Enron's could bully and intimidate others making the

Enron’s scandalous fall in the late 1990’s is a classic example of how corporate can exploit loopholes in regulations to portray a rosy picture of performance and deceive investors. In the period between 1990 and 1998, the price of Enron shares shot by a whopping 311%. In the year 1999, it rose by a further 87% while 2000 rose by 87%. For these years the index rose by a 20% and a decline of 10% respectively. In the end of year 2000 the share price for Enron were valued at $83.

13. The company also registered a capitalization beyond $60 billion. These figures were clearly exorbitant. This represented about six times the company’s book value and 70 times the company’s earnings. This indicted the very high expectations on the company’s future. In fact it was rated the most innovative company according to the fortune magazine. However in a period of one year, the company’s image was badly scared, share prices fell to almost zero. The company did several things wrong which culminated in the downfall.

First, it went into acquisitions using a team of financial market speculators mainly charged with the task of hedging the risks taken by the parent company in field operations. The team speculated in the market and earned lots of profits which made the top executives think that those earning could be depended upon. Consequently, they retained this team as core contributors to the company’s earnings but deliberately disguised their operations. This shows that had the top management accepted the hard facts that these earning were not reliable and could not be integrated in the company, then the company would have effectively avoided the scandal (Berlau, par5). Secondly, the company through the leadership of Jeff Skilling adopted the mark to market accounting mainly as a way of covering up the operating losses made by the company.

This provided another avenue enabling the company put up flawed financial and other reports which misguided the investors into overvaluing its stock prices. This was through the overvaluation of earnings. Clearly, this model of accounting should not have been adopted as this was a clear source of flawed reports. There was also emphasis on developing special purpose entities outside the umbrella of the company's core business. Little information on the operations of these entities was understood by investors yet their operations represented significant portion of the company's investments. This structural arrangement enhanced possibilities of deceit. All operations should have been conducted within company's defined tasks and incorporated in order to ensure integrity. Clearly, officers at Enron acted in contravention of the laws and the scope of their authority.

First, Jeff Skilling on rising to the top management insisted on the use of mark to market accounting. This form of accounting is legal but applicable in companies dealing in buying and selling of securities. This form of accounting is known to be very fatal for organizations whose core functions include building of projects. It goes against the prudence principle of accounting.

There were also numerous cases of extravagant expenditures and in the late years just before bankruptcy, it clear that most of luxuries enjoyed by officers were from external financing as the company was in no position to make any profits. Indeed the litigations which followed the collapse of Enron confirmed that officers acted outside the scope of their authority (Healy, par7). The corporate culture at Enron strongly encouraged aggressive growth, risk taking and continued entrepreneurial creativity. Generally these can be described as excellent values aimed at driving the company towards high performance. However, there were little or no checks on these values to ensure integrity and ensuring that there was adequate creation of customer value in addition to shareholder value.

This lack of balance led to unchecked soaring price per share. These values soon became liabilities. There was also unreasonable emphasize on size and it could bully and intimidate others making the organization's culture grow into arrogance (Zinoman, par2-6). Debts were hidden and the myth that the company could never fail was effectively propagated among employees. This enabled officers charged with decision making to engage in very risky ventures with Enron stock as they could bet on the fact that Enron stocks could never fail. In general, officers clearly neglected their responsibility of oversight and engaged in criminal activities as a result of greed. There are two main irregularities established on the actions between the sellers of securities and Enron.

First the SEC under the leadership of Arthur Levitt gave leeway to the dubious practices at Enron by giving exemptions from some security laws which were meant to guard investors. They also did not raise alarms on the off balance sheet transactions which could not be captured in the share pricing of the company. Indeed, Enron was liable for the actions of its agents and employees. This is mainly because the management was responsible for offering incentives towards the behavior portrayed by the officers in execution of their duties. The decisions on the

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