

Enron scandal

Business



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The Enron Corporation, which once ranked among the top Fortune 500 companies, collapsed in 2001 under a mountain of debt that had been concealed through a complex scheme of balance-sheet partnership.

Forced to declare bankruptcy, the energy firm laid off four thousand employees; thousands lost their retirement savings, which had been invested in Enron stock. The company's shareholders lost tens of billions of dollars after the stock price plummeted. The scandal surrounding Enron's demise engendered a global loss of confidence in corporate integrity that continues to plague markets, and eventually it triggered thorough new scrutiny of financial reporting practices. To understand what went wrong, we'll examine the history, culture, and major players in the Enron scandal.

ENRON'S HISTORY The Enron Corporation was created out of the merger of two major gas pipeline companies in 1985.

Through its subsidiaries and numerous affiliates, the company provided products and services related to natural gas, electricity, and communications for its wholesale and retail customers. Enron transported natural gas through pipelines to customers all over the United States. It generated, transmitted, and distributed electricity to the northwestern United States, and marketed natural gas, electricity, and other commodities globally.

It was also involved in the development, construction, and operation of power plants, pipelines, and other energy-related projects all over the world, including the delivery and management of energy to retail customers in both the industrial and commercial business sectors. Throughout the scandal, Chairman Ken Lay, chief executive officer (CEO) Jeffrey Skilling, and Chief Financial

Officer (SCOFF) Andrew Fast transformed Enron from an old-style electricity and gas company into a \$150 billion energy company and Wall Street favorite that traded power contracts in the investment markets.

From 1998 to 2000 alone, Enron's revenues grew from about \$31 billion to more than \$100 billion, making it the seventh-largest company of the Fortune 500.

Enron's wholesale energy income represented about 93 percent of 2000 revenues, with another 4 percent derived from natural gas and electricity. The remaining 3 percent came from broadband services and exploration. However, a bankruptcy examiner later reported that although Enron claimed a net income of \$979 million in that year, it really earned just \$42 million.

Moreover, the examiner found that despite Enron's claim of \$3 billion in cash flow in 2000, the company actually had a cash flow of negative \$154 million.

ENRON'S CORPORATE CULTURE When describing the corporate culture of Enron, people like use the word arrogant, perhaps justifiably. A large banner in the lobby at corporate headquarters proclaimed Enron "The World's Leading Company," and Enron executives blithely believed that executives at a conference that he was going to "eat their lunch." There was an overwhelming aura of pride, carrying with it the devastated belief that Enron's people could handle increasing risk without danger.

The culture also was about a focus on how much money could be made for executives. For example, Enron's compensation plans seemed less "Enron's corporate concerned with generating profits for shareholders than with culture reportedly enriching officer wealth. Enron's corporate culture

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reportedly encouraged flouting, possibly even breaking, the rules. Encourage flouting, Killing appears to be the executive who created a system in which possibly even Enron's employees were rated every six months, with those ranked breaking, the rules. " in the bottom 20 percent forced out. This rank and yank] system helped create a fierce environment in which employees competed against rivals not only outside the company but also at the next desk.

Delivering bad news could result in the " deathly of the messenger, so problems in the trading operation, or " ample, were covered up rather than being communicated to management.

Enron Chair Ken Lay once said that he felt that one of the great successes at Enron was the creation of a corporate culture in which people could reach their full potential. He said that he wanted it to be a highly moral and ethical culture and that he tried to ensure that people did in fact honor the values of respect, integrity, and excellence. On his desk was an Enron paperweight with the slogan " Vision and Values.] Despite these intentions, however, ethical behavior was not put into practice.

Instead, integrity was pushed the side at Enron, Particularly by top managers.

Some employees at the company believed that nearly anything could be turned into a financial product and, with the aid of complex statistical modeling, : traded for profit. Short on assets and heavily reliant on intellectual capital, Enron's corporate culture rewarded innovation and

punished employees deemed weak. ENRON'S ACCOUNTING PROBLEMS

Enron's bankruptcy in 2001 was the largest in U. S.

Corporate history at the time. The bankruptcy filing came after a series of revelations that the giant energy trader had been using partnerships, called special-purpose entities (Esp.), to conceal losses.

In a meeting with Enron's lawyers in August 2001, the company's then chief financial officer Andrew Fast stated that Enron had established the ESP.

. To move assets and debt off its balance sheet and to increase cash flow by showing that funds were flowing through its books when it sold assets.

