The rise and fall of enron

The meteoric rise and fall of Enron is one of the most notorious tales in the history of corporate America. Enron was the seventh-largest company in the United States in 2000 and 'Fortune' magazine had declared it as America's " most innovative company" for six straight years; its share price had climbed from $ 10 a share in 1991 to over $ 90 a share in August 2000 while its revenue jumped to more than $100 billion. (" Rise and Fall of an Energy Giant")

No one could have predicted that before the end of the following year the " rising star" of corporate America would be filing for bankruptcy, shaking investor confidence to the core and signalling the end of the longest bull-run in the American stock exchange's history. The ramifications of the dramatic collapse still reverberate in global financial and energy markets as well the U. S. courts, where a number of former Enron managers face serious criminal charges. This fairy tale rise and ignominious fall of Enron is the subject of this paper.

The Pipeline and Energy Company: Enron Corporation was formed as a result of a 1985 merger of Houston Natural Gas (HNG) and InterNorth-a Nebraska based gas pipeline company. Kenneth Lay, CEO of HNG, became Enron's first CEO and proceeded to make it the first nationwide natural gas pipeline. Enron soon became involved in in the transmission and distribution of electricity in addition to gas in the US as well as the development, construction, and operation of power plants and pipelines worldwide. Its profits were, however, modest as in those days, energy was a government-sanctioned monopoly. (Lindstorm)

Taking Advantage of Deregulation: Things began to change as the gas and electricity sectors were deregulated by the early 1990s. Kenneth Lay decided to take advantage of the deregulation and hired Jeffery Skilling a young consultant with a banking and liability management background, in 1990- making him the CEO of a new division in Enron- the EnronFinanceCorp. The duo proceeded to transform Enron from a 'boringly predictable' and regulated Gas Company into one of the largest energy traders in the US that would eventually dominate the trading of energy contracts and financial instruments known as derivatives.

Trading Becomes the Mantra: As Enron's revenues sky-rocketed in its initial forays into wholesale buying and selling of gas and electricity, Skilling was emboldened to extend the trading concept into almost any commodity that could be traded, i. e., futures contracts in coal, paper, steel, water and even weather. Taking advantage of the growing use of the Internet, Enron started Enron Online (EOL) in October 1999-an electronic commodities trading Web site that was hugely successful almost overnight. Skilling hired the brightest talent from the top MBA schools and turned them into high-flying traders with incentives to " eat what they killed." (Thomas, para on " The Best, the Brightest...")

While the company grew rapidly through the 1990s, " some of the worst manifestations of itsculture-obsessions with bonuses, the stock price and exotic accounting-were also growing, and out of control." (Fowler, " Enron's Implosion...") Enron did make huge profits for a short while due to highly volatile energy prices, and there was widespread perception in the company about the unlimited potential of online trade andtechnologyinnovations such as the broadband.

Things started to change in the late 1990s. Other energy companies such as Dynergy, Duke Energy, and El Paso had entered the field of energy trading and the competition started to eat into the huge profit margins of Enron. Other factors such as falling energy prices in early 2001, the approaching worldwide recession and the broadband bubble burst began to work against Enron's 'dream' run. The company, in the meantime, had embarked on a culture of cutting trading deals that had a momentum of its own that was hard to stop.

Disregarding Ethics: Ethics at Enron was put on the back-burner as its corporate culture was focused on making " deals" and increasing Enron's share value. Skilling was relentless in his push for creativity and competitiveness, giving rise to " a growth-at-any-cost culture," overriding all checks and balances, and suppressing all voices of caution. (Fowler) Its 'ethics' was personified by Kenneth Lay's exercising of his stock options and pocketing profits, even as he was promoting Enron shares as a bargain to employees. It was also reflected in the action of some Enron executives who pressurized a brokerage company to take action against a broker who advised some Enron workers to sell their shares. (Wee, " Corporate Ethics")

Dubious Accounting: It was hardly surprising, therefore, that several Enron resorted to " innovative" accounting practices to show inflated profits and hiding their losses. Under Andrew Fastow (Enron's Chief Financial Officer) personal guidance, the company made use of thousands of Special Purpose

Entities (SPEs), some of them owned by Fastow himself, to " park" its troubled assets that were falling in value, so that the balance sheet continued to show growing profits.

Conflict of Interest: Despite serious accounting irregularities, no one was prepared to blow the whistle because of conflicts of interest of several key players. Enron's auditor, Arthur Anderson was also its consultant and stood to gain from 'seeing no evil'; Kenneth Lay was busy exercising his stock options before the share value fell. J. P. Morgan, while underwriting bonds for Enron, was involved in trading derivatives contracts with the company and had a substantial share in Enron stock. Andrew Fastow was making millions in profits by doing business with the firm through secret limited partnerships.

As a result, although the fall of Enron when it filed for bankruptcy in December 2001 seemed stunningly sudden to most people, conditions for the collapse had been brewing for a long time.