Understanding WorldCom's Accounting Fraud: Did Groupthink Play a Role?

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WorldCom, Inc. perpetrated the largest accounting fraud in U.S. history. WorldCom, now called MCI, emerged from bankruptcy protection on April 20, 2004 after being fined $750 million. In total, WorldCom reported accounting irregularities of $11 billion. While employees and investors look for individual culpability, much of WorldCom’s organizational structure and culture potentially contributed not only to the fraud but also to the length of time over which it occurred. In many ways, groupthink may help explain some of the issues and fraudulent activities at WorldCom as well as the pressures that were placed on employees extending the period over which the fraud occurred.

We were duped, how could we have been so stupid, and the more humorous my 401K is now a 101K. These and many others are all sentiments heard around the halls and coffee machines at WorldCom (now named MCI) after the largest accounting fraud in history occurred. Currently the nation’s second largest long-distance phone company, MCI is headquartered in Ashburn, VA. MCI emerged from bankruptcy protection on April 20, 2004 reporting accounting irregularities of $11 billion (Young, 2004). Young (2004) reported that the company, as part of a settlement with the Securities and Exchange Commission (SEC), will pay fines totaling $750 million and former bondholders will receive 36 cents on the dollar in stock and bonds in the new company. According to U.S. District Judge Jed Rakoff, Richard Breeden, the court appointed bankruptcy monitor, will probably stay on for an additional two years (Lublin & Young, 2004).

A recent SEC report (2003) found that WorldCom’s ex-Chief Executive Officer (CEO), Bernie Ebbers, initiated much of the culture and pressure that allowed the fraud to transpire. In concurrence with this finding, on March 2, 2004, Ebbers was charged with conspiracy to commit securities fraud, securities fraud, and falsely filing with the Securities and Exchange Commission (Davidson, 2004; Moritz, 2004) after Scott Sullivan, WorldCom’s ex-Chief Financial Officer (CFO) agreed to testify against him (Pulliam, Latour, & Brown, 2004). On the same day, Reuters television reported that Sullivan stated, “as CFO at WorldCom I participated with other members of WorldCom to conspire to paint a false and misleading picture of WorldCom’s financial results.” On May 24, 2004, six additional counts were filed against Ebbers (Davidson, 2004). Each additional charge alleges that Ebbers filed false quarterly documents with the SEC from the fourth quarter 2000 through the first quarter 2002. In total, Ebbers now faces charges with a maximum penalty of 85 years in prison and an $8.25 million fine (Davidson, 2004).

Although employees and investors look for individual culpability, WorldCom’s organizational structure, group processes, and culture contributed to the fraud and the length of time over which it occurred. Within WorldCom, there was a great deal of focus on teamwork and being team players. In hindsight, however, were many of the senior level managers being team players or was it a well-orchestrated scheme to
perpetrate a fraud for the personal gain by a handful of executives?

Morgan (1997) equated the type of behavior at WorldCom to the metaphor of employees being held in a psychic prison. He associated the psychic prison to Plato’s cave whereby individuals could only see the shadows, or illusions of reality, on the wall in front of them. Plato’s cave dwellers, even when faced with a truth that their reality was flawed and only revealed the shadow of reality, would reject that paradigm change to the point of ostracizing the individual attempting to change their reality. In business, Morgan (1997) suggested that any attempt to change these organizational norms would create “all kinds of opposition as individuals and groups defend the status quo in an attempt to defend their very selves” (p. 245).

Analogous to Morgan’s (1997) psychic prison, Irving Janis laid the foundation and basis for groupthink in a 1971 article in *Psychology Today*. According to Janis (1982), groupthink is a “mode of thinking that people engage in when they are deeply involved in a cohesive in-group, when the members’ strivings for unanimity override their motivation to realistically appraise alternative courses of action” (p. 9). Further, Sims (1992) found that the indicators of groupthink include “arrogance, over commitment, and excessive or blind loyalty to the group” (p. 652).

Janis (1982) contended that some well-known examples of groupthink were America’s decision to escalate the war in Vietnam, President Kennedy’s decision to invade Cuba at the Bay of Pigs, and President Nixon’s Watergate cover-up. Whyte (1989) added some more contemporary examples of groupthink as the space shuttle Challenger disaster and President Reagan’s Iran-Contra arms for hostages dealings. Each of these examples displays the symptoms or characteristics of groupthink and each ended in disaster. The characteristics of groupthink include a feeling of invulnerability, ability to rationalize events and decisions, moral superiority within the group, group pressure on dissenters, use of stereotypes, self-censorship within the group, and unanimity.

