rigases had also begun to purchase large amounts of Adelphia stock, and some analysts began to wonder where the cash for these acquisitions was coming from (Gilliland, 2012). The stock price, once listed at $87 a share, was falling, and it seemed that Adelphia would not have funds to pay back debt that was owed for the Rigases' repurchase of stock (Healy,1997).

On March 27, 2002, on an analyst phone call, a Merrill Lynch employee asked about a footnote in the financial report regarding more than $1 billion of stock the Rigases had purchased (Gilliland, 2012). When asked how the Rigases could afford the

purchase, Tim Rigas, chief financial officer, had no answer, and a downward spiral was set in motion. Within days, it was announced that the Rigas family owed more than $3 billion to the company, and not just for stock repurchasing (Cauley, 2007). By May 2002, the family was gone from the company and the board, and by June 2002, the stock was delisted from the NASDAQ (Lowenstein, 2004). Adelphia filed for bankruptcy on June 25, 2002, and arrests and indictments of family members and some senior employees occurred in July 2002 (see Table 1). Ultimately, the family fortune was lost, creating a $715 million fund to partially repay investors (Fabrikant, 2005).

Table 1

Adelphia Convictions

Name/age/position	Charge	Counts	Verdict
John Rigas, 79, father and former chief executive officer	Conspiracy, bank and securities fraud Wire fraud	18 5	Guilty Not guilty
Timothy Rigas, 48, son and former chief financial officer	Conspiracy, bank and securities fraud Wire fraud	18 5	Guilty Not guilty
Michael Rigas, 50, son and former executive vice president of operations	Conspiracy and wire fraud Securities and bank fraud	6 17	Not guilty Undecided
Michael Mulcahey, 46, former assistant treasurer	Conspiracy, securities, wire and bank fraud	23	Not guilty

Note. Adapted from "Adelphia Founder and One Son Are Found Guilty," by P. Grant & C. Nuzum (Eds.), 2004, *The Wall Street Journal,* p. A1. Copyright 2004 by Dow Jones & Company. Used with permission.

Sample Demographics

To explore why and how such serious ethical lapses occurred, I planned to interview executives who were employed by the organization in the period that Adelphia existed before, during, and just after the founder and his son were imprisoned for fraud (2002) and who had a direct working relationship with at least one member of the Rigas family (John, Michael, Timothy, or James). The executives who participated in this case study presented stories from an insider's perspective unavailable in the press and the court transcripts, which did not often include any analysis of why the fraud happened, only of the fraud itself.

A search of the online site, LinkedIn.com (n.d.) returned the names of more than 1,380 former Adelphia employees. I narrowed that list to 71 people with the title of VP and above and who I thought might have had direct contact with the Rigas family during their tenure at Adelphia. Of the 71 possible executives, I found 10 executives (seven men and three women) willing to participate who fit the specific demographic of being employed by Adelphia during the years the fraud occurred and who also had a close working relationship with a family member. I believed these employees would have the most relevant stories and experiences and would be able to comment precisely on the actions of the family. Therefore, I narrowed my initial plans to conduct the study from an indeterminate number to 10 executives. These 10 executives are coded in the results as Exec A–Exec J, and their interviews were held between June 3, 2014, and August 5, 2014. This final sample included employees from diverse functional areas ranging from sales and marketing to legal, human resources, general management, and technical operations.

Data Collection

The executives were interviewed using the full interview questionnaire (see Appendix B). All interviews were conducted by phone and were recorded via Vonage Business IP Telephony service directly into a computer MP3 file. Each call lasted between 57 and 85 minutes. Every individual either signed a consent form or gave his or her verbal consent at the start of the recorded call. No names were recorded; each person interviewed was given a code that was used for identification purposes during transcription. The recording file was sent via e-mail to the transcriber, who did not know the name of the person being interviewed. She transcribed the material using only the code provided. None of the officials interviewed had been indicted; most are currently working in other organizations, including other telecommunications and cable television companies. One person is retired.

The questions that were asked in the interview were grouped into sections to parallel the sequence of the research questions (see Appendix B). Because all of the interview questions were open-ended in design, the interviewee often discussed other areas beyond the scope of this study. Although not directly responsive to the question posed, this extraneous material provided additional context overall.

Nothing unusual or unexpected was encountered in the process of data collection. All interviewees were willing to participate, did so fully without problem, and no one dropped out. No bias was suspected; there was no incentive for specific results, and recall was consistent among all the participants.

Data Analysis

The data consisted of more than 500 pages of transcribed interviews. These transcripts were hand-sorted according to each interview question and hand-coded for specific themes around the research questions. An MS Word document was used to facilitate the sorting and coding process. Several key themes were found and the results are identified in tables in this section, organized by research question, and supported by specific quotes and stories told by the interviewees.

In analyzing the data, I found no variation in response by gender, reporting relationships, or functional areas within the firm. All individuals had direct contact to the Rigas family, and all were employed by Adelphia before and during the time of the collapse, so I did not find it necessary to sort the data in any way but by the comments the participants gave in response to the interview questions. Because the questions were open-ended, there was room for each individual to tell detailed stories to illustrate their comments. Several participants recalled specific moments at the firm that they said they had never discussed before. I categorized comments by topic, and then by similarity of examples given.

As an explanatory case study, I wanted to understand why and how the Adelphia corruption and collapse occurred. A vivid picture evolved in the words of those interviewed that describes the culture and leadership of the firm, and forms a collective explanation of how and why fraud occurred at Adelphia Communications. As is presented in the Study Results section, six major themes evolved from the data.

Study Results

Table 2

RQ1: Why Did Leadership of Highly Regarded Adelphia Communications Make Massive Unethical Financial Decisions that Led to Corporate Collapse?

Theme/behavior	Explanation
1. Family collective	Company was ruled by one family, with the employees used as a means to the family's ends.
2. High control/low empowerment	All decisions made and controlled centrally by the family. Employees often not allowed to make operational, financial, or hiring/firing decisions without approval of family member.
3. Business comingling	Family businesses and public businesses were not run separately.

Theme 1: Family Collective

Adelphia Communications was run and operated by one family. It had been started as a family-owned private company and was managed as such for many years. According to the data, the transition to public company made little difference in the actual operations. Participants commented as follows regarding this theme:

> They ran it like a family company when it was public. . . . Mr. Rigas was like everyone's father. He had great concern for the people of the community so he wanted to invest in the community as much as in the company, improve the schools, etc. Probably 80% of Coudersport worked at Adelphia. From a bird's eye view the whole place was like one big dysfunctional family. (Exec C)
>
> The Rigases kind of controlled everything, so although they were good to you, you really weren't going to go far unless your name was Rigas. . . Even

though the company was publicly traded, it was still pretty much family-owned and-operated. (Exec I)

The results showed that Adelphia was a family-run business. Its success and ultimate downfall had a great deal to do with the leaders' ability to take risks and make decisions that might not otherwise be approved. Participants commented as follows regarding the mechanism of operations as a family business.

> Ultimately the [Rigas] family prospered and I think John [Rigas] thought the employees and the town people were extended family and he was the father, or grandfather, making the decisions that in his mind benefitted them the best. (Exec E)
>
> If Tim [chief financial officer] were not John's [chief executive officer] son, John might have questioned what Tim was doing more. But there was a family trust among the Rigases, there's (sic) a family bond, there's belief in your son and you want him to do well and succeed, so maybe you give him more leeway than you would give to a [chief financial officer] that was not related, not in your family. (Exec B)
>
> As a family, they just trusted each other. I don't think they sat around the table and said, "Hey guys, I'm scamming the company today and I did some off-balance-sheet deals so we get more money." I don't believe there was scheming at the whole family level as there was at one primary level of the family. And the family just trusted each other. (Exec B)

After the initial public offering of stock, the Rigas family still held the top operating positions in the company and therefore maintained decision-making authority. Seats of the voting majority of the board of directors (six out of eight positions) were also occupied by the Rigas family. The fact that a family ran Adelphia had a cultural influence, as demonstrated in comments by the former executives interviewed:

> It was a quirky culture. I guess the best way to describe it was like a family. You had to be very accepting of everyone even if they did not deliver, because that is what you do in a family—you accept people's flaws. And no one got fired. It was very rare. (Exec I)
>
> I never got an office and had to work in the conference room because Doris [John's wife] wanted it to stay a conference room, and the family was not going to go against her wishes as a family member. There was an office available, but I was told that was the "family wing" and not available. (Exec D)

The family bond was something that was not to be questioned, both within the family and by the executives. The Rigas family trusted each other above all else. The former executives I interviewed commented about this family bond as follows:

> I was originally hired as chief [X] officer. On the day I started, they changed my title to senior vice president. As Michael Rigas told me, there was only going to be one chief in the company and it was John Rigas. So he did not want anyone else in the company outside the family to have "chief" in their title. . . . The leadership and decision making promised to me never happened. It had become clear that they were very unwilling to let someone outside of the family make any decisions. The family bond was the company. (Exec D)

> It is possible that John, James, and Michael never knew the full extent of what was going on. Keep in mind they had their own silos to run. Michael ran operations and James ran the phone company, and when their brother would walk in and say, "Hey, sign this, we are refinancing," they were not going to their own lawyers to sit down and comb through the documents. They trusted their brother. (Exec B)

The following story told by one former executive of Adelphia reveals the extent to which the family bond formed the firm, and the negative impact that was a result:

> I was hired by Jim Rigas directly, and as part of my responsibility, I oversaw a data center. The manager of the data center called me and said, "Hey, they're asking me to do something and I am totally uncomfortable doing it. So if they want me to do it, I need it in writing." So I told the manager to fax me the info.
>
> Well, apparently Tim [Rigas] had learned that the billing system would allow a disconnect flag on an account to go away after 180 days and show up again as current owed dollars. That was staggering, that they wanted to manipulate the books that way. I've never told this story to anyone except a few industry friends. So the manager took the document and wrote, "I will do this with the understanding that Tim Rigas agrees and is directing me to do this."
>
> And I took this to one of our top accounting guys who said, "This is creepy," and he took it to Jim Rigas. Jim got angry, livid, and went back to the accounting guy and said, "You NEVER question what my brother wants to do." And that was the

> end of it. The manager instituted the rule that the disconnect flags would drop off at 180 days. That family stuck by each other. (Exec A)

The theme of family loyalty and trust was strongly prevalent in every interview. The fact that the company was run by a family, and treated as a family, permitted the Rigases to enforce extreme control over the decisions of the organization. That high level of control and the resulting low empowerment of the staff is the second major theme in the data.

