

Implications of scandals research paper example

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



Executive summary

The incessant emergence of corporate scandals impacts' tremendously on the holdings of individuals and institutional investors, there is unique aspect projected by the recent number of scandals from the past occurrences. This is stipulated by the fact that the recent occurrences of scandals involve facets of businesses, these ranges from individual firms and corporate companies. This is in contrast with the past scandal aspects which projected associations relating to specific sectors within the market. The current or recent scandals involve corporate officers, the accounting industry and investment banking houses. The large and diversity of the scope of the recent scandals normally do not project immediate impact on the market. Conversely, consumer assurance and faith on these company's products and services normally decline. This situation lowering the consumers' confidence impacts the other individual financial investments as the coverage of the issue widens. The scandals experienced nationwide impacts a global impact on the economic growth and development. This impact is attributed by numerous factors such as the registered reduction on the nationwide economy. This is caused by factors such as rapid decline in the stock market, impacting the states in holding the firms and their local economies. Others as explored in the study include revenue losses, loss of funds and other long-term implications (economic, financial and societal effects). These financial scandals normally contradict with the business ethics. The firms involved with these cases normally violate, bend or just ignore business ethics. Some of the major multinational firms such as Enron had a clearly stipulated values and code of ethics. However, the management occupants normally

contradict with the stipulations and real meaning of the values and ethics set by conducting business operations contradicting with them.

Introduction

The term scandal has no defined definition. Various individual researchers, authors and writers offer various terminologies in relation to the term. The media also proffers their feeling on the term on offering their meaning on the term. Incorporating various definitions stipulated by various authors a clear insight can be drawn from their ideologies in relation to the definition of the term scandal. This is can be offered as “ an individual or an event or circumstances leading to a general public outrage or indignation. There have been numerous reports and cases reported of business scandals in the market and business history. The intriguing question is why the occurrences never cease. This can be questioned in relation to the vast number of scandals reported. In the US the accounting cases seams to form the baselines behind most of the scandals. This can trace back in the 1980s where the first cases and reports on financial scandals were outlined. For instance, in 1987-1997 US underpinned numerous scandals as scrutinized by the Securities and Exchange Commission (SEC). This body examined more than 300 companies which reported cases of fraudulent financing. In the report by the organization the increase in these cases was an attribute credited by the refuse of standards used by the accounting firms. Failure to enact, strategize and implement regulatory standards. Lack of prior investigations and monitoring regulations were some of the attached causes that were attributed to the cases. This led to setting up of regulatory bodies aimed at overseeing implementation and monitoring of accounting standards

(Alan 2003). However, this did not limit the cases on fraudulent as firms and companies violated the set accounting standards. In 1998-2009 there emerged some of the largest financial scandals. Some of these include cases by reported in April 1998 by Cendant Corporation indicating criminal actions by the executives and the employees. The employees and the executives admitted to have committed fraudulent financial crimes through offering deterred and manipulated financial reports. In the subsequent year (1999) after Cendant Corporation scenario, Mc HBOC fell under the case. This was through recordings which indicated varying financial figures on revenues and unpaid dues. The most intriguing and global case that led to every financial markets questioning the ethics violation was the case reported by Enron. The scenario that was unfolded by Enron made history in the financial and business markets.

Enron making history and the stakeholders

This emerged on October 16, 2001. Enron Corporation was formed by Kenneth Lay in 1985 after amalgamation of Houston Natural Gas and InterNorth a Nebraska pipeline company. According to report of various researchers, during the merging of the two companies Enron incurred immense debts leading deregulation with minimal rights to control its assets such as pipelines. To survive the circumstances, the management had to enact new measures aimed at generating profit and expanding growth. The enacted strategy was aimed at providing an effective platform for generating profits and cash flows. The Chief Executive Office, Kenneth Lay hired McKinsey & Co. to aid in the development and innovation of Enron's business strategy. During these the engagement period, Enron hired Jeffrey Skilling