Janis (1982) broke these major characteristics into three major types or categories (see figure 1). When groups display

most of the characteristics of groupthink in each category, the group is likely to engage in concurrence seeking resulting in insufficient examination of other courses of action. Not only do groupthink organizations inadequately examine alternate course of action, they also avoid examination of the risks involved in the selected course of action. These factors lead to an overall low probability of a successful outcome to decision making. Whyte (1989) posited that groupthink also involves a “choice in the domain of losses” (p. 47). For example, according to Whyte (1989), the pressure on NASA to launch the Challenger was so great that the option to delay or not launch was seen as an unacceptable alternative. However, just because a group’s decisions resulted in a poor outcome, does not insinuate that it resulted from groupthink behaviors. Likewise, defective decisions caused by groupthink do not always result in a disaster. Groupthink, however, may help explain many of the issues and fraudulent activities at WorldCom as well as the pressures that were placed on employees to be team players, especially in the highly competitive telecommunications industry.

During the late 1990s, there was strong pressure on WorldCom to maintain historic cash flow levels or EBIDTA (earnings before interest, depreciation, taxes, and amortization) while orders for new telecommunications equipment declined. This pressure resulted in several WorldCom executives engaging in unethical and fraudulent behavior. In general, the SEC report (2003) found three major areas of fraud.

1. The unauthorized movement of line costs to capital as prepaid capacity. Line costs are paid to local telephone companies for originating and terminating long distance calls and account for the largest single expense for long distance companies. By moving these costs to capital, the costs could be depreciated over time thereby increasing the current year’s EBIDTA.

2. The improper release of accruals. This improper release effectively reduced current year expenses and increased earnings.

3. Additional minor questionable revenue entries resulting in increased operating earnings.
Figure 2 displays an organization chart identifying many of the major players documented by the SEC investigation. Each of these individuals was indicated in at least one of the fraud findings (SEC report, 2003).

Nietzsche, as cited by Von Bergen and Kirk (1978), wrote that madness was rare in individuals and widespread in groups. A variety of group madness at WorldCom will be explored in this article by reviewing Janis’ characteristics of groupthink, which created a kind of psychic prison for many employees at WorldCom. Janis (1971, 1982) indicated that it is not necessary for all the groupthink characteristics to emerge for it to be present; however, this paper will review each of these characteristics and relate them to the SEC’s findings at WorldCom.

**Invulnerability**

Cohesive groupthink organizations build an aura of invulnerability amongst their members. This invulnerability leads to a kind of unmatched bravado or superiority among group members. Janus (1971) stated that this illusion provides “some degree of reassurance about the obvious dangers and leads them to become over-optimistic and willing to take extraordinary risks. It also causes them to fail to respond to clear warnings of danger” (p. 44). In hindsight, it is obvious that many of the senior executives at WorldCom were extremely optimistic and more than willing to assume extraordinary risks up to and including fraud. Historically above average stock and revenue appreciation, or the external awards some of the executives received could have triggered this invulnerability. Scott Sullivan, for example, in a 1998 CFO magazine cover story was called a “37-year-old whiz kid” (McCafferty, 1998, para. 3) and awarded the CFO Excellence Award.

To illustrate this invulnerability during the time when the fraudulent activities were occurring, according to the SEC report (2003), one manager wrote an email to her employees referring to some of the irregular accounting charges. The email stated, “[t]hese documents are sensitive and confidential and should not be distributed outside of the department without advising [her] or myself first” (p. 69). One of her direct reports replied: “Opps! [sic] I sent it to AA [Arthur Andersen]. IT’S A JOKE.
I fully agree with your concerns” (p. 69). The manager then replied, “smart ass. Just trying to be dramatic and liven things up a bit” (p. 69). This email string identifies two of the underlying realities at WorldCom. First, while most of the 65,000 WorldCom employees had no knowledge of the accounting irregularities, it was not limited to only a handful of executives. To support this assertion, WorldCom, since these activities were uncovered, has fired over 400 finance and accounting employees. Secondly, while it is apparent that these employees did not want the fraudulent reports and charges going to Arthur Anderson for review, the email string displays a certain level of audacity and bravado that usurping the external auditors was considered appropriate even at the lower levels of the company.

