

The Enron

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Submission date: 17-Apr-2019 04:10AM (UTC+0800)

Submission ID: 1113805023

File name: The_Enron.edited.docx (15.07K)

Word count: 1184

Character count: 6196

The Enron: A Case Study and Legal Implications

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The Enron remains one of the most talked about bankruptcy in the corporate history of the United States. The deceit in Enron was very real that even the executives never noticed anything wrong. The origin of Enron proves that it had come from humble origins and grew over time to a successful entity. The fascinating aspect is that they believed their deceit. The merging of Houston Natural Gas, under the leadership of Ken Lay, with InterNorth, a gas line pipeline company saw the formation of Enron. As a result, the company developed to become one of the most extensive natural gas pipeline systems in the United States. Ken Lay, Chairman and CEO hired Jay Skilling, Partner in charge of Energy activity at McKinsey to be the head of Enron Finance and form a "gas bank."

The gas bank was aimed at funding small gas producers in payment of the provision of their gas to the Enron. In its strive to become a global company, the Enron began to expand its business overseas. The UK, India and Latin America were some of the destinations of its investment in its journey towards becoming a global company. As a result, Enron expanded its trading activities hiring Andy Fastow to broaden its funding business, managing capital as well as debts. Because it was a significant investment, Enron became active in maintaining an excellent financial profile. With Skilling being promoted to president and later CEO, he made Fastow the CFO of the company.

By applying competitive techniques, Enron utilized both its physical assets and trading assets. These strategies required a lot of capital to implement. Among the challenges faced by Enron was maintaining a higher investment rating while at the same time preserving the shareholdings. As a result, Enron was under pressure in carrying out its activities. These aspects compelled Enron to turn tailored balance sheets and financial techniques which were designed as a cover-up of the financial situations caused by the growing pressure. Enron however, thrived

and broadened as a result of its strategies. The downfall of Enron was caused by a lack of integrity in the management network.

The key players in the scandal

Sherron Watkins- Key Informant; worked for Andy Fastow

Richard Kinder – COO

Rebecca Mark – Head of International Power & Pipeline Development

Lawyers: Vinson & Elkins

Ken Lay – Chairman

Jay Skilling – CEO

Bankers: Barclays, Chase, Citi, Deutsche, GE Capital, JPMorgan, Merrill Lynch, RBS, and UBS

Andy Fastow- CFO and GP of LBJ

Accountants: Arthur Anderson

The issues in the case and that saw the collapsing of Enron include:

- a. Regulations
 - Lack if SEC scrutiny on regulatory filings
 - SEC's idea to grant Enron the mandate to use mark-to-market accounting was not properly reviewed.
 - FERC refusal to become involved in California
- b. Remuneration Systems and Job Security
 - Developed huge incentives to break the rules or remain silent and get employed.
 - Remuneration beyond the industry norms

Additionally, the Enron culture contributed to its collapse since it comprised of a large number of bright people who followed their ambitions towards expanding their career. The staff had the abilities to outthink the systems and tailor financial statements to act as a cover-up for the current crisis in the company. Enron made the public believe that they were generating a huge amount of

profit which was not precisely the case. To earn a short term gain, Enron's key players opted to deceive the stakeholders hence risking the reputation of the company. The fact that they believed to be doing the right thing shows just how the financial fraud had gone too far in a pursuit to generate short term profit unmindful of the future harms they were doing to themselves as well as the reputation of the business.

Therefore, this led to the diffusion of responsibility making the company lose its track. Inherent conflicts and lack of transparent was another element that raised a lot of concerns in the case. The fact that asking questions discouraged was an issue of suspicion since stakeholders ought to inquire about the undertaking of the activities of their investment. Also, greed among the members of the company including stakeholders, employees, the board of directors, bankers, lawyers as well as auditors was another major issue that contributed to the failure of Enron. Between the year 1999 and 2000, Enron reported 250% earnings.

The management and the stakeholders did not ask any questions. As a result of keeping quiet, they were highly compensated. The corrupt administration was the root cause of the collapsing since a company's success is highly dependent on its governance. Because the accounting standards of that time accepted the use of techniques outside the financial statements, Enron became a highly leveraged company relying on the aggressive evaluation of financial statements in an attempt to record higher net profits. This aspect was designed to attract more investors and shareholders by deceiving the public that it was making huge profits.

Therefore, potential investors saw a business opportunity and decided to put their money in the business. Anderson discouraged the people who seemed to ask many questions about the activities of the company. As a result, he was willing to push beyond limits to see this idea being carried forward. In this regard, auditors played a crucial role in ensuring the success of this

strategy. The fees for their services reached as high as \$25 million in audit and \$26 million in consulting. Among the ethical issues that can be depicted in this case is dishonesty of the management. Top managers and directors have the responsibility to ensure the stability of a company. Also, they are expected to balance the tensions among all the stakeholders.

Therefore, in their pursuit to reduce the risk of adjusted returns, to the shareholders, they ought to adhere fully to the accounting standards and regulations hence preserving the good reputation among the public. The impact on the corporate culture of the Enron led to its collapse. This was caused by a lack of integrity in the management which continued to deceive the shareholders by producing false financial statements. The choice made by the top management of Enron to make short term profits at the expense of the shareholders destroyed the reputation of the business and eventually led to its downfall.

On a global perspective, the scandal destroyed the reputation of the American oil industry that was perceived as democratic. The once thriving natural gas, oil, and electricity company had now deteriorated and brought a negative impact on the oil business in America. The conviction of Arthur Anderson came as a result of obstructing justice for the shredding of Enron. Additionally, several executives were charged with internal fraud and conspiracy. The CFO also was found of two charges including wire fraud and securities fraud. Skilling at first received a 24-year jail time which was later cut to 10 years. The scandal led to the formation of new accounting rules and regulations.

Reference

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