who was a young consultant. He has skills in banking credited with assets and liabilities management. Jeffrey recommended a revolutionary elucidation on Enron's financial crises (Weil 2001). The strategy was aimed at reducing the credits that Enron had. The strategy proposed creation of "gas bank" where Enron could create a chain within the petroleum market. Upon its enactment, Enron bought gas from chains of suppliers, sell it to a network of consumers. During the preceding transaction the company would generate profit through the process. This was achieved by charging fees for the operation with assumptions of associated risks. The progression assured both the supplier and the consumers on the prices implicated. The result of the strategy led to emergence of a new product within the company and a new paradigm within the industry. The analogy gave birth to what researchers termed as energy derivative. Motivated by Jeffrey Skilling innovativeness and skills, Lay innovated and implemented new division in the 1990, labeling it Enron Finance Corp, hiring Skilling to administrate; by early 1990s Enron Finance Corp subjugated the natural gas market under Skilling Leadership. This was attribute and facilitated by the high number of suppliers accessed and the high number of consumers that were easy to access. The supremacy of Enron within the natural gas market made it accurately predict the gas price generating huge and superior profits. In 1996 Skilling was promoted becoming Enron's head of operations. The position provided an easy platform to convince Lay on the success that the strategy he had innovated on the natural gas could reflect on electric energy. The result was a team made up of the two leaders travelling around the country selling their policies. The consequence was the emergence of the

company being a key player in the political arena in the United States. The active role led to the company acquisition on electric utility company Portland General Electric Corp for \$ 2billion. This led to Skilling developing one of the nation's largest wholesale buyers and seller of natural gas and electricity, known as Enron Capital and Trade Resources. Enron witnessed a massive increase in its total revenues to \$7 billion from earlier \$2 billion with employees' number skyrocketing to 2, 000 from 200. Enron treasured Skilling strategy attributed by the massive success; the company was ready to enact the strategy on any commodity available in the market that would be ready for sale, such as coal, paper and steel. The most exciting development that Enron witnessed on the financial world the formation of Enron Online (EOL) launched in 1999. This was an online electronic trading WEB site. The Website was important in the company in two broad ways; Enron was the key player within the transactions in their platform, and the Web provided confidence to the market players as the best platform for conducting transactions. This diluted their credit qualms creating confidence within the market. The project is projected to have handled over \$335 billion in their online transactions on commodities trade in 2000. January 2000, Enron proposed a project plan that aimed at constructing a high-speed broadband telecommunication network. The project was supplemented by their ideologies of reflecting their previous projects on natural gas to the trade capacity of the plan. In the mid of the same year, Earn merged with Blockbuster offering a deal to the internet users high-speed video services on the internet lines. These projects, deals and strategies generated huge profits on the firm. Enron stocks in August 2000 traded at \$90. 56 marking

one of the highest ever (Jonathan 2001). The results were amazing with financial magazines and public such as the fortune terming the firm s one of the most admirable and innovative companies in the globe.

The collapse of Enron case and other corporate firms leads to huge impacts on various business aspects. These aspects and the implications are analysed in the preceding preview in relation to business ethics.

Implications on Corporate-level strategies

In relation to one of Enron popular slogan was their success based on “ outdistance on the competition” as expressed on their financial report of 2000 (Enron 2000). Enron was built on liability bases the corporate-level strategies enacted generated short-term benefits. The strategies didn’t project the future outcomes that could lead to the collapse of the company. The analogy of innovating and engaging to multiple deals executed with minimal considerations led to the downfall. The strategy of producing huge financial statements with no core background created the loopholes that led to the collapse of the company. Through some of the strategies used by the company were beneficial and produced marvelous outcomes, they required more scrutiny on both long-term and short-term outcomes. The company engaging in transactions with the firms that were managed by the same managers that run Enron was also a huge mistake that the company ventured into. The company advocated on values such as; respect, integrity, communication and excellence. However most of the employees used the values on the contradictory manner. They turned their opposite meaning to their daily virtues. The scandal adversely implicated the corporate strategies

that the business advocated. This is one of the implications and effects of financial scandals on the firms.