Rationalizations

In addition to a sense of invulnerability, groupthink organizations in the past have manufactured outrageous fabrications and rationalizations to justify their behavior. According to Sims (1992), under stress, members of an organization may develop certain defenses including:

“(1) Misjudging relevant warnings, (2) inventing new arguments to support a chosen policy, (3) failing to explore ominous implications of ambiguous events, (4) forgetting information that would enable a challenging event to be interpreted correctly, and (5) misperceiving signs of the onset of actual danger.” (p. 653.)

The SEC (2003) found that Scott Sullivan had the misguided reputation among employees for his impeccable integrity. Many of the finance and accounting employees who were aware of the irregularities may have rationalized that because of Sullivan’s unquestionable integrity he must have found some new methodology or loophole in the Generally Accepted Accounting Principles (GAAP) to support the entries he was directing. The numerous awards Sullivan received probably reinforced these feelings as well as the clean audit reports from Arthur Anderson, the company’s external auditor, and the consistent buy recommendations sent throughout the company from financial analysts. Even after Sullivan’s indictment, many finance employees’ initially felt that he must have been setup or was being made a scapegoat. While Ebbers put very little on electronic mail, one memo remains where Ebbers discussed his rationalization of “those one-time events that
had to happen in order for us to have a chance to make our numbers” (The Economist, 2004, para. 5).

Beyond the accounting fraud, both Ebbers and Sullivan engaged in very questionable dealings with their employees. For example, according to the SEC (2003), over an eighteen month period ending in 2002, Ebbers gave Ron Beaumont, WorldCom’s ex-Chief Operating Officer (COO), a total of $650,000 whereas Sullivan wrote personal checks to seven of his managers giving them $20,000 each by writing one check to the employee for $10,000 and another to the employee’s spouse for the same amount. Sullivan rationalized these payoffs as a company bonus even though they were written on his personal checking account and no additional bonus was authorized by the company’s board of directors. The SEC (2003) stated that these acts were “not necessarily improper in themselves... [they] created conflicting loyalties and disincentives to insist on proper conduct” (p. 23). It is difficult to believe that the seven employees receiving checks from Sullivan did not see these payments as highly questionable, especially when Sullivan wrote personal checks to their spouses as an alleged company bonus. Yet each of these employees must have rationalized the validity of these payments because none came forward. In addition to these one-time payouts, there were also a select number of employees who were compensated above WorldCom’s salary guidelines to promote loyalty to the company (Zekany, Braun, & Warder, 2004).

**Morality**

Janis (1982) observed that highly cohesive groups might rely unquestioningly in the morality and self-righteousness of their group. Janis noted, “in a sense, members consider loyalty to the group the highest form of morality” (p. 11). According to St. Augustine, as cited by Handy (1996), “in ethics, to mistake the means for the ends is to be turned in on oneself, one of the greatest of sins” (p. 62). Many of the senior executives of WorldCom appear to be guilty of Augustine’s greatest of sins by focusing on maintaining some arbitrary financial goal instead of doing what was right. To illustrate, one example of the lack of moral compass occurred when efforts were being made to establish a corporate Code of Conduct. Ebbers reportedly described this effort as a “colossal waste of time” (SEC, 2003, p. 18). Yet an ethics office, code of conduct, and an enhanced internal audit division may have precluded much of what occurred at WorldCom.

Beginning in 1999 WorldCom commenced making large offsetting accounting entries after the quarterly close in order to achieve the aggressive revenue targets established by the company and the financial community. The SEC Report (2003) found handwritten documentation at WorldCom that recalculated the difference between the actual results (found on the monthly revenue, or as it was internally called at WorldCom, the MonRev report) and the target or needed numbers. Once the variance was calculated, accounting entries were made to cover the shortfall so that financial targets would be met. In support of this finding, the SEC investigation uncovered a voicemail message from Sullivan to Ebbers recorded on June 19, 2001 to confirm many of their initial findings:

“Hey Bernie, it’s Scott. This MonRev just keeps getting worse and worse. The copy, um the latest copy that you and I have already has accounting fluff in it . . . all one time stuff or junk that’s already in the numbers. With the numbers being, you know, off as far as they were, I didn’t think that this stuff was already in there . . . . We are going to dig ourselves into a huge hole because year to date it’s disguising what is going on.” (SEC, 2003, p. 15)

The SEC Report (2003) noted that knowledge of the irregularities was not limited to a few high level executives. Many lower level employees were aware that the accounting entries being posted were not supportable and that the prepared financial reports were false or, at a minimum, very misleading. “Remarkably, these employees frequently did not raise any objections despite their awareness or suspicions that the accounting was wrong, and simply followed directions or even enlisted the assistance of others” (SEC, 2003, p. 7). These are classic examples of groupthink. Although some employees probably felt self-righteous, others possibly felt pressured to keep quiet. During this period, most of the finance and accounting employees were in located in Clinton, Mississippi and relatively well paid for
the area. During a mild recession, these employees were aware that their prospects for finding similar paying opportunities in the region were limited.