Although these practices produced a very favorable financial picture, outside observers believed they constituted fraudulent financial reporting because they did not accurately represent the company's true financial condition.

Most of the ESP..

Were entities in name only, and Enron funded them with its own stock and maintained control over them.

When one of these partnerships was unable to meet its obligations, Enron covered the debt with its own stock. This arrangement worked as long as Enron's stock price was high, but when the stock price fell, cash was needed to meet the shortfall. After Enron restated its financial statements for fiscal year 2000 and the first nine months of 2001, its cash flow from operations was changed from a positive figure to a negative one, revealing a critical cash shortage. In October 2001, after it was forced to cover some large shortfalls for its partnerships, Enron's stockholder equity fell by \$1. Billion, Already shaken by

questions about lack of disclosure in Enron's financial statements and by reports that executives had profited personally from the partnership deals, investor confidence collapsed, taking Enron's stock price with it.

For a time, it appeared that Dyne might save the day by providing \$1.5 billion in cash, secured by Enron's premier pipeline Northern Natural Gas, and then purchasing Enron for about \$10 billion. However, when Standard & Poor's downgraded Enron's debt below investment grade on November 28, 2001, some \$4 billion in off-balance-sheet debt came due, and Enron didn't have the resources to pay.

Dyne terminated the deal, On December 2, 2001, Enron filed for bankruptcy. Enron now faces 22,000 claims totaling about \$400 billion. The Whistle-Blower Assigned to work directly with Andrew Fast in June 2001, Enron vice president Sharron Watkins, an eight-year Enron veteran, was given the task of finding some assets to sell off.

With the high-tech bubble bursting and Enron's stock price slipping, Watkins was troubled to find unclear, off-the-books arrangements backed only by Enron's deflating stock. No one seemed to be able to explain to her what was going on.

Knowing she faced difficult consequences if she confronted then CEO Jeffrey Skilling, she began looking for another job, planning to confront Skilling just as she left for a new position. Skilling, however, suddenly quit on August 14, saying he wanted to spend more time with his family. Chair Ken Lay stepped back in as CEO and began inviting employees to express their concerns and

put them into a box for later collection. Watkins prepared an anonymous memo and placed it into the box.

When CEO Lay held a company-wide meeting shortly thereafter and did not mention the memo, however, she arranged a personal meeting with him.

On August 22, Watkins handed Lay a seven-page letter she had prepared outlining her concerns. She told him that Enron would "implode in a wave of accounting scandals] if nothing was done. Lay arranged to have Enron's law firm, Vinson & Elkins, look into the questionable deals, although Watkins advised against having a party investigate that might be compromised by its own involvement in Enron's scam. Near the end of September, she sold some \$1.5 million of personal stock options, while telling Enron employees that the company had never been stronger.

By the middle of October, Enron was reporting a third-quarter loss of \$618 million and a \$1.1 billion write-off tied to the partnerships about which Watkins had warned Lay. For her trouble, Watkins had her computer hard drive confiscated and was moved from her plush executive office suite on the top floor of the Houston headquarters tower to a sparse office on a lower level. Her new metal desk was no longer filled with the high-level projects that had once taken her all over the world on Enron business. Instead, now vice president in name only, she faced meaningless "make work" projects. In February 2002, she testified before Congress about Enron's partnerships and resigned from Enron in November of that year.

Chief Financial Officer Andrew Fast was indicted in 2002 by the U. S. Justice Department on ninety-eight federal counts for his alleged efforts to inflate

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Enron's profits. These charges included fraud, money laundering, conspiracy, and one count of obstruction of justice. Fast originally faced up to 140 years in jail and millions of dollars in fines if convicted on all counts. Federal officials attempted to recover all of the money Fast made illegally, and seized some \$37 million.

Federal prosecutors argue that Enron's case is not about exotic accounting practices but fraud and theft.

They contend that Fast "Fast was the brain behind the partnerships used to conceal some \$1 billion eventually in Enron debt and that this led directly to Enron's bankruptcy." The federal complaints allege that Fast defrauded, pleaded guilty to Enron and its shareholders through the off-balance sheet partnerships two of that made Enron appear to be more profitable than it actually was. Conspiracy' They also allege that Fast made about \$30 million both by using these partnerships to get kickbacks that were disguised as gifts from family members who invested in them and by taking income himself that should have gone to other entities.