Theme 2: High Control/Low Empowerment

The research shows that, in the early days of the company, when it was structurally still a private family business, decisions were made as a group—around the Rigas dinner table. Because the family wanted to retain control, employees were not given much background or business insight into why decisions were being made. Following is a comment made by one of the former executives interviewed:

> There was no one to go to when you disagreed with things or had an issue. We were told to do something, but not why. Sometimes when I asked about something, I was told I didn’t need to know that: “Just get it done.” (Exec C)

Adelphia was an extremely centralized, controlled operation. The Rigas family maintained complete control of most decisions, processes, and procedures of the company, including hiring, firing, training, and budgeting. Not only were the Rigases the core of the senior management team, but the family, including a son-in-law, comprised most of the board as well. Another former executive interviewed offered the following insight:

> Adelphia was incredibly tightly controlled by the four Rigases, and the board of directors was controlled by the Rigases. . . . They were all strong libertarians and were the poster children for no intervention of any kind. . . . They were cowboys inventing their own way. . . . [The company was] highly centralized with micromanagement at the core. (Exec A)

Almost unanimously, the former officials cited the need of the family to control the company completely (fear of losing it), as well as the lack of boundaries between the family-run operation and the requirements of the public company, as major impediments to autonomous decision making. This created a path to the downfall of Adelphia. One of the former executives said, “The Rigases were committed to keeping control . . . you saw them bend rules to keep control. They sort of kept everything, you know, to themselves” (Exec B).

The control exhibited by the Rigas family extended to decision making in virtually every aspect of the organization. The family required that all major (and some not very major) decisions receive their personal approval. There was one cash management system (CMS) serving all areas of the firm; this single CMS allowed them to control all budgeting and spending across the entire organization (Johnson & Rudolph, 2007). This centralized decision-making process also caused slowdowns and sometimes total inaction within the operating teams, as several former executives recounted to me:

> The Rigases could not delegate decision making. Decisions were very, very centralized, so decision making was very slow. . . . Obviously, they pushed the envelope of what was allowable and John had to be aware of all that. John was

touted in the press after everything came out, as the confused old man, thinking he didn't know how he got there. (Exec J)

> They were micromanaging and controlling everything. . . . The place was highly centralized with micromanagement at its core. For example, something as mundane as figuring out the channel line-up, what channels the programs should appear on in what cable communities—let's say there were 800 communities. Maybe it was double that. But Michael Rigas would make that decision, sitting in his office, poring over the channel line-up chart for every community in the United States. (Exec A)

Exec G said, "The company was extremely centralized, with people in Coudersport making marketing decisions and programming decisions for the whole company with no knowledge of the specific market conditions." Another former executive elaborated,

> I ran a department but could make very few decisions. We did what John [Rigas] asked. So, if he said, "I want you to run recruitment ads in the newspaper," I argued that ads had not proven successful and he said, "Run 'em anyway." One weekend, he wanted to spend $30,000 on a weekend's worth of ads. It was a tremendous waste of money. But he wanted to make the decision. I could give someone a $1 pay raise and he would be furious, but he thought these $30,000 ads made sense. (Exec I)

> There was very little autonomous authority for anything. It is common to go up the chain for authority, but at Adelphia it was extreme. For a large expenditure, say a new HR system, you would have to get buy-in from the family.

For a capital item, you could get approval from John [chief executive officer], but he would have to sell it in to Tim [chief financial officer]. So all the Rigases had to approve most things. Many things just died and never happened because the whole group could not agree. We knew we had to go to all of them so I would start meeting with John on a Saturday for items pertaining to the following week, because I had a list of things to get through and, without him, it would never happen. (Exec J)

Even executives who recognized the need to assign authority to their department heads and who attempted to put control in proper hands grew frustrated at the results, as this former executive recounted:

I tried to establish areas where decisions could be made. When I got there, every single capital purchase or expense report had to go through multiple people. Let's say a technician had to use his credit card for gas, well, that technician would have to fill out an expense report, then the technician's supervisor would sign it, the general manager would sign it, the regional manager would sign it, the vice president of the region would sign it, then it would go to the call center manager, then the head engineer would sign it, then it would come to me and I would sign it, and then I had to send it to Michael to be signed. There would be about 14 signatures for a $35 gas purchase.

So I suggested that for any purchase under $50, I could directly approve them without them going to Michael, and he agreed to give it a shot. . . . And then after a while he was, like, you know, "I feel I am out of touch with what's happening with our front line," and he wanted to see the supervisor's written

comments on every CSR and wanted to validate that I was not just rubber-stamping expenses. So his insistence on seeing all this caused almost every expense and payable to go through a 90-day delay before it was paid. (Exec D)

In retrospect, some of the former executives offered that the control was maintained to hide financial matters from the rest of the team:

> Now we know that all the hoops we went through to get expenses paid, the lack of increases to salaries, etc., in retrospect we know there was a cash crunch in the company because of the debt. And they had to control everything so we wouldn't know that. (Exec D)

Equity ownership of the company was highly protected as well, which allowed the Rigases to control voting rights and decision making at the board level. But as the former executives I interviewed pointed out, giving up some ownership may have helped the family in the longer term, rather than hurting them:

> The Rigases were committed to keeping tight control. They did not give out a lot of stock to employees. They kept everything to themselves. Listen, they could have taken $3 billion out of this company in stock options and paid, over 10 years or so, $100 million a year in stock options to the Rigases as top executives and controlled the company through completely legal executive compensation measures, but they didn't because, you know, they were just so fearful that if they gave out a bunch of stock to themselves, they would have to give it to others and then there would be big shareholders growing around them and they would lose control. (Exec B)

> The company was very centralized. It was transitioning from a mom-and-pop business to a corporate entity. But the culture there was still a very mom-and-pop approach to things. . . . A lot of people struggled with that. The three brothers and the father made most of the decisions and set the strategic direction. It was very controlled. . . . I think if they had been willing to give up some control to meet their debt obligations, in other words, sell enough stock to where they might not have been the majority owners, they probably would have avoided all the problems. (Exec F)

Headquartered in Coudersport, PA, the rural location of the company isolated the family and may have allowed the problem of strong control to initially go unnoticed. The family and Adelphia became critically important to the survival of the town, and staying in Coudersport allowed the family to maintain control, to a point. One of the former executives said:

> [The company] just grew too fast. It grew too fast for them to maintain the kind of control they wanted. When you have to borrow a lot of money to grow, you do run the risk of giving up control to others, and they were very paranoid about losing control of the company, losing the ability to keep the company in Coudersport. If private equity came in, the investor might have preferred the company be in Pittsburgh or Buffalo or New York, and the Rigases were bent on keeping control and staying in Coudersport. (Exec B)

Even hiring and firing decisions at all levels across the country had to go through the family:

> For any termination anywhere in the company, John wanted to review it. Even a technician in Los Angeles. So I had a list of, say, five terminations, and I would have to take it to John. Sometimes I had to do a termination before I got his approval. Woe be to me if I made a mistake. There were times he reversed my decision and reinstated the person, often just because he liked the guy, or felt sorry for him. (Exec J)

These first two themes, the family as collective owner, and the highly centralized control and micromanagement of resources and processes, begin to demonstrate an environment in which poor decisions, even unethical decisions, might be able to flourish. In fact, during and after the trial, reporters from *The New York Times*, *USA Today*, and the *The Wall Street Journal* came to attribute the downfall of Adelphia to the absolute need of the family to control the decisions and the cash (Cauley, 2010; Johnson & Rudolph, 2007; Lowenstein, 2004). Newspaper reports and court hearings also brought up the issue of the family comingling of business (the next theme) during the trial when this was discovered, but the fact that non- indicted employees had those insights was not probed.

The third theme, the comingling of the Adelphia public and Rigas personal businesses, added to the closely kept culture of withholding most corporate information from the staff, and only advances our understanding of why illegal financial decisions could easily have been—and were—made and even thrived in the Adelphia environment.

Theme 3: Comingling of Businesses

The Rigases owned multiple businesses besides the cable business, both in Coudersport and elsewhere. When Adelphia Communications went public, the Rigases continued to run many things privately and, supposedly, separately from the public company. As it turned out, the businesses were often illegally comingled and managed from the one centralized CMS that had been established as they wished it to operate (see Table 3).

