Accounting ethics

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Introduction

It is known that Enron went bankrupt around ten years ago and disappeared from corporate world, but ethical standards affected by Enron case are not forgettable. The fame Enron earned in the world during 16 years of struggle and established its asset value from USD 10 billion to USD 65 billion, took less than a month to go bankrupt (Mclean & Elkind, 2004).

The company who was once ranked 7th largest company in fortune 500 and also ranked 6th among largest energy businesses in the world. In December 2001, Enron filed for bankruptcy protection in the biggest bankruptcy case in United States at that time (Jennings, 2009). In November 2001, Enron's stock was at its lowest price of USD 1, which has been traded for USD 90 in good days of the company. This condition of Enron brought disaster to investors and employees of the company (Skilling V. United States, 2010). As a result to bankruptcy of Enron, thousands of its employees lost their pensions and jobs, the Enron bankruptcy also affected investors as they lost billions of dollars invested in Enron.

This paper aims on accounting ethics of Enron and identify the issues related to the business.

Discussion

Enron was founded in 1985 as interstate pipeline company, they also been a power supplier to state utilities. The business started with merger of Houston Natural Gas and InterNorth based in Omaha. Business operations of Enron grew rapidly and in short span of 20 years Enron became world's largest trader of energy. Enron awarded with various praiseworthy titles at the end of twentieth century such as "the world's most admired corporations", "one of the world's leading electricity, natural gas, and communications companies", and so on (Skilling v. United States, 2010).

Due to increased competition in energy sector, energy decided to diversify its operation and invest internationally to sustain the market position of the business. In fact, the activities undertaken by Enron led to incur losses rather than profits. The incursion of Enron in broadband and fiber optics market during 1999 was actually a wrong decision that led business to incur huge losses again. During this time span Enron incurred with huge losses and went into financial distress. It is also a fact that Enron did not disclose its losses until end of 2001. On the other hand Enron attained extraordinary bottom line by overstating the business and revenues and by hiding their liabilities. For instance, the revenue disclosed by Enron in 1998, 1999 and 2000 were USD 40, USD 60 and USD 101 billion respectively. Moreover with misstatement of financials of Enron, they never disclosed the risk to its investor. On the other hand, the professional and executives of Enron announced substantial earnings forecast through media and encouraged the investors for investing in the stocks of Enron. In addition to this they also recommended their employees to invest in the stock of company with their pensions. It was also observed when any of the employee of the company having concerns with financials of Enron, they try to quiet such employee and fired them in later time. In the meantime, top management of Enron misused their power; they raised the stock price and by trading their stock generated a large amount of money (Skilling v. United States, 2010).

Ethical issues

The culture of Enron very much contributed to the scandal. The behavior of Enron towards it employees is condescending and harsh, and the business is more focused towards financial goals and competition. For instance, Enron implemented a rating mechanism in which they required a certain percentage of employees marked as below the requirements each year and then those employees are encourage by Enron to leave the company (Jennings, 2009). The reason behind this type of rating system by Enron is ultimately to encourage employees for working hard, but despite encouraging employees it worked in opposite direction.

The dishonesty in the culture of Enron is brought by its competitive environment and harsh evaluation standards regarding the performance of its employees. This harsh evaluation system creates fear in employees for losing Enron's job, so they try to outperform by any means. When there is a focus in achieving good performance by any means, it compromises over the ethical standards and more focused toward achieving financial performance. This environment created cheating practices in Enron and few employees began to cheat and cheating then leads to ultimate performance of employees. Later, it is noticed that the employees of Enron did not felt ashamed on doing unethical practices (Weiss, 2009). The rest of employees left with no other option either they have to cheat if they want to be in the company or find another work. This type of environment in Enron created a condition in which the performance of employees measured on cheating. It created such condition in which employees are regarded as odd if they did not cheated in Enron. For instance, employee in Enron Energy Services wrote once the fact and reality about the financial condition of Enron; later counseled regarding morale of employee (Jennings, 2009).

In addition to this, the culture of Enron focused more towards attaining the financial goals of the business. Therefore any employee who attains the forecast of the business is considered hero of the organization. Therefore in Enron, employees and management focus is attaining that financial objective of the company and generating huge profit irrespective of any economic value addition to the company in reality. It is also found that Enron was not much focused towards the desires, needs, values and well being of its employees. However, from ethical scenario it is the responsibility of the employer to respond to its employees and should have a motive of giving benefit to its employees. But in Enron these ethical standards are not practiced and were just windows dressing (Ferrell et al., 2011).

In last but not least, Enron tried to keep its outside parties and employees from disclosing the real condition of the business. There was discouraging environment in Enron for employees and outside parties for disclosing the real fact of the business or expressing any doubts about the performance of the company. From the time when Enron entered in unethical and illegal practices it tries to hurt various people inside and outside the company. For instance, an analyst in Houston Company, John Olson advised one of its clients not to invest in the stocks of Enron as he has concern regarding earnings of Enron, later lost his job. There is another example of former employee of Enron Clayton Verdon as he was fired from the company for passing comments on Enron financial condition and overstatement of profit of the company in employee chat room (Jennings, 2009). Therefore, we can say that Enron used various unethical practices to hide the real condition of the business and financial reality of the Enron.

Conclusion

Unethical practices of the business can affect the long term profitability of the business and success. In this paper ethical practices of Enron are evaluated and it is found that business is practicing unethical practices in term of accounting of the business and they overstated the financial performance of the business but after unveiling the real fact Enron went bankrupt and affected its stakeholders widely.

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