Fast denied any wrongdoing and maintained that he was hired to arrange the balance-sheet financing and that Enron's board of directors, chair, and CEO directed and praised his work. He also claimed that both lawyers and accountants reviewed his work and approved what was being done and that "at no time did he do anything he believed was crime.

] Jeffrey Killing, chief operating officer (COO) from 1997 to 2000 before becoming CEO, reportedly championed Factors rise at Enron and supported his efforts to keep up Enron's stock prices.

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Fast eventually pleaded guilty to two counts of conspiracy, admitting to orchestrating myriad schemes to hide Enron debt and inflate profits while enriching himself with millions. He surrendered nearly \$30 million in cash and property, and agreed to serve up to ten years in prison once prosecutors no longer needed his cooperation. He was a key government witness against Lay and Killing. His wife Lea Fast, former assistant treasurer, quit Enron in 1997 and pleaded guilty to a felony tax crime, admitting to helping hide ill-gotten gains from her husband's schemes from the government.

She later withdrew her plea, and then pleaded guilty to a newly filed misdemeanors tax crime.

In 2005 she was released from a year-long prison sentence, and then had a year of supervised release. In the end, Fast received a lighter sentence than he otherwise might have because of his Willingness to cooperate with investigators. In 2006, Fast delivered an eight-and- manhole-day deposition in his role as plaintiffs witness. He helped to illuminate how Enron managed to get away with what it did, including detailing how rotational banks were complicit in helping Enron manipulate its financial to alp it look better to investors.

In exchange for his deposition, Factors sentence was lowered to six years from ten for the fraud he perpetrated while COO at Enron.

The case against Fast was largely based on information provided by Managing Director Michael Keeper, a key player in the establishment and operation of several of the balance- sheet partnerships and the first Enron executive to plead guilty to a crime. Keeper, a chief aide to Fast, pleaded <https://assignbuster.com/enron-scandal/>

guilty to money laundering and wire fraud. He faced up to fifteen dealings with the partnerships.

However, Keeper only had to serve three years and one month of jail time because of the crucial role he played in providing prosecutors with information. After his hedgehopped days at Enron, Keeper got a job as a salaried grant writer for Legacy, a Houston-based clinic that provides services to those with HIV and other chronically ill patients.

Others charged in the Enron affair include Timothy Belled, Enron's former top energy trader, who pleaded guilty to one count of conspiring to commit wire fraud. He was sentenced to two years of court-supervised release and required to pay \$2. Million. Three British bankers, David Birmingham, Giles Dairy, and Gary Mueller, were indicted in Houston on wire-fraud charges related to a deal at Enron. They were able to use secret investments to take 57.3 million in income that belonged to their employer, according to the Justice Department.

The three, employed by the finance group Greenwich National Westminster Bank, were arrested in 2004 and extradited to America to face sentencing. They were sentenced to thirty-seven months in prison but were eventually sent back to Britain to serve out the remainder of their sentencing.

The Chief Executive Officer Former CEO Jeffrey Shilling, generally perceived as Enron's mastermind, was the most official to prosecute. At the time of the trial, he was so sure he had committed no crime that he waived his right to self-incrimination and testified before Congress, saying, "I was not aware of any inappropriate financial arrangements." However, Jeffrey McMahon, who <https://assignbuster.com/enron-scandal/>

took over as Enron's president and COO in February 2002, told a congressional subcommittee that he had informed Shilling about the company's off- balance-sheet partnerships in 2000, when he was Enron's treasurer.

McMahon said that Shilling had told him " he would remedy the situation.

] Calling the Enron lapse a " run on the bank] and a " liquidity crisis,] Shilling said that he did not understand how Enron went from where it was to bankruptcy so quickly. He also said that the off-balance-sheet partnerships were Factors creation. During the case, however, the Judge dealt a-blow to defendants Lay and Shilling when he told the Jury that they could find the defendants guilty of consciously avoiding knowing about wrongdoing at the company. Many former Enron employees refused to testify because. Hey were not guaranteed that their testimony would not be used against them at future trials to convict them.

For this reason, many questions about the accounting fraud remained after the trial. Killing was found guilty and sentenced to twenty-four years in prison, which he has been serving in Colorado. Killing maintains his innocence and has appealed his conviction. In 2008 a panel of Judges sitting in New Orleans rejected his requests for overturning convictions of fraud, conspiracy, misrepresentation, and insider trading. However, the Judges did grant Killing one concession.

The three-judge panel determined that the original Judge had applied flawed sentencing guidelines in determining Killings sentence.

