

# [Enron: an ethics case study assignment](https://assignbuster.com/enron-an-ethics-case-study-assignment/)

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In fact, most companies, regardless of size, will inevitably encounter scandal and introverts at some point in their existence, though this in itself is nothing to worry about. Indeed, it can be said in this regard that a career without scandal is not a career at all. Rather than wasting time worrying about encountering such scandals, a good executive would be better-advised to focus all efforts toward making it through them when they come. Failure in this regard would, among other things, spell doom with respect to the existence of the company itself.

Among the most disappointing and tragic examples of this is the case of World Championship Wrestling which, hanks to a combination of mismanagement and bad luck, was forced to fold in 2001. Among the most controversial companies of the past decade Is the Enron Corporation – which, Incidentally, folded the same year as the aforementioned WAC. Despite having been lauded by Fortune magazine as America’s most innovative company for 6 years in a row, Enron was nevertheless beset and eventually done in by the same problems that doomed WAC, and then some.

Points to be discussed in this paper include the corporate culture It espoused, the contributions made by Enron’s corporate culture to its demise, as well as those by Its stakeholders and Its officers wrought their actions. Finally, the lessons learned from Enron’s demise shall be made note of. Enron: A Fall From Grace The first point for discussion necessitates an explanation on the concept of corporate culture. As a variable, corporate culture Is something said to be possessed Day an organization, Ana Is student to battalion appending on ten octagons AT leadership and members.

Under such an arrangement, corporate culture becomes something that unites the organization’s members and leaders in the pursuit of a common goal. On the other hand, culture can also be construed as something the organization is, in which case people will perceive it differently based on their own personal experiences, based on the symbols and messages being communicated by the organization (Modal et al, 2011). The corporate culture espoused by Enron as a whole has always upheld the principle of revenue recognition (Britton, 2002).

The interplay of its complex business model with a slew of unethical practices forced Enron to take certain drastic measures, such as the exploitation of accounting limitations to manipulate balance sheets to present a fabricated depiction of good performance on its part (Healy et al, 2003). Such a lack of transparency on Enron’s part with respect to its financial statements indubitably contributed to its demise – a fact attested to by multiple sources. According to Badmouth (2003), the intent of these dubious practices was to inflate asset values and to keep liabilities off the books.

Unfortunately, as can be seen from Enron’s downfall, this can be observed to have backfired in a major, major way, and the equally questionable behavior of its officers did nothing to help. According to McLean et al (2003), Enron’s executives, most notably Kenneth Lay, Jeffrey Killing and Andrew Fast were the biggest culprits, through their negligence as well as direct action. Killing and Fast in particular were infamous for pressuring their fellow executives into hiding Enron’s debt in order to better meet Wall Street expectations.

Most of the acts they perpetrated in this regard entailed obscuring and obfuscating the true state of things through rampant manipulation of balance sheets and financial structures. All these actions were indirectly aided and abetted by Lay who, unwilling to bother himself with details, ended up allowing Enron to be run into the ground. Andrew Fast in particular holds the greatest fault as Enron’s chief financial officer. As mentioned in Time Magazine (Seaports, 2002), he and his cohorts made millions from their investments, even others around them were all but left destitute in the process.

One of Enron’s disgruntled energy traders put it best in saying that he cost the company half a billion dollars while he made his millions. While he was at it, he also made liberal use of his power and position in order to silence weightlessness and cow those he saw as potential threats. Under his tenure as chief financing officer, Enron continued to look attractive for investors even as it struggled to cover its massive debts brought on by failed deals and projects. Stock price was the primary focus, to the detriment of everything else.

Eventually the situation escalated to the point that even Lay, whose implicit trust in Fast had never wavered, had to take notice. Shortly after, Andrew Fast was removed from his position as chief financing officer and, together with his wife Lea, would go on to be sentenced to 10 years in prison without parole (Said, 2004). However, the damage had been done, with Enron’s stock plummeting to $16. 1 within the week. Moreover, the departure of both Fast and Killing only served to make it harder to examine the company’s practices. By tens time, ten meals AT Enron as a corporate entity was very much imminent (Norris, 2001).

It should boggle the mind Just how this was able to happen, given how Enron had been known to have an especially skilled and knowledgeable audit committee. According to Lubing (2002), the committee included such figures as a former accounting professor and dean, presidents and chairmen of both government-owned and private institutions, and was notable for its overall greater competence marred to what one could normally expect from an audit committee. In theory, then, Enron’s audit committee should have been able to prevent or at the very least head off the scandal.

Unfortunately, as Healy et al (2003) pointed out, this turned out not to be the case. For one thing, the committee was said to have made a habit out of meeting for only an hour and a half each time, while cramming way too many topics for discussion into those meetings, resulting in each point not being given the attention and focus it deserved. Not only that, the committee was also unable to properly question auditors n accounting issues concerning Enron’s special purpose entities, as well as the management of Enron itself, thanks in part to the pressure being brought to bear against it. Eventually, the worst case scenario came to pass.

By November 28, 2001, Enron was slated to have at least $23 billion in liabilities borne of outstanding debts and guaranteed loans, with its stock falling to $0. 61 at the end of the days trading. Only two days later, Enron’s European operations filed for bankruptcy, leaving 4, 000 people jobless in what was, at the time, the largest bankruptcy in the history of the United States (Benson, 2003). While this would be eclipsed by World only a year later, this does nothing to diminish the catastrophic consequences of Enron’s bankruptcy, especially with respect to the 4, 000 who were left Jobless.

Conclusion In this way, it can be seen how the demise of Enron came about. The executives sought to hype Enron up to attract potential business partners, but their excessive focus on this objective ended up setting off the chain of events that eventually forced Enron to fold. While they managed to put on a pretty face for the outside world to see such that, merely a year before declaring bankruptcy, Enron’s stocks were at an all- time high – their incompetence with respect to damage control was what ultimately cost them. Catastrophic as it was, however, Enron’s demise has not been for nothing.

In the aftermath of the disaster, certain regulations and laws were passed to prevent what happened at Enron from repeating itself, for instance by requiring greater accuracy with respect to financial reporting for public documents. One of these laws is the Serbians-Solely Act, which provides for harsher penalties for those who would ampere Walt records In Ethereal Investigations, or Tort tense won would tetra shareholders. In effect, this act allows auditors to assess clients in an unbiased and independent manner, thereby promoting greater accountability (Cohen et al, 2004).

In addition to the above, the Enron scandal itself serves to teach important lessons to other organizations seeking to make it big. The most important of these lessons, of course, is the need for accountability and transparency with regard to business dealings. This is especially important in light of the fact that, in effect, it was Enron’s won duplicity that ultimately resulted in its fall, with unscrupulous executives enriching themselves at the expense of everyone else.

Not only did Enron’s duplicity serve to turn investors off when it finally came to light, it also gave rise to overspending when the company was forced to spend way too much money on keeping up the ruse of its supposed profitability and liquidity – again, to the detriment of everything else. The questionable practices of Fast and the rest might have brought on a brief burst of prosperity, but considering how their dishonesty resulted in Enron’s bankruptcy, it can be said that adherence to ethical tankards is for practical as well as moral reasons, and is therefore something no company should ever lose sight of.