

Enron's ceo essay sample

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What were the individual factors that contributed to the failure of Enron? Briefly explain two key factors. In the repercussion of Enron's bankruptcy filing, numerous Enron executives were charged with criminal acts. Those charges were fraud, insider trading and money laundering. Enron was described as " House Of Cards" as it was built over a pool of gasoline. It all sort of became smoke and mirror. Louis Borget, former Enron's CEO was also exposed to be rerouting company's money to offshore accounts. Once their schemes were discovered by the auditors, Kenneth Lay encourages them to " keep making us millions". However, the traders were fired once it was revealed that Enron's reserves were gambled away which nearly destroyed the company. After these facts were brought to light, Ken Lay denies having any knowledge of wrongdoing. Needless to say, when required to testify before the U. S. Congress on the reasons for Enron's collapse, Ken Lay, Jeff Skilling and Andrew Fastow, sought refuge under the Fifth Amendment. Andrew Fastow, Jeffrey Skilling, and Kenneth Lay are among the most notable top-level executives implicated in the collapse of Enron's. Kenneth Lay, the former chairman of Enron was prosecuted on 11 criminal counts of making misleading statements and fraud. Jeff Skilling, former Chief Executive Officer (CEO) of Enron was charged on 35 counts that included conspiracy wire fraud, insider trading, securities fraud, and making false statements on financial reports.

Andrew Fastow, former Enron's Chief Financial Officer (CFO), faced 98 counts of money laundering, fraud, and conspiracy in connection with the improper partnerships he ran. This included a Nigerian power plant project that was aided by Merrill Lynch, an investment banking firm. However, Fastow was

pled guilty of conspiracy to commit wire fraud and the other charge was of conspiracy to commit wire and securities fraud. 10 years prison term and the forfeiture of \$29.8 million was agreed by him. The activities of Lay, Skilling and Fastow raised eyebrows on how closely they did adhere to the Enron Code of Ethics. Jeff Skilling made one condition when he was hired by Ken Lay after Louis Borget was behind the bars, which is Jeff must use "mark-to-market" accounting. This mark-to-market term allowed Enron to book potential future profits on the very day a deal was signed. No matter how little cash actually came in the door, to the outside world, Enron's profits could be whatever Enron said they were. It is very subjective as well as very manipulative. Prior to collapse, an article on how Enron made its money was prepared by Bethany McLean, an investigative reporter of Fortune magazine. In the article, she called Enron's then-CEO, Jeff Skilling, to seek explanation of its "nearly incomprehensible financial statements". Consequently, Skilling became agitated with McLean's question.

He told her that the line of questioning was unethical and hung up on McLean. To meet up with McLean, Andrew Fastow together with two other key executives traveled to New York City, allegedly to answer her questions "completely and accurately". After the meeting, Fastow told Bethany and the auditor that "I don't care what you write about the company, just don't make me look bad". Fastow had good reasons for not wanting to look bad. There were these partnerships that were run by him that were doing business with Enron. These were disclosed in the company's financial statements. Fastow idolized Skilling. To please the boss, Fastow had to figure out a way to keep the stock price up by hiding the fact that Enron had 30

billion in debts. He was defying laws of financial gravity by a structure called 'financial structure'. The foundational values of the company's ethics code was challenged when Fastow indulged in numerous activities. Fastow concealed on how significantly Enron was involved in trading as the company has essentially volatile earnings that aren't rewarded in the stock market with high valuations. The high market valuation was indispensable to prevent Enron from collapsing. Not only that, an operating partnerships called as related party transactions was set up by Fastow to do business with Enron. During this timeline, Fastow was exempted from the company's ethics code by Enron's board and top management.

Lay was described as one of the key leaders and organizers of the criminal activity and massive fraud that lead to Enron's bankruptcy. Yet, he maintains his innocence and lack of knowledge of what was happening. He blames virtually all of the criminal activities on Fastow. However, Sherron Watkins, the key Enron whistleblower, maintains that she can provide examples of Lay's questionable decisions and actions. This is what Bethany McLean and fellow investigative reporter Peter Elkind had to say: "Lay bears enormous responsibility for the substance of what went wrong at Enron. The problems ran wide and deep, as did the deception required in covering them up. The company's culture was his to shape." Ultimately, the actions of Enron's leadership did not match the company's expressed vision and mission as well as its values. 2) What were the organizational factors that contributed to the failure of Enron? Briefly explain two key factors. The role of a company's board of directors is to oversee corporate management to protect the interests of shareholders. However, in 1999, conflict of interest

rules was waived by Enron's board for Andrew Fastow to create private partnerships to do business with the firm.