Killing ill he resented, but the reduction in duration will likely be modest, probably fifteen to nineteen years in place of the original twenty-four. In the years since the trial, this concession constitutes the only part of the Enron case that has been overturned. The nineteen counts of criminal conviction still stand. As a result, Shilling The Chair Kenneth Lay became chair and CEO of the company that was to become Enron in 1986.

A decade later, Lay promoted Jeffrey Killing to president and chief operating officer, and then, as expected, Lay stepped down as CEO in 2001 to make way for Killing.

Lay remained as chair of the board. When Killing resigned later that year, Lay resumed the role of CEO. Lay, who held a doctorate in economics from the University of Houston, contended that he knew little of what was going on, even though he had participated in the board meetings that allowed the off-balance-sheet partnerships to be created.

He said he believed the transactions were legal because attorneys and accountants approved them. Only months before the bankruptcy in 2001, he reassured employees and investors that all was well at Enron, based on strong wholesale sales and physical volume delivered through the marketing channel. He had already been informed that there were problems with some of the investments that could eventually cost Enron hundreds of millions of dollars.

Although cash flow does not always follow sales, there was every reason to believe that Enron was still a company with strong potential.

In 2002, on the advice of his attorney, Lay invoked his Fifth Amendment right not to answer questions that could be incriminating, Ken Lay was expected to be charged with insider trading, and prosecutors investigated why Lay began selling about \$80 million of his own stock beginning in late 2000, even while he encouraged employees to buy more shares of the company. It appears that Lay drew down his \$4 million Enron credit line repeatedly and then repaid the company with Enron shares. These transactions, unlike usual stock sales, do not have to be reported to investors.

Lay says that he sold the stock because of margin calls on loans he had secured with Enron stock and that he had no other source of liquidity.

Lay was convicted on nineteen counts of fraud, conspiracy, and insider trading. However, the verdict was thrown out in 2006 after Lay died of heart failure at his home in Colorado. The ruling protected some \$43.5 million of Lay's estate that the prosecution had aimed Lay stole from Enron. Vinson & Alkies Enron was Houston law firm Vinson & Alkies' top client, accounting for about 7 percent of \$450 million revenue.

Enron's general counsel and a number of members of Enron's legal department came from Vinson & Alkies. Vinson & Alkies seems to have dismissed Sharron Watkins' allegations of accounting fraud after making some inquiries, but this does not appear to leave it open to civil or criminal liability. Of greater concern are allegations that Vinson & Alkies helped structure some of Enron's special-purpose partnerships. Watkins, in her letter to CEO Ken Lay, indicated that the law firm had written opinion letters

supporting the legality of the deals, In fact, Enron could not have done many of the transactions without such opinion letters.

The firm did not admit liability, but agreed to pay \$30 million to Enron to settle claims that Vinson & Alkies contributed to the firm's collapse. MERRILL LYNCH its highlighter collapse and subsequent acquisition by Bank of America in 2008, also faced scrutiny by federal prosecutors and the SEC for its role in Enron's 1999 sale of Nigerian barges.

The sale allowed Enron to improperly record about \$12 million in earnings and thereby meet its earnings goals at the end of 1999. Merrill Lynch allegedly bought the barges for \$28 million, of which Enron financed \$21 million.

Fast gave his word that Enron would buy Merrill Lunch's investment out in six months with a 15 percent guaranteed rate of return. Merrill Lynch went ahead with the deal despite an internal Merrill Lynch document that suggested that the transaction might be construed as aiding and abetting Enron's fraudulent manipulation of its income statement. Merrill Lynch denies that the transaction was a sham and said that it never knowingly helped Enron to falsify its financial reports. There are also allegations that Merrill Lynch replaced a research analyst after his coverage of Enron displeased Enron executives.

Enron reportedly threatened to exclude Merrill Lynch from a coming \$750 million stock offering in retaliation. The replacement analyst is reported to have then upgraded his report on Enron's stock rating. Merrill Lynch maintains that it did nothing improper in its Enron business deal inns.

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However, the firm agreed to pay \$80 million to settle SEC charges related to the questionable Nigerian barge deal. Arthur Andersen ALP In its role as Enron's auditor, Arthur Andersen was responsible for ensuring the accuracy of Enron's financial statements and internal bookkeeping.

Potential investors used Andersen's reports to Judge Enron's financial soundness and " Potential investor future potential before they decided whether to invest, and current investors used Andersen used those reports to decide if their funds should remain invested there. These reports to Judge investors expected that Andersen's certifications of accuracy and application of Enron's financial proper accounting procedures would be independent and without any conflict of interest. If Andersen's reports were in error, investors could be seriously misled. True potential . " However, Andersen's independence was called into question.

