Informative essay on enron case study

Education

The case of Enron is a fascinating one. United States is a country where auditing and accounting principles are so strong. How can something take place on such a high level in the United States? The Enron case demonstrates the need to reform the accounting and corporate governance practices in the United States. Moreover, the Enron case made government officials to pay close attention to deregulated energy market. Some of the aspects that struck me are discussed below. One of the aspects that struck me was the vision of the top management.

Enron was in the business of energy, but Kenneth Lay built the management team of MBAs, not individuals specialized in gas and energy field. My view is that top management has to have a clear vision. It seemed that Kenneth Lay vision of the company was distorted. Enron transformed from an energy company into an investment company. Hence, the management team was comprised of traders and investment bankers who had very little knowledge of the energy business.

As the business model of Enron changed so did the corporateculture. The culture was " Get it done. Get it done now. Reap the rewards. The new business was the buying and selling of commodities. The employees were rewarded for business deals regardless of long-term consequences. I feel this kind of reward system is not beneficial to companies; it is very short-term view of business. Moreover, analysts were derided when they asked questions about the earnings-report. These actions points that the corporate culture was of Enron was disruptive. This raises the questions on the role of boards of directors. It seems like the boards of directors of Enron had very little knowledge about the activities of Fastow and Lay.

It’s interesting that the boards of directors had so little knowledge of thing happening in the company. The takeaway from this is that boards of directors should pay close attention to management behavior andmoney-generating strategies. The boards of directors need to take active participation in the company not only when things are bad, but also when things are good. Another aspect was the business practices of the Arthur Andersen firm. It’s shocking to see one of the most prestige firms to engage in such a big fraud. The firm played a role of not only as an auditor, but also as a consultant for Enron.

The conflict of interest was sure to take place. The firm saw the opportunity to make money by hiding Enron’s financial information. Basically, the firm helped Enron to cook books. I believethat some executives of Andersen firm were driven by greed and lack of ethical sense that made them act in a fraudulent activities. Moreover, it seems that Andersen had weak internal control in terms of auditing. The practices of this firm raised questions about the accounting and auditing system of the United States. The congress was quick to repond by adopting set of reforms.

For example, the Sarbanes-Oxley bill was passed to reform the accounting and auditing industries. The important part of the bill was the separation of roles: the separation of consulting and audit business. Yet, another aspect was the impact on the economy, particularly the energy industry. This was interesting because it shows how Enron impacted the economy and businessenvironment. The financing for energy companies dried up because of the Enron scandal. As a result of limited financing options, many companies went bankrupt. The confidence of investors was shaken. Many investors hesitated to invest in energy corporations.

I believe that the Enron incident encouraged many analysts and investors to question the financial reporting and long term money making strategies of companies. Furthermore, the professional corruption also struck me. The management used financial cleverness as a financial strategy. The recording of assets and profits that were inflated or non-existent showed professional corruption. Additionally, the involvement in dishonest accounting practices was just too much. Moreover, the interviews for recruitment took place in strip clubs. The whole corporate culture was somewhat corrupted.

The aspect that jumped out from the case was the relentless pursuit of profits. Yes, the main goal of any business is to make profit, but social values should be kept in mind. I believe that the compensation system at Enron was also to blame. People involved in the scandal were making huge sum of money. The intriguing aspect, in this case, was how Fastow was able to create special purpose entities (SPE). Fastow was creating these SPEs to segregate financial activities from Enron’s balance sheet. The SPEs provided Enron a way to move debt from the balance sheet so the credit rating could remain high.

The commodities swapping mechanism required high credit rating. The SPEs allowed Enron to disguise debt and loss as revenue. Enron deceived investor and creditors. Furthermore, Enron invested in other companies. Once the investments began to show losses, they were transferred to SPEs. This method allowed the sale of investment to SPEs. Hence, the sale of investment was shown as gain to Enron. Another interesting fact was that analysts didn't raise red any flags. I am sure that many analysts recommended the buying of Enron stocks. This scandal made investors and analysts more cautious.

Analysts and investors began to ask questions:

1. how does company make money?
2. Can company sustain strategy over the long term?

Basically, the laws got strict and analysts were more observant. These are some of the aspects that were intriguing to me or struck me. The case of Enron will continue to be a lesson in ethics and corporateresponsibility. The government agencies should not relax and should make sure that industries are regulated when it comes to reporting financial information. The incident of Arthur Andersen serves as an example for other accounting firms.