# Enron’s performance bonus for top employee’s

Enron, once one of the fastest growing, innovative, and well managed business in the United States filed bankruptcy in December 2001. Shareholders, including Enron employees lost billions of dollars. The main question in everyone’s mind, is what truly happened to Enron? One act of Enron that contributed to the collapse was the Performance Bonus’s that were given to employees. Enron was a company that knew exactly what they wanted, and how to achieve every goal.

The company needed strong, outgoing, ruthless individuals, who would stop at nothing to get what he/she wanted. Enron implemented a “ rank and yank’ employee evaluation system where employees ranked each other from 1 to 5 on their contribution toward the company. Each division was required to rank 20 percent of their employees at the lowest ranking. Employees were quick to rank others less favorable in order to increase their own standings (Fowler, 2002).

Kenneth Lay, CEO, was said to have made a point on the ethical codes of Enron, and how it was important to him to achieve the highest quality of ethics and at the same time supporting all people! Enron decided to carry out a bonus system. This was a system that an employee would receive a bonus when a contract was signed, not completed! So, even if the contract was faulty or unethical if it was signed the employee received a large bonus; normally a 3% bonus on the price of the contract. This appeared to boost the moral of Enron, but the performance bonus’s started to get out of hand. Employees were inflating prices on contracts, because the larger the cost of the contract the more money went into his/her pocket. Ken Lay, CEO, was happy about the money being brought in and the strive the employees had to complete tasks in a timely manner.

Employees at Enron were vicious, and would go to excessive lengths to get what he/she was hoping for. The main focus at all times was money. The performance bonus for Enron was as follows, “ Employee shall be eligible to participate in the Enron Corp. Annual Incentive Plan (“ Plan”) or any appropriate replacement bonus plan of Enron. All bonuses are discretionary and shall be paid in accordance with the terms and provisions of the Plan, a portion of which may be paid in cash and a portion of which may be paid in stock options and/or restricted stock. Employee’s annual bonus a calendar years 2000, 2001, and 2002 under the Plan (payable in 2001, 2002, and 2003, respectively) shall be based on an annual bonus target of $1, 500, 000.

00” (Find Law). Key players in this fraudulent behavior were upper management such as Lay, Skilling, and Fastow. Such individuals would lie to get a performance bonus, and go to great lengths to achieve all the money he could get. As evidence proves the Sarbanes-Oxley Act would of had little effect upon Enron and its unethical behavior! One main problem Enron faced is that most of the unethical behavior started at the top, and eventually rolled down hill.

It was made clear that people may need to stab one of their best friends in the back if it meant getting them a great performance which in return would put money in his/her pocket. Moreover, to emphasize how performance bonus’s contributed to collapse of Enron it was proven that annual reports revealed that certain transactions were buried in footnotes, or not reported at all! It surprises me that a business so large and promising would not even practice utilitarianism! Well, I guess in a way Enron did! They practiced the best way that would produce the overall good for the people that mattered. It is an absolute shock to what people got paid! Top executives were paid out millions of dollars prior to the collapse. For example, Michael J. Kopper, a top executive was cut several checks. One check for the amount of $800, 000, a second check for $603, 000, and a third check for $905, 00.

All checks were cut within days of one another, and it was stated that it was part of a “ severance” package. The records also show $55 million were paid out in bonus payments to more top executives prior to the collapse. In addition, “ the annual bonuses were financed out of a pool established as a percentage of after-tax net income, according to S. E. C.

filings. In other words, the smaller the company’s reported profits, the less money there was to be distributed in the bonus pool” (New York Time, Eichenwald, 3). More evidence proves that top executives made false remarks about profits, and increased them by almost $1 million dollars. The bottom line is Enron knew exactly what they were doing. People work for a reason and strived to complete tasks only if there is something in it for them.

A performance bonus would be the boost to make Enron a booming business, but at the same time disregard any ethical practice. Enron knew if a large performance bonus was given, and if it meant killing your neighbor to achieve it; it would be done. This was one of the main downfalls of Enron. People became selfish, and would do just about anything to achieve a bonus.

Lay, Skilling, and Fastow agreed on the bonuses, and encouraged employees to achieve them.

I honestly think they thought they would never get caught falsifying documents, inflating contract prices, giving employees large un-heard of bonuses, and so on. That was Enron’s culture, a culture that will never be replaced! “ Works Cited” Dennett, Stewart. “ The Real Reasons Enron Failed. ” Corporate Finance 18 (2006): 116-119. 1 Mar.

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