Implications on Business level strategies

Enron advocated for increase profit at any cost. The mission is evident based on their greed for producing large financial statements. The outcomes after the emergence of the scandal crippled their dreams. The company enacted strategies that were aimed at generating profit without employees' empowerment. The business level strategy had positive projections but failed to administer the core values of honest business. After the occurrence of the scandal the firm could not compose new business strategies. Though the company was able to enact strategies that generated massive profits on their financial statements, the outcomes were based on mere analyse with loopholes. The strategies that the company used, its mission required effective and innovative scrutiny before enactment. The strategies should have been evaluated and analysed to ensure all the possible challenges generated are averted. Providing firm baseline on the structure of business provides an effective internal environment within the business. The firm talked of missions yet the activities that the company indulged in were way out the projections. I would utilize their mission the benefits were aimed at providing a positive outcome on every consumer. However upon enacted of these strategies some of the measure should be administered to avert the catastrophic outcomes experienced by Enron. The case on Enron proffers the implication of the business strategies in relation to occurrences of the scandals (Michael 2006). Upon the occurrence of these frauds the firm is normally unable to enact business strategies to reinvest.

Accounting structure

This is the next sector that is normally adversely affected by the occurrence of financial scandals in the company involved. In relation to Enron which advocated and introduced “ mark-to-market accounting” on their energy trade in the 1990 facilitating on the execution of unprecedented scale for the transaction (Lee 2001). The rules under these accounting “ policy” provide an analogy where companies violate some accounting normal policies. The policy advocated a situation where if these companies had outstanding balances or energy related derivative contracts either assets or liabilities they must adjust the balances on their financial statements within the particular quarter by predicting unrealized gains or losses to the income of the period statement. The policy provides predicaments and a conflict with the normal accounting policies on long-term projections based on the variations if the market does not offer the predicted gains. The auditors and accountants in Enron made the projections and registered different figures upon attainment on the projected gains. The pressure from internal environments for high gaining led to the company making overstated assumptions that could out do the estimated earnings. The company lacked liable auditors and accountants. They violated the company’s mission and values. The outcome was a business where transactions were carried out under their name yet the funds were channeled in to individual accounts. The failure of Enron to incorporate some of SPEs that traded with, in their transactions proves how sluggish their accounting strategy was. These implied that the transactions that the company executed with these companies were an accounted for. The firm ignored and failed to apply

system checks and balance. They indicated figures that reflected profits based on liabilities which were not relative to the investments. The accounting body is normally attributed to the failure of most of the firms and businesses as questions on the laxity of the auditors and accountants are identified. The cooperation of the auditors and the managers normally leads to the collapse and failure to identify abnormalities on the financial situations. Auditors and accountants curvature or violate the business and accounting ethics.

Managers

These are normally the individuals who are adversely credited on the collapse and masterminds' propelling the scandals. They are normally affected by the consequences of the scandals in adverse manner. In reference to Enron, managers such as Jeff Skilling, Ken Lay and Andrew Fastow were the leaders that witnessed the rise and fall of Enron Corporation. They facilitated the growth by enacting strategies and policies that generated huge profits on the Enron financial statement. As much as these managers are credited for the period that Enron thrived in the financial world, its downfall was attributed to their unlawful acts. They were controlled by the vices of self-interest by channeling the profits derived to their individual accounts. They developed bankrupt strategies aimed at squeezing Enron accounts to their pockets. The values, vision and the mission of the company ironically acted as their core virtues in the business. The failure of the Enron is credited on their violations on business ethics. There is no assumption that can credit their acts either on the current economic world or the previous. The business ethics does not provide platforms were they can

be amended on personal gains. They should have been accountable and responsible on the welfare of the company and the employees. Most of them face criminal charges attributed by their unlawful acts. They face imprisonment and societal denial with bad images implicated on their life's.