The accounting firm was a major business partner of Enron, with more than one hundred employees dedicated to its account, and it sold about \$50 million a year in consulting services to Enron. Some Andersen executives even accepted jobs with the energy trader. In March 2002, Andersen was found guilty of obstruction of justice for destroying unrelated auditing documents during an SEC investigation of Enron.

As a result, Anderson has been barred from performing audits, It is still not clear why Andersen auditors failed to ask Enron to better explain its complex partnerships before certifying Enron's financial statements. Some observers believe that the large consulting fees Enron paid Andersen unduly influenced the company's decisions.

An Andersen spokesperson said that the firm looked hard at all available information from Enron at the time; but shortly after speaking to Enron CEO Ken Lay, Vice President Sharron Watkins took her concerns to an Andersen audit partner, who reportedly conveyed her questions to senior if any, Andersen took.

THE FALLOUT Enron's demise caused tens of billions of dollars of investor losses, triggered a lapse of electricity-trading markets, and ushered in an era of accounting scandals that precipitated a global loss of confidence in corporate integrity. Now companies must defend legitimate but complicated financing arrangements. Legislation like Sarbanes-Oxley, passed in the wake of Enron, has placed more restriction on companies. On a more personal level, four thousand former Enron employees had to struggle to find jobs, and many retirees lost their entire retirement portfolios.

One senior Enron executive committed suicide.

In 2003 Enron announced its intention to restructure and pay off its creditors. It was estimated that most creditors would receive between 14.4 cents and 18.3 cents for each dollar they were owed" more than most expected.

Under the plan, creditors would receive about thirds of the amount in cash and the rest in equity in three new companies, none of which would carry the tainted Enron name. The three companies were Crosscurrent Energy Corporation; Prisms Energy International Inc. , and Portland General Electric. Crosscurrent Energy Corporation would retain Enron's interests in three North American natural gas pipelines.

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In 2004, Enron announced an agreement to sell Crosscurrent Energy to CE Holdings LLC for \$2.

5 billion. The money was to be used for debt repayment, and represented a substantial increase over a previous offer. Similarly, Prisms Energy International Inc. , which took over Enron's nineteen international power and pipeline holdings, was sold to Cashmere Energy International Limited. The proceeds from the sale were given out to creditors through cash distributions, The third company, Portland General Electric (PEG), Oregon's largest utility, emerged from bankruptcy as an independent company through a private stock offering to Enron creditors.

All remaining assets not related to Crosscurrent, Prisms, or Portland General were liquidated. Although Enron emerged from Chapter 11 bankruptcy protection in 2004, the company was wound down once the recovery plan was carried out. That year all of Enron's outstanding common stock and preferred stocks were cancelled. Each record holder of Enron Corporation stock on the day it was cancelled was allocated an uncertified, nontransferable interest in one of two trusts that held new shares of the Enron Corporation. The Enron Creditors Recovery Corporation was formed to help Enron creditors.

It states that its mission is " to reorganize and liquidate the remaining operations and assets of Enron following one of the largest and most complex bankruptcies in U. S. History.] In the very unlikely event that the value of Enron's assets would exceed the amount of its allowed claims, distributions were to be made to the holders of these trust interests in the same order of

priority of the stock they previously held. According to the Enron Creditors Recovery Corporation, over \$128 million was distributed to creditors, which brings the total amount of recovery to \$21.

49 billion. In addition to trying to pay back its jilted shareholders, Enron also had to pay California for fraudulent activities it committed against the state's citizens. The company was investigated in California for allegedly colluding with at least two other power sellers in 2000 to obtain excess profits by Enron agreed to pay California \$47 million for taking advantage of California consumers during an energy shortage. This serves to prove further that Enron's corporate culture was inherently flawed, with the company promoting profits at the expense of stakeholders.

LEARNING FROM ENRON Enron was clearly the biggest business scandal of its time.

Officials swore that such a disaster would never occur again and passed legislation like the Sarbanes-Oxley Act to prevent future business fraud. Yet, did the business world truly learn its lesson from Enron's collapse? The answer would be a resounding no, as the 2008–2009 financial crisis attested. The crisis made the Enron scandal look small in comparison and was the worst financial disaster since the Great Depression. Like the Enron scandal, the financial crisis largely stemmed from corporate misconduct.