Table 3

Example Rigas Family Expenses Financed Through CMS or Co-Borrowing Proceeds

Receiving entity	Ultimate owners of entity	Amount received ($ millions)
Dobaire Designs	Adelphia paid this company, owned by Doris Rigas, for design services	.371
Wending Creek Farms	Adelphia paid John Rigas's farm for lawn care and snowplowing	2
SongCatcher Films	Adelphia financed the product of a movie by Ellen Rigas	3
Eleni Interiors	Adelphia made payments to this furniture store run by Doris Rigas and owned by John Rigas	12
The Golf Club at Wending Creek Farms	Adelphia began developing a ritzy golf club	13
Wending Creek 3656	Adelphia bought timber rights that would eventually revert to the Rigas family partnership	26
Praxis Capital Ventures	Adelphia funded a venture capital firm run by Ellen Rigas's husband, Peter Venetis	65
Niagara Frontier Hockey LP	Adelphia underwrote the Rigases' purchase of the Buffalo Sabres hockey team	150
Highland 2000	Adelphia guaranteed loans to a Rigas family partnership, which used the funds to buy stock	1,000

Total	1,271,371

Note. Adapted from *Adelphia Communications Corp.'s Bankruptcy*, by S. C. Gilson & B. Villalonga, 2010. Copyright 2010 by Harvard Business School. Used with permission.

The following multiple stories from those former executives I interviewed exemplify how the family did not change the rules of operation when Adelphia went from a private family-owned company to a public company with shareholders.

> You have to remember this was a huge business to control. It generated billions of dollars in revenue. And it [the cable business] is sitting next to the private family-owned Adelphia phone company with its own employees; they [the separate businesses] were all sort of intermingled within the company. And then layer in a farming business that is sharing some of the Adelphia buildings, and a furniture business that John's wife was running, and a mobile business. I assumed someone was accounting for all that, but at the end of the day, apparently they weren't. But they were a nice family, and we just trusted them. Because of the close control the family had, very, very few people outside the family, maybe two to three others, knew anything was wrong. We could see a mess in the structure, but we had no idea what it really meant…
>
> Fundamentally, you had a guy who ran a company that was privately held for 30 years, and then publicly traded for about 16. So he sort of developed habits of comingling things. You know, like the housing was a business in and of itself, and the farm was another. So everything got paid for out of this one account and,

for the first 30 years, it was no big deal. Then all of a sudden you're publicly traded. Well John Rigas's behavior never changed. I mean, they were all still comingled and the family business was the same as the public business, and you know, they thought, "No big deal." (Exec B)

The problem was this was John's company, and I don't think he could ever let go of that. He saw it as his personal company, his private business that he built and owned. . . . Tim and others were, I do not know if sleazy is the right word, but willing to do things that I wouldn't do, for example not separating the businesses. (Exec F)

We knew there were all these different businesses, and a group of us, and I swear this was before we knew anything was going on, we would joke like, "Oh you know, I work for Adelphia. They have three sets of books. One for Wall Street, one for the Rigases, and one that is real." . . . It really felt like the company was run as a privately held business, there was nothing systematic, nothing structured like a corporation, and it did not feel like they had any fiduciary responsibility to anyone but themselves. (Exec H)

The board was pretty much family and individuals they knew well personally. There was no independence on the board from that standpoint. That hurt, especially in the case of a public company. You need people on the board who are willing to ask questions and willing to have a different point of view. This board was set up to protect each other, and would not say anything about the comingling of businesses. They forgot that this was a PUBLIC company. (Exec F)

One of the former executives I interviewed stated the problem in the simplest of terms: “This was a family that was greedy. The fact is they did not listen to or were not coached on how to take a company from private to public” (Exec C). Another former executive provided a more elaborate explanation:

> They didn’t understand the difference between a private company that served *them*[emphasis added], and a public company that served the *shareholders*[emphasis added]. . . or else they disregarded it. . . They would regularly say it was their prerogative as the owner to make a decision. I always thought, “But you are not the owner, it is a public company.” (Exec D)

The leaders of Adelphia blatantly did not separate their companies into private and public organizations; this action was an open door to fraud. The process of illegal comingling, coupled with a private family whose members ran everything with full control, created the foundation on which Adelphia Communications was built and managed. What showed up later in the trial was that both the accounting firm and legal counsel, as well as the board of directors, let things slide and turned a blind eye, even as they knew things were not being accounted for properly (“SEC v. Adelphia,” 2004).

> Adelphia’s independent directors approved the “co-borrowing loans.” Adelphia’s outside auditor, Deloitte & Touche, did urge Adelphia to disclose them but acquiesced when Adelphia resisted. Adelphia’s longtime securities counsel, Buchanan Ingersoll, knew about the co-borrowings as well. Finally, investment banks floated billions of dollars of securities to the public with detailed descriptions of Adelphia’s finances which somehow neglected to mention the extra $3 billion of indebtedness. Even the SEC was aware that Adelphia and the

Rigas family let each other borrow on its own credit. . . But the SEC never investigated it. (Lowenstein, 2004, para. 8).

The family made decisions to benefit themselves because they were a close-knit and loyal family who believed the business they had grown was theirs alone. A clear picture of how they ran the company emerged in the first three themes. This picture may be understood further in the next two themes, which explain the ethical climate of the organization and why unethical decisions were either not seen or overlooked by those not in the family (see Table 4).

Table 4

RQ2: What Was the Ethical Culture and Climate at Adelphia and How did it Effect Unethical Behavior and Moral Disengagement?

Theme/behavior	Explanation
4. Care for community and employees	Company took care of those in the community and employees in need.
5. Family entitlement	High self-concept of "doing good" led to "acceptable dishonesty."

The research revealed that the culture at Adelphia was generous on one hand and self-serving on the other hand. Themes emerged that indicate Adelphia was a community of both care and self-entitled smugness.

Theme 4: Community/Employee Care

Input from the former executives left little doubt that there was a culture of care at Adelphia for a certain category of people, and for the town. The Rigas family was seen by those interviewed as a caring family who brought new life to the town of Coudersport.

They offered jobs, upgraded the community, and knew many of the population by name. As one of the managers remarked, "The Rigases improved the community; they built a golf course, improved the school and hospital. They were like the royal family of the town, and the town prospered thanks to them" (Exec I). Another former executive commented, "The family was really welcoming and engaging. They lived in the same town with all the employees, so we saw them socially as well as professionally, and we knew each other's family members, the wives and kids" (Exec G). Another executive explained the matter as follows: "They invested in the community because they had kids there, like making the school a good school. But everything was an extension of and function of the needs of their own, ultimately dysfunctional, family" (Exec C).

Other former executives offered more elaborate answers:

> They really provided white-collar jobs in an area that was traditionally blue collar. Our traditional industries in Potter County were agriculture and logging and things like a small carbon plant. . . . They created the sort of jobs that were not in existence before Adelphia really grew, like accounting, legal, operations, and call center jobs. It was a big economic boost for Coudersport, but also for Potter County, McKeane County, Tioga County, all the way into Allegheny County…
>
> People drove to work from six or seven surrounding counties because there was no other employer of its kind in that area. They put in first-class buildings, and renovated ones that were there. . . . And, to be honest, they stayed in touch with the agriculture side of the county. They had beautiful farms that

> they renovated, and they brought culture in. They brought in the Buffalo Philharmonic for Christmas. They had a big family picnic every year at the park. And for me (and some others), they bought me a house and allowed me to live in it. I think, when I left, they owned something like 160 houses, most of which housed employees. It helped to stabilize the real estate market, and made housing affordable for many people. (Exec B)

The Rigas family and the family culture was one of the reasons that many people originally joined the firm. They had heard the Rigases were a caring family who treated people with dignity. But the Rigases valued loyalty to the family more than business performance, and a controlling family and its insertion into the minutia of the company created some disconnect in their attempt to "care" for employees. As one study participant explained the matter, "John Rigas would give out his home phone number to an employee. He cared about the people as if they were his own family, right down to the lowest level employee" (Exec F). Other former executives provided answers that were more expansive:

> It was known as a good family place to work. I joined the firm because the reputation was that the employees were treated fairly. And the employees would be listened to and helped, you know, those employees who needed it. I think there was a good reputation there for Adelphia and the family. Even when it went public it had a "mom and pop" mentality. (Exec E)
>
> They never fired anyone. In fact they gave jobs to almost anyone in the community who wanted one. . . . But interestingly, the Rigases did not value people on their performance or their competence. They valued people on their

loyalty and their length of seniority to the company and were very vocal about it in those words. They protected those people but did not reward those of us trying to perform well. (Exec D)

They hated confrontation of any kind and so the ability to talk through anything to resolution was totally dysfunctional. Yet the family always stepped in where they shouldn't have. Here's an example. An employee working in another state would send an e-mail to John Rigas and say. "My supervisor yelled at me today and it made me feel bad." And John Rigas would get on the plane and go meet that employee the next morning. So every employee had 100% access and could bypass their supervisor, or HR. From the Rigases' point of view, they thought they were making it a caring place to work and valuing the employees. But it was chaos. (Exec D)

Everyone joked about Rigas standard time. John would call a meeting and you would often have to wait anywhere from 1 to 3 hours for it to take place. Then the discussion might never get to the business issue and could center on getting the employee's second cousin into Cornell. There were rabbit trails everywhere, incoherent and unstructured, and HR could never be part of solving an issue. (Exec G)

They weren't a Greek mafia or anything like that. They were not gangsters. They were good, honest, and salt of the earth . . . and they wanted to be in a rural area because they valued those, sort of those rural values. They didn't want to move to a big city. They encouraged us to go to lunch in the community and spread our money around, and support local initiatives. (Exec A)

> They flew people to the Mayo Clinic to get health care, something those people could not have done on their own. I had an employee who broke her vertebrae. She had worked for the company 60 days and she wasn't even eligible for health care at the point she flipped her car in the winter. And they paid the $54,000 to helicopter her to Philadelphia and bring her back, and all of her treatment. So there are many things I can cite that they did to go above and beyond and treat people like good neighbors. (Exec A)

Although the family showed unusual care for some people, it was clear to some people that this unusual care was both self-serving as well as caring. This culture underscored the role that the Rigas family structure played in the company, with John as the paternal head and the employees as his children, as the following stories demonstrate.