**Pressure**

Victims of groupthink feel pressured, either directly or indirectly, to agree with the group and not express opinions that would differ with the overall group consensus. In many situations, the group leader or manager by stating their opinion up front, before soliciting feedback can build pressure leading the organization to groupthink. Many employees, regardless of the company, lack the self-confidence to stand up to their supervisor once the individual has stated their opinion on a matter. The pressure on lower level employees at WorldCom must have been even greater since many of these entries were found to be directed by executives at the highest levels of the company, including the CFO and Controller. Zekany et al. (2004) concluded that Ebbers and Sullivan created a culture where leaders and managers were not to be doubted or questioned. The SEC Report (2003) came to a similar conclusion; that “Ebbers created the pressure that led to the fraud. He demanded the results he had promised, and he appeared to scorn the procedures (and people) that should have been a check on misreporting” (p. 18). Moreover, the SEC Report (2003) concluded that:

“WorldCom’s continued success became dependent on Ebbers’ ability to manage the internal operations of what was then an immense company, and to do so in an industry-wide downturn. He was spectacularly unsuccessful in this endeavor. He continued to feed Wall Street’s expectations of double-digit growth, and he demanded that his subordinates meet those expectations. But he did not provide the leadership or managerial attention that would enable WorldCom to meet those expectations legitimately.” (p. 5)

Due to WorldCom’s culture, employees felt that they risked losing their jobs by disagreeing with executives or policies that were implemented. Even Sullivan appeared to feel some of this pressure. When asked specifically if Ebbers pressured him to make the incorrect accounting entries, his response was “you know Bernie [Ebbers], he could put pressure on you indirectly” (SEC, 2003, p. 127). Further, David Scherler, a lawyer representing Buford Yates, WorldCom’s ex-Director of General Accounting, stated that Sullivan and Ebbers placed his client in an untenable position. Although it is difficult to view any WorldCom executive with years of experience as *low level employee* who could not stand up for their rights, Scherler remarked that "I think that Vinson, Normand and Yates are all low-level players in this who wound up being the victims of unscrupulous higher managers" (Pullman, 2003, p. A1).

**Stereotypes**

Janis (1971) found that “victims of groupthink hold stereotyped views of the leaders of enemy groups: they are so evil that genuine attempts at negotiating differences with them are unwarranted” (p. 46). These negative views are not necessarily against members of competing companies, in many instances, they are negative opinions of anyone deemed not a member of the inner circle or group within the larger organization. To support the view of stereotypes, Von Bergen and Kirk (1978) found that groupthink organizations view any external group “as generally inept, incompetent, and incapable of countering effectively any action by the group, no matter how risky the decision or how high the odds are against the plan of action succeeding” (p. 46).

The SEC Report (2003) found that financial information was only shared within a close inner circle of senior executives. However, they did find at least two specific instances where employees questioned the legitimacy of some of Sullivan’s, Myers’, and Ebbers’ actions. Steven Brabbs, a Finance Director in Europe, questioned the reduction of United Kingdom line costs by $33.6M and was told that Sullivan directed the reduction. When he pushed harder, it prompted an email from Buford Yates, Director of General Accounting, to David Myers, Controller, which stated, “have him deal with this in the U.K. . . . I can’t see how we can cover our own ass, much less his big limey behind” (SEC, 2003, pp. 78-79). Secondly, in 1999 when Cynthia Cooper, the Vice President of Internal Audit and ultimate WorldCom
whistleblower, requested a copy of the MonRev report to audit; Sullivan wrote Ron Lomenzo, Senior Vice President of Financial Operations, stating: “do not give her the total picture—i.e. she does not need international, other revenues, etc” (SEC, 2003, p. 20). These examples clearly show, not only the stereotyped behavior at WorldCom, but a clear trend by high level executives of covering up the wrong doing from many of the groups with the charter to find this type of wrongdoing like Cooper’s internal audit department.

