

The enron scandal



The Enron Scandal Business scandals are so insightful that become a symbol of deliberate corporate fraud and corruption in the history of our country. This profound and intentional act of fraud has impacted our most deeply beliefs in honesty, integrity, and confidence in the corporate world. The integrity of business in our culture is crucial to the success of our economic system. When companies maintain the essential of business law and ethical practices, it provides stability and success in any corporation.

The Enron Scandal was the biggest disgrace of Fraud, Greed, Bankruptcy, Misguidance, and Imprisonment. Enron was an American energy corporation based in Texas. Enron overtook the operation of power plants and pipelines around the globe and after fifteen years Enron became the nation's seventh largest company in the country. It began with natural gas and later helped to transform once disparate markets into a seamless trading platform, connecting inefficient trading centers. The company's growth was due to several illegal activities. The name Enron was founded in 1985 and later expanded into other related sectors, such as wholesale trading of electricity. They reassure investors with their experience and knowledge of the market and they always guaranty deliveries. Enron could effectively tie supply and demand together.

In many large corporations the Chief Executive Officers and upper management level employees manipulate their accountants so that they can engage in the balance sheet transitions to make the company look more profitable or less profitable even they can estimates future earnings. The firms revenues of \$101 billion made it the darling of many investors and the pride of its employees. Enrons market capitalization quintupled during the

last five years of the millennium, reaching \$63 billion in early 2001. In 2001, when one partnership deal was properly accounted for by Enrons outside auditor, Arthur Andersen, large quarterly losses resulted. Those losses and subsequent profit and debt restatements caused Enrons stock price to drop, triggering the unraveling of the partnership and resulting in a sudden and dramatic financial collapse that led to bankruptcy in Dec., 2001. The pensions of some 20, 000 Enron employees were devastated in varying degrees as well; 62% of the company pension plan was in now worthless.

(Columbia Encyclopedia, 2008)Although success required a substantial investment many investors believed that this business was working extraordinarily well. And during 2001, Enron shares fell from eighty-five dollars to thirty cents. The devastating results occurred after it was revealed that many of its profits and revenue were the result of deals with special purpose. Enron??™s accounting firm turned their heads while Enron??™s management created special deals. The disproportion balance sheet kept hundreds of millions of dollars of losses and debt off the balance sheet. This lack of information and misunderstanding led to an overstatement of profits to millions of individual??™s investment decisions.

As expected Enron collapsed and soon spread to other business. The Enron scandal destroyed that portion of the industry, and engaged its employees in poor and deceptive accounting practices. It hid it??™s financial losses and burdens; as a result the scandal brought into question the accounting practices of many others corporations throughout the United States. Its been eight years since Enron collapsed into bankruptcy, but memories linger in corporate boardrooms, where directors are charged with preventing a reprise

of the self-dealing and accounting scandals that sunk the energy company.??? ??? Enron was a factor in the creation of the Sarbanes-Oxley Act of 2002. (Engel,? E.,? Hayes,? R.

,? &? Wang,? X 2010). Enron was also accused of manipulating the electricity markets in California energy crisis during 2000-2001. There is evidence that its subordinators engaged in fraudulent trading among to drive up the price of electricity. The large profits made during the crisis were in part hidden by manipulating Enrons financial reserves with the help of their accountants.

Enron is a corporate crime that comes to the mind of everyone who immediately associates it with the most significant accounting scandal of our lifetime. There is no doubt that scandals are deceiving unethical practices by corporations giving accountants a bad name and dragging the economy into a bigger recession.

It seems that even the most respected names in the business have been caught in fraud. When mishandling the accounting and corporation business and face the wrath of the judicial system in the United States. These scandals are political and business scandals that brings mistrust and wrongdoing from executives of large corporations. They represent the visual catastrophic failures of the executives who have the power to accelerate or delay accounting according to their needs.

It??™s fair to say that the government also needs to identify the accountants whom are also being name unethical. When organizations reports high profits on their balance sheet, it??™s more likely that investors will enticed

into buying company stocks. William Powers a lawyer and professor who lead the special investigation to determine what went wrong.

In an interview as part of Newsweeks partnership with the Kaplan University M. B. A. program, Newsweek chairman Richard M. Smith spoke with Powers about Enrons impact.

When he was asked: Do you think American business is more or less ethical than it was 10 years ago, or 50 years ago I think that American business overwhelmingly is the most transparent, the most honest the most trustworthy of any economy in the world. I spent a lot of time with boards of Fortune 500 companies and small entrepreneurs after Enron. And I was really very impressed with the controls they had in place. I did not get the impression that the dishonesty that went on with the management at Enron was widespread, even at that point. And I continue to think that American business did learn those lessons. But they need to be learned over and over again they need to be reminded. (Smith, M.