Enron's reported profits momentarily had influence on the transactions involving these partnerships concealed debts and losses. Enron's collapse raises the issue on the will to challenge questionable dealings by corporate managers and also on how to reinforce directors' capability. Enron's business strategy and corporate culture were altered by Jeffrey Skilling and Andrew Fastow. Enron appeared to be very innovative and very profitable during the period. There little enticement for the investment community and the board of directors to question the executives intimately when the stock inclined and the shareholders treasure chest were getting full. In the off-books corporations controlled by Fastow, the board was at fault for authorizing the deferment of Enron's own code of conduct to permit the conflicts of interest. Without encountering any danger, Enron has been depicted as having a culture of arrogance that led people to deem that they could handle increasingly greater risk. In accordance with Sherron Watkins, " Enron's unspoken message was, ' Make the numbers, make the numbers, make the numbers — if you steal, if you cheat, just don't get caught. If you do, beg for a second chance, and you'll get one". This crystal clearly depicted that Enron's corporate culture did little to endorse the values of integrity and respect. These values were dented through its employee performance appraisals and also its compensation program as well as the company's emphasis on decentralization.

Enron mounted a campaign to capture the hearts and minds of stock analysts. As long as the company exceeded the analyst's projections for <https://assignbuster.com/enrons-ceo-essay-sample/>

quarterly earnings per share, the stock went higher. The game played with the Wall Street was known as “ pump and dump”. Top executives would push the stock price up and then cash in their multi-million dollar options. Executives at Enron got paid largely via stock. Each and every Enron's business units and divisions were kept separate from the others. On the perspective of the company's operations, very few people in the organization had a big picture as a result. Complementary this emphasis on decentralization were the compliant board of directors and insufficient operational and financial controls. Furthermore, there was also a distracted, hands-off chairman, and an impotent staff of auditors, lawyers and accountants. A very rigorous and threatening performance evaluation process known as the “ rank and yank” was instigated by Jeff Skilling for all Enron employees. It is the annual process and it requires people to be graded from 1 - 5 that exploits peer evaluations and was capriciously forced to fire the lowest ranking one-fifth of its employees in each and every one of the company's divisions annually. Roughly 10% of people had to be a 5. Subsequently, in order to augment their own positions in the company, employees regularly ranked their peers lower.

Rather than generating profits for shareholders, Enron's compensation plan appeared familiarized towards enriching executives. Via this, even though no actual cash was generated, people were encouraged to blow up the value of contracts and to break rules. In addition, Enron's bonus program optimistically inflated the valuation of deals on the company's books and also the use of non-standard accounting practices. They continue to sell the company as being a stable place where it could predictably increase profits

10%-15% annually. To get to that number, Enron was doing all sorts of questionable things, taking enormous risks. 3) What were the social factors that contributed to the failure of Enron? Briefly explain two key factors. According to, Bethany McLean and Peter Elkind, " Complicity of vastly regarded Wall Street firms is one of the grimeiest facets of the Enron scandal" in enabling Enron's fraud as well as being partners to it. With the prospect of return that would exceed 2000%, 96 investment individual bankers invested in LJM which solely existed to do business with Enron. Among these were J. P. Morgan, Chase, Credit Suisse First Boston, Citibank, Merrill Lynch and Deutsche bank (some of the premium banks in the world). Through the use of " prepays", this complicity arouses. Prepays are essentially loans that Enron booked as operating cash flow.

America's major banks put up as much as 25 million each. It's sort of who's who of Wall Street. By securing new prepays, Enron managed to pay off existing ones and to support rapidly expanding investments in new businesses. Related party transaction, known as LJM, was created by Andrew Fastow. He used it as a tactic whereby it would take a poor performing asset off Enron's hands at the end of a quarter. Once the quarter was over, the asset would be sold back to the company at a profit. Such transactions were basically smoke and mirrors, reflecting a relationship between LJM and the banks in which Enron could practically pluck earnings out of thin air." The banks were all knowing participants in this wrong-doing. Merrill Lynch assisted Enron in cooing its books by pretending to purchase an existing Enron asset when it was only engaged in loan. And Merrill Lynch suddenly decided to buy 3 Nigerian power barges from Enron. This has nothing to do

with Merrill Lynch's business. It was blatantly an illegal transaction. It was done to get them off Enron's books.

The Wall Street Journal reports that McKinsey and Company praised Enron's use of off balance sheet funds using institutional investment money which fostered its securitization skills and granted it access to capital at below the hurdle rates of major oil companies. Enron captivated Wall Street into broadband, teaming up with Blockbuster to deliver movies on demand. Wall Street analysts who covered Enron had buy ratings or strong buy ratings on the company's stock. People were blinded by the analyst's information. It's amazing how skilled Enron and Fastow were playing at Wall Street's greed in order to get money out of them. If anyone asked the analyst's a question, and if the analyst's couldn't answer the question asked to them, they would call Jeff Skilling to seek him for an answer. By giving Skilling a call, analysts weren't analyzing at all. They were willing to believe virtually anything Enron told them.

Any analyst who didn't buy the company line became an enemy of Enron. An analyst summed up his recommendation to investors about Enron in one word ' WOW'! Without the cooperation and support of Arthur Andersen who helped finance its operations, Enron could not have succeeded. Arthur Andersen which was America's oldest accounting firm also played part in the downfall of Enron. When the accounting firm found out about the scandal, they should have said " NO" to Enron and should have reported to SEC. Instead, they took their share of money to help to cover Enron's debts and losses. Arthur Andersen accounting firm received 1 million dollars a week.

Arthur Andersen was also involved in an investigation with Enron when they got involved in the misappropriation of money by 2 traders.