Self-Censorship

The sixth major symptom of groupthink is self-censorship where members of the group avoid deviating from what appears to be the group’s consensus. Building consensus may be a function of many healthy organizations and not all attempts to gain concurrence should be misconstrued as groupthink (Eaton; 2001; Janis, 1982). However, managers at all levels should be aware of the risks involved with concurrence seeking. One study found that 37 percent of group participants “felt pressure to express an opinion with which they did not agree” (Johnson, 1992, p. 145). Another study found that 64% of the groups surveyed gave unanimous answers to questions notwithstanding instructions to ignore the group’s prior discussions and that the final reports did not need to be unanimous (Von Bergen & Kirk, 1978). These studies highlight the difficulty management has in receiving constructive feedback in healthy organizations. When groupthink is present, the opportunities are far fewer. This is especially true when a leader has already expressed a strong opinion on the matter at hand.

Throughout the SEC Report (2003), investigators found individuals in the finance and accounting departments that were aware, to varying degrees, of the fraudulent activities of their senior executives, yet no one came forward. The report concluded that:

“The answer seems to lie partly in a culture emanating from corporate headquarters that emphasized making the numbers above all else; kept financial information hidden from those who needed to know; blindly trusted senior officers even in the face of evidence that they were acting improperly; discouraged dissent; and left few, if any, outlets through which employees believed they could safely raise their objections” (p. 18).

The culture and atmosphere at WorldCom was to strictly discourage dissenting opinions or what Morgan (1997) would call a psychic prison. As one WorldCom vice-president indicated when questioned about a human resource policy, “if you don’t like the policy, you can leave” (personal communication, 2002). As a result, most employees felt incapable of, or too insecure to bring up or push forward with items that, at face value, now appear to be obviously incorrect and fraudulent.

Unanimity

Many managers interpret silence as concurrence. With groupthink, employees may feel so loyal to the group that they do not raise objections or reservations to the decisions being made and simply seek unanimous decisions. According to Manz and Neck (1995), “group members striving to agree with one another; overwhelms adequate discussion of alternate courses of action. Defective decision making results” (p. 12). As supported previously, as time passed and the accounting irregularities grew, a greater number of WorldCom employees became aware of the accounting improprieties, yet no one raised an objection. Ron Beaumont, WorldCom’s ex-COO, at one point asked Sullivan for an explanation of the differences between what he was seeing and what was being publicly reported. Beaumont never received a reply and reportedly dropped the inquiry due to his overwhelming confidence and faith in Sullivan (SEC Report, 2003). This faith and trust in Sullivan appears to have been observed throughout the company (Zekany et al., 2004). Whether the lack of inquisition in these questionable practices was caused by over-confidence or insecurity, at a minimum, it appears that it contributed to the length of time over which the fraud occurred.

Combating Groupthink

Group decisions and the process of gaining concurrence may reduce the risk of making incorrect decisions in many situations. However,
it has been observed by many scholars that groups must actively seek to minimize and eliminate the effects of groupthink. A few suggestions for defending against groupthink include: (1) establishing multiple groups to study the same issue, (2) training all employees in proper ethical conduct, (3) initiating programs organizationally wide to clarify and communicate ethical conduct, (4) increasing the staff and scope of internal audit departments, (5) using outside experts to review decision processes and ethical conduct, (6) displaying impartiality by not stating preferences at the onset of a project, and (7) rotating new members into the group and old ones out.

Janis (1971, 1982) indicated that open discussions to promote differing opinions and the devil’s advocate technique are additional methods for minimizing groupthink behaviors. The devil’s advocate technique involves someone in the group being assigned the role to critique and identify the risks involved in any proposed course of action. This type of critique is intended to foster a more in-depth review of the issues surrounding the proposal, ensure all alternatives are equally reviewed, and identify any underlying pitfalls or unethical practices. Cosier and Schwenk (1990) proposed that the devil’s advocate position should be rotated among group members to avoid any one individual being seen as a critic on all issues. However, another study did not find any decrease in defective decision making by the use of a devil’s advocate. That study found that the most significant decrease in defective decisions was through participative leadership practices (Chen, Lawson, Gordon, & McIntosh, 1996). In support of this finding, Von Bergen and Kirk (1978) found that 98% of successful organizations that they surveyed used participative leadership methods. To foster a participative environment where alternatives are encouraged, Honda Motor Company developed the slogan listen, ask, and speak up (Cooper & Sawaf, 1996). An environment that values open and dissenting opinions helps minimize the risks of groupthink and unethical behavior. Glyn Smith, MCI’s new Director of Internal Audit, noted that individuals should follow a three-step method, or the three Ss, to ethical decision making. Individuals should scrutinize if a specific decision meets with their moral and ethical values; next individuals should socialize that decision with peers and others to get their feedback. Finally, decisions should be sanitized, meaning that if an individual feels that a decision should be kept quiet, it is probably not ethical. MCI Vice President of Internal Audit, Cynthia Cooper, and WorldCom whistleblower, recommends ensuring internal audit is an integral role in evaluating and improving corporate governance (Barrier, 2003).