Implications on the employees

These are some of the individuals that are adversely affected by the occurrence of the scandals. They consist of the individuals who participated and those who had no idea of the occurrence of the scandals. Their effects range from unemployment to family and public negative concerns. In relation to the Enron scandal, it created numerous victims with more tragically a former vice-chairman committing suicide in connection with the scandal (Susan 2001). Almost half a million individuals becoming jobless on recklessness of a few individuals, with more life's affected. The very core values that Enron praised become satirical in public upon the exposure of the scandal in public. The employees employed by the company still find hard to get jobs elsewhere. The government should enact mechanisms to provide platform for the victims' development. The outcomes are normally tough for the victims to accept and absorb and move forward, they living in denial which limits the chances of these individuals progressing. Though they learnt their lessons the society finds it implacable to embrace them. Those who normally participate on the occurrence of the scandals normally face jail terms upon investigations. This affects their professions impacting a negative image on the public. Non-participant are normally afflicted with denial especially when they discover the presence of the scandal being committed by the managers and yet they can do nothing about it.

Stakeholders

These are the individuals entailed with the prevalent impact upon the occurrence of financial scandals. The effects implicated on them are numerous upon the discovery and collapse of their corporation, they not only suffer marginal financial losses but also endless wrangles with the courts. They may include the executives who had participated on the emergence of the scandals or independent investors who trust their equity on the management of fraudulent managers. In relation to Enron the stakeholders suffered gigantic financial losses; most of them were declared bankrupt. This implicates negatively on their normal living and financial welfare. Most of these individuals suffer public outrage in relation to the losses they implicate to the society. Their financial growth and development are marginally affected upon the huge losses implicated on their financial welfares. They find it hard to recuperate as the adversity of the effects implicates their health as they find it hard to absorb the losses. The effects normally implicate them during the seven stages of the scandal occurrence as analysed in the preceding preview. By the end of the seven stages the effects and huge financial losses is normally identical as they find it hard to recover.

Financial margins

The corporations and firms that have been entangled in occurrences of scandals suffer marginal financial losses. These firms can be grouped in to two; those who recover and those that collapse. The marginal financial losses suffered by the firm normally implicates on the chances of recuperating. This can be attributed by the creditability of the stakeholders

to reinvest in the firm before the collapse of the firm. The adversity of the scandal in relation to the public and the business image also marginally determines the level of effects implicated on the firm and chances to recover. Those firms that recover incorporate strategic measures aimed at redeveloping the company. These strategies are not only aimed at creating transparency and accountability on their financial matters but also recover the public image. Those firms and businesses that collapse normally suffer marginal financial losses leading to limited chances of recuperation (Madelaine 2005). The managers and the stakeholders enact strategies which are ineffective in relation to the damage caused and the total chances of recovery.

Public image and consumer welfare

These individuals witness the growth, the rise and the fall of corporations and firms that they entrust with their funds. The investors and individuals who entrust their finances on these firms normally suffer marginal financial losses. The business image on the public is drastically damaged limiting recuperating of the firm. During the seven stages of the scandal occurrence the public, consumers and investors to the firm are normally financially and emotionally affected (Oppel 2002). These seven stages are normally; the first stage labeled as the anxiety where the public witnesses increase corruption concerns, unethical business accusations and financial concerns on the particular firm, the second stage is characterized by focused attention by the media hence attracting the public and the customers. The third stage is credited with occurrence of denial and evasion. The fourth stage is related to validation especially when the authority intervenes, the public, employees

and consumers marginally witnesses unfolding of events from this stage. The fifth stage is where the definition occurs; this examines and identifies the individuals or the masterminds behind the occurrence of the scandal. In this stage those that ignited and facilitated the occurrence of the scandal through unethical business practices are identified and punishments recommended. The sixth stage is the punishment stage where the public and the media witness the punishing of the individuals involved. The last stage is aftermath stage which according to researchers is barely reached. Most of the scandals end at the punishment. This stage is also essential for it addresses the implications and welfare of the affected firm, stakeholders and the public shares.

Conclusion

Occurrences of financial scandals continue to unfold within the business world. The implications affect every aspect of the business ranging from the stakeholders, profit to consumers and the public. Recurring of these financial scandals which fundamentally implicate losses calls for closer scrutiny on the factors that attribute, the impacts should form the baselines on the need to enact strategic measures to avert the occurrences.

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