> John's daily world was the *kingdom*[emphasis added] of Coudersport. I say that sarcastically but he was somewhat of royalty there and I was in meetings where he would say, "Okay, the 4th of July Coudersport fireworks this year, Adelphia is sponsoring it, and we need to make sure this family serves the ham because they are falling short on paying our rent, and we need to let this family get the baskets." . . . But then at the same time, John would say, "You know, I think I should be given the key to the city, it's time, and I would like somebody to present that suggestion." (Exec D)

> I'm pretty cynical, but I always felt there was this position they took that Adelphia and the Rigases were this wonderful loving family that embraced and took care of you and really cared about the people that worked there, and that was sort of the front. That was the mask they wore. But the reality was they didn't care

about anybody. They only cared about, you know, making money. . . . When the company first started, I suspect it was genuine, but over time, they got bigger . . . they no longer operated it that way. To me, there was always this feeling of contrast and conflict. What they SAID they were was very different from HOW they really were. (Exec H)

I was behind closed doors and able to see some of the arrogance that was not seen outside that door. And I got to see that there was a whole lot of agenda behind some of the good things that they liked to be noted for. You know, there was such a sense of evil that I really felt. It wasn't just incompetence or ignorance. There was a self-servingness to it all. (Exec D)

It is interesting that they always took care of the downtrodden, the front line of people who needed it most. They did really good things for the truly needy. That came from John. I remember Tim saying his father was weighing them down with his good deeds, like the time John hired a local handicapped person to help run errands. He would hang around the family part of the office and stay for hours. But Michael and John wanted to help people. If a relative of an employee died, Michael would always go to the funeral, wherever it was. Michael was the true humility of that family, there was no self-servingness; he did it to truly exhibit care. But interestingly if there was a more senior manager out there who needed something, they had no compassion for those people. They felt they were able to take care of themselves. So they helped the front line, but often at the expense of the supervisors. (Exec D)

These former Adelphia executives' words speak volumes about the culture and leadership style during their tenure at the company. While the concept of care was important to the Rigases, they felt entitled to dole out the care to those who, in their view, were most needy. They acted as the royalty in the kingdom, looking over their subjects and determining their fate. Much of the "good" that the family did was perceived differently by the courts later on. Reporters attending court hearing wrote that John Rigas used Adelphia as a personal "piggy bank" to fund projects of his own interest, like the local golf course that they wanted to build, supposedly for the community (Cauley, 2007; Lowenstein, 2004). Although the golf course was never fully built, it would have cost shareholders more than $15million and additionally raised more money for the Rigas family because it was to have been built on their land. This theme of entitlement was the fifth major prominent theme revealed from the data.

Theme 5: Entitlement

The community of Coudersport generally thought of the Rigas family as entitled royalty. John Rigas employed many of the townspeople, developed new housing and small businesses, and helped the town to flourish. He was everyone's best friend, and there were few who did not know him well enough to say "Hello" when they saw him. Because the family did so much good for the employees of Adelphia and for the community, an aura of entitlement flourished within the family, as if they were the ruling royalty, with John filling the role of king, and all others in the community serving as subjects of the Rigas realm. To the Rigases, their entitlement meant that they were above reproach and were not to be questioned. Former executives offered several comments to support this theme.

If you were told, “Mr. Rigas would like to see you in his office,” it was like being called to the principal’s office. There was this weird aura of “We are the kings of this fiefdom and you have to do what we say.” And, in all honesty, I think that was the demise of the company. It was public, but run like a private family and sometimes like a dictatorship. I was often told to do something and if I asked why, the answer was, “This is what the Rigases want. Don’t ask why. Just do it.” (Exec C)

The town would see John Rigas hold court in the local diner where employees would line up to meet with him, like he was king. He was never on time, [and] so you had to sit and wait your turn. (Exec D)

There was an old hotel in town, the Crittendon, old 1800s-looking place. There was no way [that hotel] could stay alive in that town when they never really rented any rooms and just had sort of a bar and restaurant. Well, John was giving them a subsidy, so we could do business with them. He did that for a few places in town. The guy was king. Whatever he said, went. (Exec I)

We just trusted them. I mean, they were nice. Mr. Rigas was a really nice guy. Michael was a really nice guy. We just assumed all the stuff we didn’t know was being taken care of. It was sort of assumed the family had rights to a certain amount of authority and control, and the staff and the community were treated well, so no one questioned the family. If anyone knew the whole scheme beyond the family, there were very, very few. I only know of two who knew what that whole mess meant, Jim Brown [VP of finance reporting to Tim Rigas] and

> Michael Mulcahey [former VP and assistant treasurer]. And they were indicted with the Rigases. (Exec B)

The Rigas family expected people to do as they said without question, and that expectation often extended the people in the town as well as the people in the company. Anyone who was not a member of the Rigas family by birth or marriage was there to serve the family. Former executives said,

> I knew the Rigas family both inside and outside the office. They were one and the same in the office and in the community, the two areas just melded together. I have three kids and their pediatrician was Jim Rigas's wife. I coached their kids' softball team for a little while. We went to the same church as the Rigas family. . . . The Rigas family ran both the business at Adelphia and, in a way, he ran the whole town! (Exec C)
>
> I started questioning the ethics of the company when I spent time with the family. One time, Tim Rigas said to me, "Why is it that operations is always asking what is happening? You know, if they would just go out and do their work they would all be fine." That was a red flag to me, because I was wondering to myself, "Are you telling them the truth or are they just patsies, or what?"
>
> One time, Tim also said, "Well, we do have a board of directors, but we tell them what to do." I also would hear about things like the company plane taking toilet paper and a Christmas tree to the daughter in New York City, and even more bizarre, things like Doris calling one of my work associates at 6 a.m. and having him bring fresh donuts to the house. It was like they just expected

> everyone to think we were there just to serve them, regardless of our company role. (Exec D)
>
> The whole town was owned by the Rigases—everything—and everyone was beholden to them. The townspeople were like slaves; it was a slave environment. Most of the people worked for the Rigases, but they also lived in houses owned by the Rigases. It was so incestuous. (Exec H)

Once Adelphia was under scrutiny and the family members were indicted, the entitlement and control they showed in managing the community was often written about. The fact was that out of $564,000 in tax receipts collected by the town of Coudersport, Adelphia accounted for over 40% of it (Lowenstein, 2004). With all the comments about how entitled the Rigas family was, how controlling, how loyal to each other, why was financial fraud not more obvious to the employees, especially at the senior level? The final theme in the research addresses how the leadership could hide fraud within the culture they created (see Table 5).

Table 5

RQ3: How Were Employees Drawn into Supporting, Ignoring, or Initiating Unethical Behavior?

Theme/behavior	Explanation
6. Blind obedience and loyalty	Lack of control or empowerment resulted in powerless employees with unwitting support for actions of family.

Theme 6: Blind Obedience

The research reveals that the lack of authority in decision making and budget oversight, as well as the control and entitlement in place, resulted in a subservient

employee base with little, if any, knowledge of the inner workings of the financial state of the company, or how the various businesses were run and accounted for. Most employees were blindly loyal, doing what they were asked to do, right up until the fateful investor phone call in 2002 that started the unraveling of the company. We know now, after the trial, that a small group of executives in the financial group, reporting to Tim Rigas, participated in the fraud and were indicted, but broader knowledge as to how massive the fraud actually was, did not seem to penetrate to other senior executives outside the finance group. The executives interviewed stated that while they suspected things were not being done properly in the accounting area, there was no indication of the massive co-borrowings, cash manipulation, and false documentation that was produced and maintained. Despite being questioned at length by SEC attorneys and State of Pennsylvania attorneys, no senior executives beyond that small group of financial executives were indicted. Why did the senior-level employees at Adelphia not know more and say something? Former executives offered the following insights:

> When you first join a company, you know only what you have been told by others. You do not have the benefit of your own eyes and ears. And employees today are burdened by a great deal of responsibility in their day-to-day tasks, so really, to see a company transparently is not something that you have the time to do or that you even think to do. At Adelphia, there was no place to go, no one to turn to, if you had a grievance. If someone truly found out that the Rigases were doing something wrong and it was brought to their attention, it would be like, "That's not your concern; sit down, shut up, and wear beige." We were supposed

to blend in and do our job. And most people were just not going to stand up to them. We just figured it was not our business and we should do our job. (Exec C)

I don't think anyone in the company other than a handful knew we might be participating in something that was ultimately a crime. The company was just so huge and so comingled, and we thought, "Well, everything must be getting double- and tripled-checked somewhere by the accountants, so let's just do all this as if it is all married together and it will get checked." It turned out not to be the case. (Exec B)

You have rules for a reason. Pushing the edge just because you have gotten away with it before does not justify the action. The company has an obligation to its people, a duty. There were people at Adelphia who could have stepped out and said something. But if their boss [a Rigas family member] told them to do something, they felt they were doing the right thing by being loyal. It falls into the category, "I am a good employee and I do what I am told to do." (Exec J)

The Aftermath

While the employees interviewed blindly followed the leaders, three of the Rigases—John, Michael, and Tim—along with two others in the inner circle of the financial department were indicted, and the company filed for bankruptcy protection. Ultimately Adelphia sold its cable properties to Time Warner Inc. (TWX) and Comcast Corp. (CMCSA, CMCSK) for cash and stock, and dissolved (Adelphia Communications Corp., 2006).

John Rigas and Tim Rigas were found guilty of personally pocketing more than $2 billion and misleading investors about it. John was given a term of 15 years in prison and Tim received 20 years. As of early 2015, Tim and John remain in prison.

Michael Rigas was acquitted in 2004 of conspiracy and wire fraud charges, but the jury deadlocked on charges of bank fraud and securities fraud. The bank fraud charges against him were later dismissed by prosecutors, but he was given home confinement for 10 months for pleading guilty to one count of making a false entry in a company record ("Son of Adelphia Founder," 2006). Michael oversaw Adelphia operations but had very little interaction with the financial group.

