

Example of enrons ethical meltdown essay

[Business](#), [Company](#)



Enron's Ethical Meltdown

The Enron Corporation, a Texas based company, became bankrupt in 2001(December) - after a series of auditing malpractices. Financial analysts estimate that Enron's shareholders lost \$ 11 billion, after the company's collapse. Enron employed nontransparent auditing means to present financial statements that did not reflect the company's finances to the shareholders. To a great extent, Enron's collapse could be attributed to the top management's unethical business practices.

Dessler (2011) warns that rewarding unethical behavior can backfire anytime, as it happened with Enron. To some extent, the management rewarded unethical behavior because the employer did not punish unethical behavior. A change in the management approach would have averted the crisis. As always, the management is quite influential in molding the employee's ethics in an organization. Jeffrey Skilling, Enron's chief executive officer, was particularly crucial in encouraging the use of poor financial reporting to hide the corporation's true financial position. Jeffrey Skilling joined Enron Finance Corporation as the chief executive officer in 1990. Skilling hired and developed staffs that were able to hide massive debts amounting to billions (Ferrell, Fraedrich, & Ferrell, 2009). For example, the chief operating officer, Andrew Fastow, misled the board of directors, as well as the auditing committee, on the use of risky accounting practices.

The COO also played a critical role in pressuring Arthur Andersen, the company's independent auditors, to ignore the issues raised by the auditors. Surprisingly, the company's chairman, Ken Lay, had approved the decisions made by the CEO and the COO. As a result, the chief executives perpetuated

unethical malpractices through indirect knowledge, and through direct actions (Ferrell, Fraedrich, & Ferrell, 2009).

Some of the techniques used to hide the company's financial position included: the use of poor financial reporting and maneuvering of accounting loopholes. The use of unethical practices led to a misrepresentation of earnings, and flawed balance sheets, which portrayed a favorable performance. With time, the malpractices, habits and values escalated to a level that finally spiraled out of control. The primary motivation for the unethical accounting and financial transactions arose from unmet goals.

Dessler (2011) believes that unethical decisions arise due to the seductive power of using unorthodox means to make up for unmet goals. This becomes worse if the employees are morally disengaged. Moral disengagement allows people to feel relieved from the guilt that comes with violating one's ethical standards (Dessler, 2011).

The employees were trying to help the company to survive, as well as to achieve some of their business goals. An excellent example is the COO who, apart from pressuring the executives to look for new means to hide their debts, wanted the company to meet the expectations of the Wall Street (Mandal, 2010). The top management wanted to ensure that financial statements revealed a healthy cash flow and high earnings in the successive years. The balance sheets were skewed assets to show inflated assets and low liabilities. This developed from the use of market-to-market accounting for long-term contracts to report higher financial earnings and the use of special entities to hide debts.

As a consequence of Enron's scandal, new legislations (such as the

Sarbanes-Oxley Act) have come up to ascertain the accuracy of financial reporting. However, the law is not the best guide to what is right because some actions may be legal, but do not meet some moral standards. The best business practices should encourage the adoption of fairness, as well as the respect for the rule of law, in any operational activity within the organization.

References

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