2009)The true is that CEO??™s and upper level employees are the ones to blame for the fabrication of figures that enhanced the image of the company??™s profitability. Enron booked projected long-term income from trading contracts when those contracts were signed, but the income projections were often overly optimistic and exaggerated. The CEO??™s pursued their own self interest and the greed to fill up their pockets, ignoring their investor??™s long term hurt. It??™s clear to many that the top executives life lifestyles was something that regular investors couldn??™t possibly do. Many believe that the pressure falls on the accountants and

their staff to achieve high earnings and make them acceptable to their bosses. If the numbers were not at desirable levels they came up with alternatives to please their superiors. In most cases is the accountant the ones who essentially face the wrath of their employers; the Enron scandal is a perfect example. Furthermore, management in these organizations lives lavishing lifestyles at the expense of shareholders.

To sum up, many companies are forced to adjust their annual report to compensate for the luxuries they otherwise couldn't afford. Since the Enron scandals many books have been released dealing with the ethical and business practices with the hope to alert the public. It is believe that exposing CEO's who are behind this type of scandals and exposing the true perpetrators behind corporations scandals may restore the credibility that once respected the accounting profession. Unfortunately many of the people responsible of these crimes are today enjoying retirement in luxurious homes while receiving ridiculous pension plans and continue to receive benefits at the expense of investors.

If these criminals are not brought to justice, they soon will realize that they can get away with this sort of behavior, and the frequency of unethical behavior will continue to rise. So the questions arise who is really responsible of fraud the CEO's or the accountants for the fraudulent claims. Frauds and investigation are typically launched by government oversight agencies such as Security and Exchange Commission of the United States. U. S. Regulatory Commission was established by Congress in 1934 after the Senate Committee on Banking and Currency investigated the New York Stock Exchange's operations.

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The Securities Act of 1933's purpose is to restore investor confidence by ending misleading sales practices and stock manipulations that led to the collapse of the stock market in 1929. It prohibited the buying of stock without adequate funds to pay for it, provided for the registration and supervision of securities markets and stockbrokers, established rules for solicitation of proxies, and prevented unfair use of nonpublic information in stock trading. It also stipulated that a company offering securities. (Encyclopedia Britannica.

2010) Enron's numerous partnerships were covered in secrecy, and not put in the balance sheet. The chief financial officer owned two partnerships, which it was a clear conflict of interest. They actually point out the accounting firm dealing with financial figures to deal quietly because they didn't agree with the moral decisions with regard to their record keeping. Corporate boards are investigating at some investors why they have not complained in years of investments. Some of this CEO's were taking home \$200.

00 million dollars a year. Congress is fast tracking legislation to restraint in stock options by forcing companies to account for them as an expense on the books rather than written them off as free money and spend shareholders hard-earned money on themselves. The Enron management thought the good times could never end; they had a reality check ??? good times do end.

??? The investors, the potential victims of fraud need to surround themselves with good people, people who they trust, honest, and who is not going to take advantage of them. In the Enron Corporation were very talented people,

the problem was their low integrity in business. Enron had earned respect and grown up the company with the trust of their investors. The true is that with one new generation, they will eventually forget its values and be got caught up in the fact that markets can do anything to succeed, even when success comes with fraud and betray. The American economy need to learn the lessons from its past and not forget them so that we won't repeat the same mistakes again. This financial disaster goes far beyond the failure of one big company. This is corruption on a massive scale. Tremendous harm has happen to innocent investors who have seen their retirement savings disappear.

Terrible things have happened to the way business is conducted under the cloak of deregulation in the United States. Serious damage has been done to ethical codes of conduct held by once-trusted business professionals. The scale of the Enron catastrophe undermines the credibility of modern business culture. Maybe our government needs to get back to basics and avoid investors to get hurt when investing their lives savings. Enron and other companies used the transition to deregulation to gain access to Congress and regulators and write their own rules. There is no doubt that these types of activities needs to be stop to ensure the integrity of our country.

The reputations of many professionals who were counted on to safeguard the economic system, lie and fail to deliver; therefore the scandal was based on Fraud. Fraud is intentional misstatement or nondisclosure of a material (essential) fact made by one party with the hope of influencing the other party. (Liuzzo, & Bonnice (2007). Enron paid fees to many

professionals to help manufacture its earnings, and corrupted by greed, accountants, lawyers, etc have evaded their professional duty. Restoring investor??™s confidence is already achieved; however when one listen to another scandal like Bernard Madoff, accused by federal authorities of running a \$65 billion Ponzi scheme, the Enron scandal still seems fresh in the mind of many. If the investing public is going to participate, it must see a fair and transparent system. Conflicts of interest in companies need to be examined closely and stricter oversight to avoid variance. It is essential in large corporations to bring to light dishonesty and condemned responsible people for their actions.

Investor??™s confidence is crucial to the success of our economic system. Their confidence is threatened by not only the Enron scandal but by the dramatic decline in accounting standards. Unless Washington and business professionals protect the market economy, the risk of collapse will be inevitable. The profound and intentional act of fraud, has impacted our most deeply beliefs in honesty, integrity, and confidence in the corporate world. The integrity of businesses in our culture is crucial to the success of our economic system. Many individuals were tempted by large amount of financial gain; at the end they compromised their integrity and confronted imprisonment. References: Enron Corporation.? The Columbia Encyclopedia, Sixth Edition.

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