The collapse of enron and how it relates to organizational behavior

The collapse of Enron is perhaps one of this century's biggest and memorable scandals of this century so far. Created in 1985 through the merger of two natural gas companies, the Houston-based company was considered one of the most successful and powerful companies throughout the 90s. In 2001, Enron's world came crashing down as the company was forced to reveal that it had defrauded people out of millions of dollars. Those hurt mostly by the collapse of Enron were the workers, whose loyalty and hard work were rewarded with now useless stock options.

Within minutes, thousands of people had lost their life savings because the top executives were lining their pockets with Enron's losses. The following discussion will show how the leadership, management and organizational structures contributed to the failure of this American conglomerate and how it could have possibly been avoided. Working as part of the management team does not necessarily mean the manager is a leader. In the case of Enron, however, Ken Lay and Jeffery Skilling were considered successful leaders and great managers.

Ken Lay, who helped found Enron in 1985, used proceeds from junk bonds to buy another natural gas pipeline, combine it with his company, Houston Natural Gas and created a company which from the beginning, wanted to be more than just a gas company that transported and sold gas (" The History Of Enron", 2011). Lay had visions of his newly formed company becoming a big player in futures contracts, now that energy markets were deregulating. Lay hired Skilling to run Enron Finance Corp. and Skilling would eventually become president and Chief Operating Officer at Enron.

Under these two leaders, Enron opened doors into new markets—in some cases creating those markets itself. According to “ The History Of Enron” (2011), Enron not only traded energy contracts, but “ industrial commodities such as steel and wood fiber, financial derivatives such as default insurance, and such innovative items as broadcast advertising…and Internet bandwidth capacity” (para. 4). The problem was despite all of the innovative trading going on, Enron was investing billions of dollars in trades and investments that did not earn the company any money.

CFO Andrew Fastow created partnerships to hide the debts and kept the books separate from Enron’s. As a result, the company showed impressive gains and stock prices soared for several years. In 2001, when all of these misdeeds came into light, these gentlemen, who were considered to be among the top in their profession, saw their stock downgrading as misdeeds were reported, and finally crumbling at their feet. There were some leaders among the few who saw that Enron had been making some questionable decisions.

Cliff Baxter, former vice chairman, had worked for Enron since 2001. Like many others under Jeff Skillings, tutelage, he rose quickly through the ranks to vice-chairman. In June 2001, Baxter realized how shady the business at Enron had become and warned Skilling that the financial practices of Enron would eventually become its undoing. Having spoken out, Baxter knew his chances at becoming president were gone. Sadly, instead of continuing to do the right thing by going public, Baxter took his millions and walked away.

Baxter could have been used the organizations lack of values and morals to become a true leader out of the company. Instead, he was accused of cashing in his options early to the tune of $35 and ended his life by his own had out of despair (Booth Thomas, Fonda, Pappalardo & Thotta, 2002). The true leader to emerge from the Enron scandal is whistle-blower Sherron Watkins. In a seven page email to Ken Lay, written in August 2001, Watkins basically stated on record that Enron was nothing more than a Ponzi scheme (Pellegrini, 2002).

She also relayed these concerns to partners at auditing firm Arthur Andersen saying " I am incredibly nervous that we will implode in a wave of accounting scandals. My eight years of Enron work history will be worth nothing on my resume, the business world will consider the past successes as nothing but an elaborate accounting hoax" (Pellegrini, 2002, para. 4). Even if both Baxter and Watkins had done more to expose the executives at Enron, it is doubtful that any other outcome would have been possible.

The change needed to come from the top and the company should have put the employees and customers first, instead of themselves. References Booth Thomas, K. , Fonda, D. , Pappalardo, J. & Thotta, J. (2002, February). Enron takes a life. Time Magazine. Retrieved from http://www. time. com/time/magazine/article/0, 9171, 1001771-2, 00, html Pellegrini, F. (2002, January). Person of the Week: Enron ' Whistle Blower' Sherron Watkins. Time Magazine. Retrieved from http://www. time. com/time/nation/article/0, 8599, 194927, 00. html The history of Enron. (2011). Retrieved from http://www. npr. org/news/specials/enron/history. html