Good unethical issues in enron documentary essay example

Business, Company

Based on the documentary film Enron, it is apparent that Kenneth Lay was motivated by a genuine goodwill to prosper commercially when he merged two energy companies in Texas to form Enron. After its incorporation, Enron would later ride along the economic convenience created by deregulation of natural gas trade. Deregulation of natural gas market facilitated generation of vast revenues through sales at high prices. As the company’s revenue increased exponentially, human ingenuity infiltrated into Enron’s executive body. Consequently, executive officers and financial professionals within the firm adopted accounting principles that gave birth to what became an overt display of extreme capitalism (Gibney and Elkind 01). Subsequently, continued use of chronic capitalistic approaches led to Enron’s stock rising in value by approximately 310% within the last decade of 20th Century. However, stakeholders behind design and execution of the skewed accounting practices could not sustain their mischievous activities past the 20th Century. Consequently, Enron’s downfall commenced with some unethical practices featuring as the leading causes of the corporation’s bankruptcy.

The first unethical issue featured within the documentary film involved doctoring of Enron’s balance sheet and other accounting statements. As early as December 1998, independent auditors and shareholders were experiencing technical problems and confusion in interpreting the company’s financial information. Unethical accounting practices enabled Enron’s accounting department to misrepresent earnings and debts in a manner that portrays the company in a commercially favorable state. One unethical incident concerning manipulation of financial statements involves hiding of

debts (Gibney and Elkind 01) Enron could loan itself money; hence concealing the source of additional capital and dimming the actual amount of its debts and debentures to stakeholders. With respect to the movie, financial structures used in concealing debts were substantially complex that even experienced analysts and auditors could not understand financial statements.

In this context, hiding of debts manifest as a tip of an iceberg with its bottom part holding all financial misfeasance committed by Enron's top executives. Under the leadership of Kenneth, many financial analysts hired by stakeholders were either bribed through lucrative contracts or suborned. Reports from those analysts indicated that the company was making incredibly huge profits. As the aggressive accounting philosophy grew, top level executives started siphoning money from the company and investing them in their own personal endeavors. Subsequently, executives like Skilling ended up emerging as the leading property owners in the states of California and Texas. Their personal success and wealth accumulation came at the expense of numerous low-level employees who were either fired irrationally or lost their retirement benefits after Enron's bankruptcy. In this context, definite unethical practices like debt hiding, bribing and inflation of accounting information led to collapse of Enron.

Luckily, Enron's CEO and other leading executives were able to carry out their practices for a significant period of time without being noticed. One aspect that provided cover for their dirty tricks involved using the convenient principle of mark-to-market accounting technique. Mark-to-market technique involves making financial projections of expected cash flows based on

present value of a company's stock. In this case, Enron would enter into a contract, make estimates of expected cash returns, and record the exact projected values in their accounting books. Whenever actual cash flows are generated, accountants would not change values in their books. This ended up creating a substantial discrepancy between values in their books and actual cash flows generated by their projects. In this case, investors were continually fed with false information on the company's financial health. Consequently, those investors poured additional capital into Enron based on their perception on misrepresented information. Use of mark-to-market technique enabled Enron to appear profitable on paper despite encountering losses on actual context.

Based on the film in subject, Enron's unethical practices would later surface after its chief executive officer failed to objectively answer questions regarding the company's accounting principles. As at 1998, Enron's stock value stood at $83 per share. Despite apparent opacity on the company's accounting aspects, investors continued investing heavily on Enron's stock. In October 2000, there were reports that Enron was experiencing operational hitches. Those hitches were later singled out as logistical challenges in commissioning new projects within the communication sector (Gibney and Elkind 01). This report came as a surprise because Enron was incredibly " profitable" at that time. As by April 2001, the company's executives were confronted by grave issues and inquiries concerning Enron's financial shape. Actual downfall for the corporation commenced when Wall Street analyst questioned Enron's accounting principles in a conference held on April 2001. In response, Enron's chief executive humorously called the analyst an "

Asshole”.

Based on the conference incident coupled with allegations of operational challenges, members of the public and the media fraternity started digging deeper into Enron’s financial trends. As a result, it became evident that the corporation would never release both its income statements and its balance sheet. Traditionally, corporations would release its annual balance sheet together with corresponding earning statements. Enron shielded its unethical practices by releasing these important statements separately in order to ensure sustained opacity in its financial undertakings (Gibney and Elkind 01). Subsequently, pressure from independent analysts, media personalities and the public shareholders grew stronger; thus forcing the company’s chief executive to resign. After his resignation, the remaining executives could not hide their cards, thus ended up ushering in interested stakeholders into unearthing Enron’s unethical activities.

Work Cited

Gibney, Alex and Elkind, Peter. “ Enron: The Smartest Guys in the Room”. Imdb. com 2005. Web January 29, 2014 http://www. imdb. com/title/tt1016268/