Corporations rewarded performance at all costs, even when employees cut ethical corners to achieve high performance.

In the mortgage market, companies like Countrywide rewarded their sales force for making risky subprime loans, going so far as to approve loans that they knew contained falsified information in order to make a quick profit. Other companies traded in risky financial instruments like credit default swaps (CDS) when they knew that buyers did not have a clear understanding of the risks of such instruments.

Although they promised to insure against default of these instruments, the companies did not have enough funds to cover the losses after the housing bubble burst. The bankruptcy of Enron was nothing compared to how many companies and individuals were negatively affected by the financial crisis. The exulting crisis affected “ Like the Enron the entire world, bankrupting such established companies as Lehman Brothers and requiring government intervention in the amount of nearly \$1 trillion in TARP (Troubled Asset Relief Program) funds to salvage financial crisis numerous financial firms. The U.

S. Treasury put forth \$180 billion to largely stem and rescue American International Group Inc. (AIG), and both Fannie Mae and Freddie Mac were placed in conservatorship of the Federal Housing Finance from corporate industry. Merrill Lynch, who faced scrutiny during the Enron scandal, could not survive the crisis and was forced to sell to Bank of America. The 160-year-old company Lehman Brothers, which had survived the Great Depression, was forced to file for bankruptcy with \$613 billion in debt. The losses from the crisis total in the hundreds of billions and probably will not be known for years to come.

The misconduct of corporate officers like Ken Lay and Jeffrey Shilling at disappeared in the ensuing years. Many of the failures during the financial crisis stemmed from the same types of crimes as those In the Enron debacles, and in many ways the scandals were a lot worse. Much like Ken Lay, Richard Full of Lehman Brothers has become the epitome of corruption in the eyes of the public. He was forced to testify before Congress as to why he received hundreds of millions of dollars in salary, bonuses, and stock options since 2000.

He was also called to explain his part in the bankruptcy and was forced to defend himself against accusations that he misled stockholders, Just days before the Additionally, the crimes of Ken Lay and Jeffrey Killing are overshadowed by the likes of Bernie Maddox, who operated a \$65 billion Opinion scheme that cheated many thousands out of their savings. It is an unfortunate fact that the enormity of the Enron scandal did not hinder this misconduct.

Despite legislation that was passed as a result of the Enron scandal, corporate corruption continued on a massive scale.

Like Lay, many Wall Street Coos attempted to portray their companies as doing well even as they were floundering. They relied on risky financial instruments and in some cases false financial reporting to make a quick profit and inflate earnings. However, Enron does not have to be reduced to a mere page in a history book. Although it did not prevent future business misconduct, Enron still has lessons to teach us. Along with the business

scandals of the financial crisis, Enron demonstrates that, first, regulatory bodies must be improved so as to better detect corporate misconduct.

For instance, the Securities and Exchange Commission has not done its job in terms of detecting business fraud, even when warning signs were readily available. Second, the warnings of concerned employees and " whistle-blowers like Sharron Watkins should be taken more seriously (employees had been informing lawmakers for years that Bernie Maddox was operating a Opinion scheme but to no avail). Third, Coos must have a better understanding of the financial instruments their companies are using, as well as a thorough knowledge of the inner workings of their companies (something that Ken Lay claimed he did not have).

These conditions are crucial to preventing similar business fraud in the future. Enron shows how an aggressive corporate culture that rewards high performance and gets rid of the " weak links] can backfire. Enron's culture encouraged fierce competition, not only among employees from rival firms, but also among Enron employees themselves.

Such behavior creates a culture where loyalty and ethics are cast aside in exchange for high performance.

The arrogant tactics of Jeffrey Killing and the seeming ignorance of Lay as to what was going on in his company further contributed to an unhealthy corporate culture that encouraged cutting corners and falsifying information to inflate earnings. The allegations surrounding Merrill Lynch and Arthur Andersen's involvement in the debacle demonstrate that rarely does any scandal of such magnitude involve only one company. Whether a company

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or regulatory body participates directly in a scandal or whether it refuses to act by looking the other way, such actions or inactions can result in further perpetuation of read.

This was emphasized even more during the 2008” 2009 financial crisis, where the misconduct of several major companies and the failure of monitoring efforts by regulatory bodies contributed to the worst financial crisis since the Great Depression.

With the country in the midst of widespread corporate corruption, the story of Enron is once again at the forefront of people’s minds. The Enron scandal has become legendary.