James Rigas had left the company in the 1990s to run a separate telecom company and was not charged. Michael Mulcahey, the Assistant Treasurer who reported to Tim Rigas, was acquitted in the criminal investigation, but in the fraud trial the judge stated, "I fully accept that Mulcahey was not the architect of the fraud. He was, however, a critical participant who enabled the fraud. He was not duped. He is knowledgeable, experienced and reasonably savvy" ("Judge Finds Ex-Adelphia Executive," 2006, p. 1). A permanent injunction against future securities law violations was entered against him, but Mulcahey escaped prison time.

James Brown, the Vice President of Finance, pleaded guilty to fraud as part of a plea deal to avoid prison time, and became the star witness at the Rigas trial. He testified against the family and stated that he made false entries in the books for the family. He also stated under oath that the family lied to banks to avoid loan defaults, keeping the accurate results in a second set of books ("Plea Deal of Witness," 2004).

Tim Werth, an accounting director reporting to Michael Mulcahey, pleaded guilty and also testified against the family. Werth's ex-wife, Karen Chrosniak, also agreed to testify for the government, and told the jury that Timothy Rigas ordered her to understate Adelphia debt and overstate its subscribers. Chrosniak said, "It was wrong to prepare news releases and investor materials with phony numbers. But I didn't want to confront Tim" ("Ex-Employee Tells of Lies," 2004). Neither Tim Werth nor Karen Chrosniak were given jail time.

In addition to those members of the family and the financial team mentioned above, there were other people outside the firm in a clear position to prevent what happened. As noted earlier, the board of directors approved the co-borrowing of loans. Reports indicate that the outside accounting firm Adelphia used, Deloitte & Touche, did advise the Rigases to disclose the loans but the family refused, and Deloitte & Touche did not force the issue (Lowenstein, 2004). Apparently, even the SEC was aware that Adelphia allowed the family to borrow on its own credit and did not investigate it, and their securities counsel, also aware, kept mum about the actions (Lowenstein, 2004). Outside legal and accounting resources to the firm became enablers when they failed to insist on strict legal controls. Interestingly, once the debt was brought to light in that fateful earnings call, the accountants suddenly refused to approve the quarterly reports and their recent audit (which had not yet been signed), the law firm refused to represent Adelphia, several members of the board resigned, and the SEC investigation began ("SEC Charges Deloitte & Touche," 2005).

Questioned for their lack of proper auditing ("SEC Charges Deloitte & Touche," 2005), Deloitte & Touche settled with the SEC, paying $50 million without any admission or

denial of guilt, but stating that Adelphia had deceived them as well as the shareholders (Hurtado, 2012). Most of the executives interviewed for this study voiced their personal opinion that Deloitte & Touche should have been further sanctioned because the auditors played a significant role in the company downfall. Particularly in light of the recent Enron scandal, and the fact that Enron's auditors, Arthur Andersen, had been indicted just recently, it seems that paying the fee may have been a relatively light sentence for Deloitte.

Shareholders of Adelphia lost billions when the stock fell and was delisted. In 2004, after the trial of John and Tim Rigas, the government demanded that the family return the family's securities (never properly paid for) and their separately owned cable systems (purchased with funds wrongfully taken from Adelphia) to Adelphia, (which was then being managed by a new team and was going through bankruptcy proceedings. The new executive management team took over all operations when the Rigas family left the firm, and proceeded to manage the company through the disposition of all assets; however, they never worked with the family and therefore were not relevant to this study. In return for those assets, Adelphia agreed to create a victim fund in cash and securities of more than $700 million (U.S. Department of Justice, Southern District of New York, 2004). This case represents "the largest single distribution of forfeited assets to victims in Department of Justice history" ("$728 Million Returned," 2012, para. 2).

The people of Coudersport were both suprised and saddened. But the rest of the Rigas family still lives there. After the trial, although most of the privately owned cable systems of the family were surrendered to the government, two small systems serving

approximately 4,000 customers remained. James and Michael Rigas, and a team of former Adelphia employees, have now built that customer base into a small company with 35,000 customers in 12 states. They named the company Zito Media in honor of their father's Greek heritage (Gilliland, 2012).

The shock and sadness over this series of events was palpable in the voices of those interviewed. Many of them had not engaged in an in-depth discussion of their years at Adelphia in more than 10 years. All looked at their experience decidedly, with hindsight and knowledge gained over time. While none of the people interviewed were accused of any crime, several were called in for questioning and were interviewed by SEC and criminal attorneys. Here is what they had to say in retrospect about why they so blindly followed the Rigas family and about their time as an Adelphia employee:

> I found it odd the amount of worship I felt people gave the Rigas family, locally in the community, as well as in the company. The Coudersport people, you know, they felt like the Rigases could do no wrong and were worthy of the praise. It was bizarre. I had never seen people worshipped. It was almost like they were celebrities like Britney Spears or the Beatles; they were above human. There are a whole myriad of things I have learned from this. Life is linear and you have a certain number of years in your career, and if you blindly give loyalty to a person or an organization, you have to be careful. I tend to be loyal and I tend to be a crusader in work, and try to do what I do for the sake of the people I work for. But you have to step back and assess once in a while. (Exec J)
>
> The family was treated without judgment, you know, "A Rigas said it, so it must be right." Even when it was falling apart, no one questioned them. Tim

> could say anything, it's almost like he wrote the dictionary, you know? And I would just look at these people, like, "You've got to hear the words that are being said, you can't just look at this person and think all is good. The words are knocking this house of cards down." (Exec D)

I was surprised by the strongly supported theme of blind obedience demonstrated in the two quotes by Exec J and Exec D. I had thought I might find someone who had considered whistleblowing; that was not the case. The fact that no one outside the finance group knew the extent of the problems, or ignored the possibility, was a surprise. People trusted the family, even though they were not allowed to see the decision making, the internal workings, or the internal financial reports of the firm. While all those interviewed agreed that the entitlement and family control was massive, they still trusted the family. Although there seemed to be concern that various businesses and their finances were comingled, and no one outside of the family was empowered in any way to take action, loyalty was required to survive at Adelphia. And while many found the family behavior and business methods odd, no one I spoke with suspected anything of the massive fiscally irresponsible and criminal nature that ultimately was revealed.

Regarding the lack of controls by outside auditors and counsel, this phenomenon reflects common practice of the times. The financial implosion of Enron had literally just occurred and was dominating the news, and Sarbanes Oxley and Dodd-Frank did not yet exist. Tight external controls were not in place to oversee fiscal accountability and prevent fraud of this magnitude. These regulations and actions came later. What is interesting is that, now that regulations and policies and procedures are in place, we still

have massive fraud, as stated in an annual review of corporate fraud in America published on www.financierworldwide.com:

> The volume of reported corporate fraud, bribery and corruption cases continues to rise at an alarming rate. This is quite surprising given the scrutiny of regulatory authorities, the heightened level of awareness of the potentiality of corporate fraud and the increasing role of external auditors to detect material misstatement in the financial records of public companies resulting in fraud or error. In a recent case, corporate fraudsters orchestrated a Ponzi scheme that resulted in a loss to investors of nearly $1bn. According to the Internal Revenue Service (IRS), a number of other significant corporate fraud schemes were discovered in 2014 including the founder of Bixby Energy Systems who was sentenced to 300 months in prison and ordered to pay nearly $60m in restitution as a result of a Ponzi scheme involving the offer of company securities. (Wilson, 2015, para. 2)

More recently there has been an increased participation of auditors in finding fraud (Wilson, 2015). That was not the case when the Rigases' fraud occurred at Adelphia and this change is a welcome sign. Further discussion of the lack of oversight by outsde auditors and legal entities is provided in Chapter 5.

Evidence of Trustworthiness

Credibility

The data for this study consisted of stories in the exact words of ten executives who were employed by Adelphia before, during, and, in some cases, after its downfall. These data are their personal recollections. I expected some variation in thinking among the participants; however, the comments all fit into the total picture without any major

opposing perceptions. Public records (e.g., newspaper articles, SEC documents, court transcripts) were used to triangulate the events and the outcomes. No documents were found to question the results found, although some might question if those interviewed were all so totally ignorant. It seems that most executives suspected things were not run well, were sloppy, but no one, other than the small group that was indicted, knew the family had stolen billions of dollars. No one became a whistle blower, and few left the company. Employee turnover was low because the company was successful on paper, there were not many opportunities in cable at the time, and the company was in an extremely remote location with few local options.

No one interviewed spoke with fear; the statute of limitations for any further indictment (10 years) has long passed and the executives in this study seemed happy to tell their stories openly. In terms of possible bias during the recalling of events, recall bias would show either an exaggeration or an under-reporting of the facts being recalled, which would have been much more likely in conversations with the Rigas family themselves. In this case, however, we have ten people who recalled the leadership style and culture of Adelphia in great detail, and whose words all tell the same story. As a result of the assurances against falsehoods or risk of harm, and high consistency of the recall of the culture and management style, there is little reason to question the credibility of the data.

Transferability

The results of this one study are not necessarily transferable to other companies that have experienced corporate fraud because these stories represent the personal experiences of executives who were at one specific company run by one specific family.

However, the themes that revealed themselves are worthy of future exploration for possible transferability in areas such as centralized control, entitlement, employee loyalty, and the circumstances leading to blind obedience rather than to whistleblowing. Why people do not “blow the whistle” is multifaceted, but one key reason is that half to two-thirds of those who do it lose their jobs, and have a very difficult time getting hired elsewhere (Alford, 2001). All of these themes are topics that can be tested across many organizations. Possible future research opportunities on the themes explored in this study are addressed in Chapter 5.