Sims (1992) found that “groupthink occurs in organizations that knowingly commit unethical acts when the group is cohesive, a leader promotes solutions or ideas even if they are unethical, and the group has no internal rules or control mechanisms to continually prescribe ethical behavior” (p. 654). Similarly, Morgan (1997) found that the psychic prison metaphor is seen in organizations displaying “aggression, greed, hate, and libidinal drives” (p. 246). The evidence presented in this paper suggests that WorldCom’s executive management fostered groupthink and psychic prison types of environments.

Although not to the extent observed at WorldCom, most managers have probably experienced or witnessed groupthink at one time or another. Groupthink is not inherent in most group decisions; however, special care must be made when a group is highly cohesive to avoid the effects of groupthink. Group members must feel free to disagree and should be encouraged to voice minority views. In 1916, Henri Fayol remarked that “a good leader should possess and infuse into those around him courage to accept responsibility” (Shafritz & Ott, 2001, p. 49). Fayol noted that the best defense against abuse or deception on the part of higher level managers was an individual’s strength of character and integrity. These attributes continue to be essential at all levels of the organization to avoid groupthink.

Unlike many other companies and his predecessors at WorldCom, MCI’s current CEO, Michael Capellas, has cooperated with government investigations, and has terminated all of the employees implicated in wrongdoing. He has adopted a one strike and you’re out rationale. Past terminations within MCI include the entire board of directors, the CEO, COO, CFO, controller, general counsel, along with over 400 finance and accounting employees.
Most of these individuals were located at the company headquarters in Clinton, Mississippi.

Capellas, since taking over as CEO of MCI, has established an ethics office, hired a Chief Ethics Officer, and required all MCI employees to have extensive ethics training. Additionally, for company directors and finance managers the company has developed ongoing ethics and finance training through the State University of New York. Capellas has been traveling to all major MCI locations and appears to be genuinely interested in comments and opinions from his employees. He has established a set of new guiding principles, which can be found on the walls and inside cubicles throughout the company. These principles include: building trust and credibility, respect for individuals, creating a culture of open and honest communications, setting the tone at the top, avoiding conflicts of interest, reporting accurately, promoting substance over form, being loyal, and doing the right thing.

Capellas appears to be well on the way to eliminating many of the factors that led to the groupthink environment, which allowed the accounting fraud to occur. As an outward sign of the improvement, on January 7, 2004, the General Accounting Office (GAO) lifted the ban it had in place restricting MCI from obtaining new government contracts (Haddad, 2004). The ban was in force until the company created and implemented internal financial reporting controls and made their ethics programs more robust.

Even with a greater sense of teamwork and dedication to previously marginalized voices, Capellas faces an uphill battle leading MCI and attempting to regain public and customer trust. Many do not believe he can accomplish this task. With its history of acquisitions MCI remains a company comprised of 222 legal entities with numerous conflicting billing, collection, and accounting systems (Haddad, 2004). Just days prior to emergence from bankruptcy, MCI was dealt another blow when a secret side deal with two of its largest creditors was uncovered. The deal would have given these creditors a better return than the general population (Pacelle & Young, 2004). This occurred while MCI faces enormous challenges in the marketplace. Their market share in the US has dropped from 32 to 28% in the last year (Haddad, 2004) and reported an operating loss of $205 million in the first quarter of 2004 compared to a profit of $634 million a year ago (MCI, 2004). The future for MCI is at best uncertain and in recent days has received merger offers from both Quest Communications and Verizon. If MCI ultimately rejects these offers, Capellas is attempting to reposition MCI to become the network of choice “connecting everything from cell phones to computers, to MP3 players” (Haddad, 2004, para. 5). While MCI does not have this technology available today, according to Capellas, the company is working toward that goal.

References


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