Dependability

Dependability was established through triangulation with court records and SEC documents, as well as through finding corroboration among the 10 former executives of Adelphia interviewed for this study.

Confirmability

To establish confirmability, I needed to be self-reflexive and thereby assess my role in the trustworthiness of the analysis and interpretation of the data. While the interview questions were open-ended, I took care to listen carefully, hear any expression of emotion and take that characteristic into account, and not to engage in any conversation that might show a personal opinion or thought.

Summary

The results defined several key characteristics and themes in the culture and leadership at Adelphia Communications. Through the interviews and resulting stories of

the executives who were there, the researcher was able to explore personal insights into the collapse of the corporation.

There is no question as to whether fraud was committed at Adelphia. That condition was an assumption going into the research, based on the fact that two members of the Rigas family were sent to prison for crimes. The research questions probed why and how that fraud could happen, especially in a company that was well regarded, and worth, at one time, multiple billions of dollars. The study also asked how the senior team may have participated in some way. The data consisted of interviews with senior executives, from which six major themes were revealed that helped to answer the research questions, and which ultimately provided an explanation for the downfall of Adelphia. Nearly every story or comment fell into one of the six themes, summarized below, and combined give a clear picture of the culture and leadership of Adelphia that lead to its collapse.

First, the company was run solely by one family. There was no objectivity of board oversight. There was no objectivity in the C-level suite. There was, instead, secretive and parental-like management.

Second, there was high control by the family and low empowerment given to staff. All decisions were made centrally by the family. Department heads were not empowered or involved in budgets, and a central cash system was used to pay all bills across the organization. Hiring and firing had to be approved through family, often exclusively by John Rigas. Control extended to the community as well.

Third, the practice existed of comingling all businesses under one Adelphia umbrella. The Rigas family had multiple businesses that were comingled by management

team, location, and accounting methods. These inappropriate operational and fiscal matters were overlooked and, in some instances, even condoned by the board (which was also controlled by the family) and outside accounting and legal counsel.

Fourth, a culture of care existed for Adelphia employees and the Coudersport community. There was unusual care for staff members who experienced medical crises or personal problems. The Rigases were proud of their prominent role in the care and growth of the community. Their caring sometimes hid self-serving behavior and serves as an explanation for their belief that they were acting morally.

Fifth, there was a high level of entitlement by the family. The Rigases behaved as royalty over their subjects. They appreciated loyalty in their employees over performance and rewarded those who were loyal above all others.

Sixth, most executives were powerless, and showed blind obedience to the Rigas family. Loyalty without question was highly prevalent, based on the leadership style. The fraud was able to be contained and controlled within the finance team of Tim Rigas, whose members had little interaction with staff in other functional areas of the company, and who were likely unaware of the actions being undertaken in the name of maintaining the tight, secretive control of Adelphia by members of the Rigas family.

These conversations with former executives gave a clear picture of the company culture that only those who worked there would know and be able to describe. They may or may not be similar to conversations one might have with past executives of Enron, WorldCom, Tyco, Health South, or the myriad of other corrupt or possibly corrupt companies during the Enron Era. Adelphia was chosen as representative of those many

companies that went through similar fraud and criminal investigation, but it was unique in its family control, small town environment, and emphasis on loyalty.

Other firms may have had comparable unique situations that allowed fraud to take place, which is something that could be further explored in new research. Research has shown that there were similar themes in other corruption cases (J. Cohen et al., 2011). For example, family ties were shown to have a part in fraud at Rite Aid and ImClone, and tight close control at Computer Associates, Dynegy, Enron, MicroStrategy, and WorldCom. The failure of outside auditors to speak up was also mentioned as an issue at Tyco, Merck, Delphi, and Halliburton (J. Cohen, et al., 2011). It remains to be seen, with passage of the Sarbanes-Oxley Act of 2002 and later Dodd-Frank Act, that the matter of outside auditors not speaking up is a matter that is no longer a common occurrence.

All participants told their stories thoroughly, willingly, and, in fact, eagerly. Their combined stories, while personal to each participant, painted a broad and consistent picture of cultural and leadership issues that contributed to fraud and corporate ruin, and that have shown to partially support the two theories of ethical culture and moral disengagement that were used as a theoretical framework for the study. The conclusions and support of the framework are interpreted and analyzed further in Chapter 5.

Chapter 5: Discussion, Conclusions, and Recommendations

Introduction

The purpose of this study was to explore the ethical culture and leadership of Adelphia Communications Corporation and to answer why and how a successful public company could be overrun by fraud to the point of bankruptcy and total collapse. The research indicated that the major factors to perpetration of fraud within Adelphia included the family structure of the management team, a lack of empowerment given to the nonfamily executives, and a comingling of personal and public entities, revealing a lack of family acknowledgment that the company went from private to public.

Interpretation of Findings by Research Question

The research revealed that the culture of Adelphia was one in which fraud could and did thrive. Despite the true culture at the firm being one in which this type of crime was perpetrated, a primary reason the participants gave for joining the company originally was the high level of positive reputation each executive believed Adelphia and the Rigas family exhibited. From the outside, the company looked like a caring, hard-working, honest organization. The organizations under the Adelphia Communications umbrella were growing by leaps and bounds, building successful operations, and giving back to the local community (personal communications, execs A, B, C, D, E, F, G, H, I, and J). As Exec B remarked, “They had a big family picnic in the park every year, and the quality of life, if you enjoy small-town life, was good.” Exec C echoed this sentiment, saying, “I joined the company because of their huge and successful growth at the time. And cable was experiencing huge changes, which were exciting.” Exec E said, “We were

the biggest employer in this small town, and the company was growing. We had the cable operations, and the business systems, and the employees were treated well" (Exec E).

> They had acquired a bunch of new properties and I was to help them take it to the next level. I felt I could provide some economies of scale and some return on the investment for their acquisitions. It was exciting. (Exec D)

> [Adelphia] was a major player in the telecommunications space. I believe they were about $5.3 billion at that time. They were going through a major restructuring and looking at how they managed their call centers, sales, customer service, and they wanted to bring in more outside people with senior level experience and that intrigued me. (Exec F)

Each person I spoke to had joined Adelphia during the 1990's or early 2000's while the company was highly thought of and growing fast. The following sections offer an interpretation of the findings of the study and how they connect with the theoretical framework by each research question.

Research Question 1

Research Question 1 was, "Why did the leadership of the highly regarded Adelphia Communications make unethical financial decisions that led to corporate collapse?" As the company became a public company, the added pressure of Wall Street expectations was a possible incentive to show false numbers in their accounting. However, it was the Rigases' greed that caused the fraud. When the company was private, they could take money out for whatever they wanted. Supporting the community also meant supporting themselves, and they were used to the personal enrichment and

notoriety that came with having the biggest company in the town. They needed to continue to have funds to support their personal lifestyle, even when the company went public.

As the research revealed, there were several major issues at Adelphia that allowed the fraud to take place and go relatively unnoticed: (a) it was a family-controlled business, which allowed the fraud to be contained at the top level; (b) it was highly centralized in its operational decision making, providing very low levels of empowerment to the staff, again allowing fraud to be undetected at lower levels; and (c) the family ignored the principles of running a publicly traded company by financially comingling their personal businesses. The theoretical framework of moral disengagement seems likely to have played a role at Adelphia.

Moral disengagement allows individuals with high self-concept to eliminate any personal blame for their actions and allows dishonesty to occur without feelings of guilt (Bandura, 1986). The stories recounted as part of data collection portrayed a family led by a man who saw himself as extraordinarily generous, with a moral obligation to help the community, take care of sick employees, and provide jobs to those who wanted them. At the same time, he also felt entitled to use company assets for his own personal benefit and gain. The fast growth of the company to billions in revenue, along with the needs of the Rigas family to feel important and control the company and the community, allowing greed and moral disengagement to prevail. They excused the things they were doing by saying they helped others, and proceeded personally benefit without guilt or remorse, a clear sign of moral disengagement (Bandura, 1986).

Moral disengagement can be a form of self-deception (Mazar et al., 2008). The research shows the Rigas family, or at least some of them, may have believed their intent was moral. They deceived themselves by thinking they were helping others, while they helped themselves. Despite their beliefs, ethical fading, as described by Tenbrunsel and Messick (2004), seemed to be involved; the Rigas family excused their own actions or put a positive spin on many of them. Had the board of directors been more diligent (and not controlled by family), and had the accounting firm taken a stand on the lack of proper financial reporting, there could have been much stronger financial oversight, possibly recognizing some of the escalating instances of moral disengagement and preventing the fraud from taking place at all. As one of the executives remarked, "Clearly, controlling the board of directors was a MAJOR failing on their part. As much as they feared losing it, they lost the whole thing because they were unwilling to build in dissention at the board level". (Exec A)

Certainly the Rigas family loved success, power and control, and they apparently felt they were entitled to all proceeds of the public company they had originally built as a private firm. The financial department was controlled by Tim Rigas, who, with two key executives, masterminded the manipulation of the financial reporting. While they continued to state their innocence after being arrested, it is clear that there was a team in Tim's group who knew what was going on and decided to participate.

Research Question 2

Research Question 2 was, "What was the ethical culture and climate at Adelphia and how did it affect unethical behavior and moral disengagement?"

Ethical climate was part of the theoretical framework of this study. Victor and Cullen (1988) stated that ethical climates have three levels of ethical theory: egoism, benevolence, and principle. A principled climate is one in which leaders make decisions based on ethical codes and rules, which the leaders of Adelphia definitely did not do. A benevolent climate is one in which leaders take others into consideration in decision making. While the leaders of Adelphia tried to show benevolence to certain groups of employees, leadership stopped short of allowing others to participate in major decisions. Instead, the findings revealed a climate of egoism and self-serving behavior, with the employees obediently adhering to the decisions of a few powerful and controlling leaders.

In contrast to the culture at Adelphia, a true ethical culture reflects “the collective ethical values and behaviors of all employees, managers and leaders” (Gebler, 2006, p. 337). The findings are that the culture was one of control, power, and entitlement by the managing family. Although efforts were made to show care for those in need in both the company and the community, the majority of the executives believed that even those motions were self-serving and egotistical. There was no attempt to create a collective sense of ethical values and behaviors throughout the entire organization. The operational culture reflected blind loyalty and obedience. The fact that few employees had ownership, decision-making, or even budgeting or hiring/firing authority left most executives powerless and without a sense of what was going on behind the family’s closed doors. This void was filled with a sense of frustration and sometimes befuddlement. As one executive commented, “This was the strangest culture I ever saw. There is almost no way to describe it” (Exec I).

As these executives reflected on their time at Adelphia, many of them reported believing there was no shared moral sensitivity and character even within the family, something essential for an ethical organizational climate (Arnaud, 2010; Mayer et al., 2010). According to those interviewed, no one could recall a written or expressed set of values or an ethical code of conduct that was a core part of the culture and that was enforced by management through both words and actions. Everything was decided by the family on an as-needed basis, with very little consistency. As Exec H commented, “I do not recall a mission statement or anything like that. A values statement? I don’t remember anything at all.” Exec B responded in similar fashion, saying, “If there was a values statement I couldn’t tell you what it was. If there was something, we may have been shown it the day we joined, but it was never seen again” (Exec B). Exec D gave a more elaborate explanation:

> I actually tried to put together [a mission and values document] for them when I joined. I had worked on one at [a former company]. [Instead] they would say that everything is a “case by case basis” and refused to lock in specifics. And there was never a cohesiveness among the family on this. (Exec D)

No documents related to company values were found in my research. However when the new management team was hired to take the company through bankruptcy, after the Rigases were in jail, one of the first things they did was create a values statement for the firm going forward.

The culture of an organization is, by definition, the way the executives perceive it to be, and the leadership, style of management, and the actual form of the company (in this case, a family-run company) all influence that perception (Victor & Cullen, 1988).

As discussed in Chapter 2, “the single most important determinant of an organization’s climate is the day-to-day behavior of the leaders of the organization” (Stringer, 2002, p. 12). In this case, the research showed the behavior of the Rigas family was controlling, secretive, and entitled. Because activities were conducted behind closed doors, no obvious unethical behavior trickled down outside the core family and the few indicted members of the finance group. What did trickle down was a sense of frustration. At the same time, the executives saw the generous side of the family, as well as some odd management of the company, but no one interviewed suspected the extreme extent of fraud that was really going on.

One of the most interesting findings is how the employees were kept at arm’s length from the leadership in terms of any business decisions. Tension definitely appeared in the organization as a result of the employees’ inability to understand management reasoning on issues affecting operations. The controlling pattern of “just do what the family says” made it difficult for employees to experience job satisfaction. But very few of the executives at this level left the company. This could have been because the company was highly regarded by the overall cable industry and was growing and seemingly doing well, and also because it was remotely located. Being in Coudersport made it difficult to actively seek another job. One of the former executives interviewed said:

> Fundamentally this was John [Rigas’s] company, and I don’t think he could ever, ever let go of that. He saw it as, you know, his personal company…that he built and owned. . . . [Several executives] expressed concern about the family control and being able to make decisions. . . . There was a lot of frustration. (Exec F)

The low empowerment in the culture could easily have supported and facilitated moral disengagement by the leaders of the company. Parboteeah et al. (2010) stated that lack of empowerment and poor communication are common and important threads that run through past corporate scandals. The ability of members of the management team to empower themselves to make all decisions allowed them to decide who was and was not entitled to special care and assistance within the company and within the community. Helping some of the neediest individuals allowed the family to convince themselves they were doing good works and to excuse the self-serving nature of their actions and the financial implications of what they were doing—a perfect example of moral disengagement.

Research Question 3

Research Question 3 was, “How were employees drawn into supporting, ignoring, or initiating unethical behavior?” A notable finding is the insistence that there was no knowledge of the fraudulent financial inner workings of the company, and the blind obedience that allowed them to support the unethical behavior without even really knowing what they were supporting. Although some employees did mention that they questioned how businesses were co-mingled, or how bills were paid, everyone seemed afraid or unwilling to raise questions with management. Although none of these people were found complicit in any of the fraudulent activities, a question arises about why no one took action. At the time, the general laxity of enforcement of white-collar crime, and the fact that examples were not being made of it to any major extent before Enron and Adelphia, may have contributed to the ease with which unethical behavior took place.

The leadership of Adelphia was able to make unethical decisions without fear of action or questioning on the part of the employees, and to draw the employees in by demanding unquestioning loyalty. The research shows the culture was a dichotomy of care on the one hand and entitlement on the other, and employees unwittingly participated through their blind obedience. Employees knew only that they were to do as they were told. As one former executive interviewed for this study remarked, "The Rigases were generally nice people but there were times that, if they said, "Jump," you were supposed to say, "How high?" (Exec C)

With no empowerment for decision making at Adelphia, very little budget control, lack of general company knowledge, and demands from management to take operational actions without any empirical business reasoning, employees were left to blindly obey the family in charge. This behavior was, in this case, a perilous and pervasive outcome of the culture of the firm and the moral disengagement of the management team.

What kept these executives working for the Rigas family? There were a few reasons. One, they all worked in Coudersport, Pennsylvania, a secluded—almost isolated—small town where there was no possibility of other work. Adelphia was the primary game in town. If these former executives had chosen to leave the company, they would have had to relocate their families and find a job outside of that area. Two, the Rigas family continued to be kind and caring in many ways. They had company outings and events, cared for employees who were ill, and helped with housing for some of those who needed it. It was hard to believe a family that did those things would be doing anything that might destroy the company they worked so hard to build, and the reputation

they had achieved. Finally, Adelphia was considered a major player in the cable television arena and was well respected at the time. A job with a company on the cutting edge of the telecommunications industry was a secure job, and rarely was anyone ever fired from Adelphia. Perhaps it was easier for employees to simply put their head down and obey than to speak up and cause a storm over what was probably not a major issue anyway. Other than the few people indicted, no one knew how major the issue really was.

The data give a clear picture of the culture and leadership style at Adelphia, and explain how fraud was able to happen. The stories of the executives revealed inside details of the company and the family which supplied additional landscape and context to the core details of the situation. There would certainly be opportunity to do further research from a psychological perspective on the patterns of behaviors of executives who commit fraud.

Limitations of the Study

No limitations beyond those discussed in Chapter 1 arose during this study. I found the participants to be forthright and open in their interviews; they seemed almost anxious to participate and share their experiences. One limitation known prior to the study was the inability to interview the incarcerated family members. Obtaining permission to interview prisoners is difficult in the best of circumstances and requires a lengthy IRB process. In this case, John Rigas is now 90 years old and in poor health. Interviewing him would have required permission from him personally as well as another family member whose location was not known. The point of view of the accused and convicted might have added another dimension to the study, but would have posed another difficult limitation—that of honesty—because the Rigases who are in prison

continue to ask, from time to time, consideration for early release, and have not yet admitted to any wrongdoing (Gilliland, 2012).

Based on the conversations with the executives who were interviewed, it is difficult to speculate on what Tim and John Rigas would say in answer to the research questions, and because I was unable to interview them, I relied on the perceptions of those reporting to them. One executive suggested that the family, especially John, honestly believed this matter was all a misunderstanding, that there was nothing intentional done. There was also some suggestion that John Rigas, as the head of the family, was aging, and may not have been totally aware of how his son, Tim, was running the finance department. But most people disputed that possibility. One former executive interviewed as part of this study said,

> The John Rigas I knew was sharp as a tack. He could remember everything on *my* to-do list, even though I met with him maybe once a week. He could rattle it off in his head. I would joke with him and ask how he had such a memory, and he said "I used to work in a fast food restaurant. I know everything that's going on." (Exec D)

Recommendations for Future Study

The findings in this study present numerous opportunities to look behind the scenes of corporate fraud from a cultural standpoint. Learning about culture and leadership style directly from the people who were there will give future researchers an opportunity to analyze how certain characteristics of a culture may be ripe for, or even, in some cases, encourage fraud. Six suggestions come to mind for further research.

Change the Methodology or Research Design

A study on culture and leadership in companies experiencing fraud might benefit from another research design. Perhaps that study might focus more on the phenomenon of corruption. Such research might benefit from a different methodology. This same study might be conducted from another angle, such as that of corruption or fraud. In both cases, surveys of executives could also be used instead of interviews, or in addition to interviews.

Interview Incarcerated Executives

I had hoped to interview the incarcerated executives of Adelphia to gain insight into their perspectives of the events that transpired that led up to their convictions. The difficulties of IRB approval might be lessened if the jailed executives are not elderly, and have no serious health issues, as was the case with Adelphia. Perhaps other researchers conducting similar studies will fare better in terms of the age and health of jailed executives.

Research Companies after Fraud is Detected to Capture Lessons Learned

Adelphia is not the only company with a leader convicted of fraud. Some companies, like Tyco, experienced fraud and the CEO was incarcerated, but the company survived and still exists. Further lessons could be learned about what changes the board of directors made to survive and thrive beyond the fraud.

Company Location and Relevance to Fraud

Adelphia was located in a rural, isolated environment. Very few other major businesses were located nearby beyond Adelphia. The Rigas family not only ran the company, but also ruled the community of Coudersport, Pennsylvania. The importance of

a business to its community and the power of the business in the community was beyond the scope of this study, but could prove an interesting topic. Is it a positive or not that a company and its management are so intermingled with the community? Does corporate fraud occur more often in small towns or in major cities?

Corruption in Family-Owned Businesses

Adelphia was a family-owned private operation that became a family-run public corporation. A question worthy of investigation is whether a leadership team of family members is more likely to work together to commit or overlook fraud? Is moral disengagement more likely to occur when there is a blood bond in the team? Looking at family majority ownership in publicly traded companies that have experienced fraud might reveal new insights as to whether a family team as majority shareholder in a public company is more likely to be enticed to engage in illegal activity. Also, the Sarbanes-Oxley Act of 2002 (n.d.) included a set of guidelines for boards, holding the members personally responsible for some financial oversight. Analysis of companies experiencing corporate fraud since 2002 might show a different approach to allowing family members in multiple management roles and on the board.

Investigate Ethical Climate in the Cable Television Industry

It was common, in the early days of the cable television industry, for these operations to be family-run businesses; as such, the cable television industry could be an interesting one to explore in this regard. Cablevision Systems, Comcast Corporation, Century Communications, as well as Adelphia, all started as family-run businesses. Comcast is currently the largest cable operator in the United States, is a publicly traded company, and is still run by the son of the original founder. A study of the ethical climate

and management team at Comcast might show stark contrasts to Adelphia, particularly in empowerment versus control, and management egoism.

Implications for Social Change

This exploratory case study spotlighted one company and provided a plausible explanation for the contributing factors that led to perpetration of fraud at Adelphia Communications. The findings and explanation promote the view that ethical climate and moral disengagement are related to ethical behavior, and, in some cases, could lay the groundwork for fraud and other misdeeds to occur. The study tells a story in the words of those who worked within the company, and who did so in close proximity to members of the Rigas family. It provides an opportunity to replicate the study with other corporations to find consistencies as well as new elements of unethical behavior in corporations.

The study shines a light on the cracks in corporate culture and leadership through stories told by executives about the leadership team rather than through financial statements and analysis. Financial analysis of Adelphia books proved the fraud, which is not questioned, but the executives who participated in this study told the story behind the fraud and provided a plausible explanation that allowed the fraud to take hold and continue for years.

Importantly, neither the SEC nor outside counsel or auditors required changes in the reports being generated for shareholders. The board of directors, which was also family controlled, was not a team properly created for good oversight. The collapse of Adelphia occurred before the Sarbanes-Oxley Act was promulgated, and is a case that exhibits the need for proper controls and oversights that this legislation arguably put in place. In fact, it is possible that this kind of "cloaked" fraud by family

management/ownership could not easily happen today under Sarbanes Oxley. Replicating this study by interviewing executives in other firms that have had ethical lapses will only add to the body of knowledge, possibly building a database of stories regarding leadership style and culture that most support or hide unethical decisions.

In addition, further work may corroborate the lack of outside oversight at the time, and add to the research showing a need for strict accountability on the part of outside consultants. The opportunity exists to strengthen formal and informal reporting laws. Sarbanes-Oxley was a start, but there has been little real difference in corporate fraudulent behavior. While Dodd Frank did put new rules and oversight into effect for financial corporations, there continues to be a laxity in white-collar criminal enforcement (Cohan, 2015), and this laxity might begin to be addressed through future studies that prove and even demand a need.

Internally, the culture of an organization should encourage ethical behavior, not open the door to fraud (VanSandt et al., 2006). Further studies such as this one will help organizational leadership understand the importance of creating programs to manage and promote an ethical climate. Procedures should be in place in every company to strengthen ethical culture. These procedures could include value statements, ethical codes, hotlines for whistleblowers, and ethical training and education. Boards of directors can learn how to best serve their organizations by understanding the importance of the actual management of ethical culture, not just ethical codes and ethical leaders. As VanSandt et al. (2006) remarked, “A fundamental commitment to high ethical standards must permeate everything employees do and must be a foundation of action of leaders throughout the organization” (p. 417). The effort of leadership to provide a conscious and

positive ethical environment at work will not only improve and strengthen ethical judgment in the organizations, but also in the individual executives, and in turn in the communities they serve (Duh et al., 2010).

Conclusions

As the researcher, this study allowed me to realize that there is no more straightforward way to hear about and understand the strengths and flaws of an organization than by talking directly to its executives. I sought an explanation for the collapse of a successful company, a reason behind ethical lapses in the decision making of the leaders of this once-heralded company. The findings of this exploratory case study show the continuing need to better understand the reasons behind ethical collapse, not just the fact that there was one. Additionally, the findings show the need to promote committed attention to the development and management of ethics training toward a moral workplace run by leaders who walk the talk on a daily basis

Corporate fraud continues to flourish in American business (Barsky, 2011, Potter, 2015). Thousands of white-collar criminals elude prosecution for every one convicted. According to Potter (2015), “We are in the midst of a white-collar and corporate crime epidemic” (p. 30). This study revealed that the words of the executives at the firm during the perpetration of the fraud can provide insights to the enablers of an ethical collapse. Moral leadership and ethical culture, as perceived the employees in the organization, are critical to the well-being of that organization (Arnaud, 2010; Gebler, 2006; Mayer et al., 2010; Parboteeah et al., 2010). Who better to take the temperature of the firm, and to report the effect on the temperature, than those who are there? The more we understand

how unethical decisions affect others, the more chance we have to live collectively in a trustworthy and ethical social community.

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Appendix A: Business Ethics Case Study Databases

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Appendix B: Interview Questionnaire

Overview of Employment (Background to establish credibility, work expectations, and prepare for questions on Culture)

1. When did you join Adelphia Communications?
2. How long did you work there?
3. What was your title when you joined, and how did it evolve or the time you were there?
4. Who did you report to in each job you held (by name and title)?
5. Why did you join the company? Name two or three things that attracted you to work there.

The Collapse (to answer Research Question 1 on why the collapse happened)

6. Explain how you become aware that there was a financial investigation going on at Adelphia.
7. Why and when did you ultimately leave the company?
8. Describe your relationship with the top executive team and whether it changed over time.

Business Environment/Culture (to answer Research Question 2 on the ethical culture at Adelphia)

9. Describe if and how the owners made an effort to build a good place for employees to work.
10. Was there a set of Company values or a Mission statement, and if so, how were those integrated into your day to day work by the organization?
11. Describe how the company promoted collaboration among departments?
12. Explain the type of training, if any, that the company provided on a regular basis (skills based, sales, ethics, human resource counseling, etc.).
13. How would you describe the culture of the firm during your time there?
14. Explain whether and how the culture and feeling of the firm changed over time.
15. If you had direct access to the senior leaders of the firm, how would you describe the closest interaction you had on a regular basis (phone calls, personal meetings, staff meetings, company outings, etc)?

Morality/Ethics/Opinions (to answer Research Question 3 on how employees were drawn in to accepting or ignoring unethical behavior)

16. Describe how decision making was done in your department and whether you felt you had a share in it. Describe any autonomous decision making authority you may have had.
17. Explain how the P&L and budgets for your department were managed.

18. Describe how you felt about the morals and ethics of the company at the time you joined? Did this change and if so how?
19. Describe the family that owned the company as you knew them, including their concern for employees. If you feel they were an upstanding family, explain what you saw in them that made you feel this way, and if you feel they were not, explain why.
20. In your opinion, describe any change in the culture and morals at Adelphia during your time there.
21. Explain in your own words why you feel Adelphia collapsed.

Closing

22. If you were writing the book, tell me in a few sentences what happened at this company.
23. If there is a lesson to learn for you personally, what is it?
24. If there is a lesson for corporate America, what is it?

Appendix C: Adelphia History Timeline

The rise and fall of Adelphia Communications and its founding family, the Rigases, is highlighted along the following timeline.

1924: John Rigas is born in Wellsville, NY.

1943: John Rigas graduates high school and is drafted into the Army. He serves in World War II in Belgium, France, and Austria.

1946: John Rigas is discharged as private first class and enrolls in Rensselaer Polytechnic Institute in Troy, NY.

1950: John Rigas graduates with a degree in management engineering. Returns to Wellsville to work in the family restaurant and, later, a Sylvania plant.

1951: John Rigas pays $72,000 for a run-down movie theater in Coudersport, PA.

1952: John Rigas pays $300 for a local cable franchise in Coudersport, PA.

1953: John Rigas marries Doris Nielsen, who that year gives birth to Michael Rigas.

1954: John Rigas's brother, Gus, joins the franchise.

1956: Timothy Rigas is born.

1972: The company incorporates as Adelphia, from the Greek for *brother*.

1983: John Rigas buys out Gus's stake as his three sons join Adelphia.

1986: Adelphia goes public.

1994: John Rigas pays $22 million for Buffalo Sabres stake.

1999: John Rigas has triple heart bypass and later is diagnosed with bladder cancer. That year, he pays $8.5 billion for Century Communications, FrontierVision Partners, and Harron Communications, nearly doubling the size of the original Adelphia and making it the No. 6 cable operator at the time. The acquisitions add greatly to the debt of Adelphia.

2000: John Rigas backs an office tower in Buffalo, NY, and buys control of the Sabres.

2001: John Rigas is inducted into the Cable Television Hall of Fame.

2002: In March, Adelphia discloses it provided collateral for $2.3 billion in loans to the Rigases. In May, as the stock plummets amid reports of financial scandal, Rigas and his family are forced out of the company. In June, Adelphia files for bankruptcy-court protection. In July, five executives — including John, Michael and Timothy — are arrested on charges of fraud. One pleads guilty and cooperates; the Rigases and Michael Mulcahey choose to go to trial.

(http://usatoday30.usatoday.com/money/media/2004-07-09-rigas-timeline_x.htm)