Slide 4: Pre-Collapse Enron

Middleman strategy. would sign deal with company for so mutch product at x price. they would then sell to someone else at y price. kept closed books so that nobody knew how much Enron was making

Slide 5: Enron’s Hierarchy

Enron normally hired young, driven individuals who didn’t have much experience in trading or making deals.

New employees were often set off without any real form of training or guidance, quickly creating a sink-or-swim mentality.

Enron was very hard on it’s employees, and they had a very high set of standards to meet, or risk being fired.

The employees were expected to learn by application and were merely told to try whatever makes sense

A trend that Enron embraced was decentralization of it’s employees, so they could spread out to reach more buyers and Enron’s only major concern of the system was if the employees were producing enough to be worth kept hired.

Enron even used a somewhat cut-throat annual system of peer-ranking of all employees, and the lowest ranked fifth of the employee base was subsequently fired.

Slide 6: What Was Enron Hiding?

Named "America's Most Innovative Company" by Fortune for six consecutive years between 1996 and 2001.

Slide 7: The Collapse

Chapter 11 bankruptcy

It took Enron a month do undo 16 years of work. lots of bad deals, announcement of their fraud resulted in stock plummeting. announced that Enron was 38 bilion in debt adn had when it came time gor court, documents had been shredded.

Slide 14: Enron Today

Those legal efforts have, to date, resulted in settlements of almost $2 billion in cash. Additionally, as part of these settlements, the defendants have agreed not to receive distributions upon claims against Enron worth approximately $1.38 billion.\*

ARE SUING MORE COMPANIES SIMPLY BECAUE THEY CAN, TRYING TO SPREAD THE BLAME

Slide 15: Overall Evaluation

Enron ruined millions of people! They lied to pad the wallets of their executives! They froze employee accounts to ensure that they could not escape the collapse! Enron corrupted politicians, lied about financial statements, took money from people who needed it, gave money to people who didn’t need it, obliterated Arthur Anderson and all of its employees, fired the bottom fifth of their own employees because Enron could, sued the banks it worked with for allowing such lies, and took way health care benefits from its workers.

Slide 16: Overall Evaluation (Theory based)

John Locke said that quality capitalism protects man's rights (Freedom, Property, Common Fear) but this action by Enron was not at all in keeping with Locke's definition of ideal capitalism: it deprived countless people the right to property.

Adam Smith, the founder of capitalism, said that it should be a net social benefit, not money, whereas Enron provided no social benefit and only worried about money.

The 7 Perspectives are some of the most common and often the most effective methodologies in ethical problem solving, but as we run through the list, by definition, Enron used none of them:

Consequentialism: Focuses on the end result ? Can they have crashed any harder?

Natural Law: Centers on what is natural and based on cause and effect, bad outcomes at the effects are loosely tied to bad morals at the cause? same as Consequentialism

Duty: A moral individual or group needs to be able to recognize that the main goal in one’s actions are to help others in need? not make them in need…

Rights: Each person has rights to do what they feel is right? but Enron stretched their rights so think it tugged away those of countless others

Virtue: People had faith in Enron being a strong and above-board company, were mislead and left adrift? Enron had no conscience and willingly harmed its investors in the pursuit of money

Authority: The main object to follow is tradition? but Enron’s actions were so unprecedented that there’s no way they could possibly be tradition or even a parody of another’s actions

Instinct: a good economic system incorporates giving and taking. you give others your product and in return receive theirs? Enron defies this convention by simply taking everything it could before being caught

Slide 12: Legal Changes Resulting from the Collapse

Sarbanes-Oxley Act: Made in response to unprecedented corporate scandals, including Enron, to rebuild investors’ trust in the economic system. The depth of these changes says quite a lot about how Enron impacted the economic system.

Public Company Accounting Oversight Board ( PCAOB ) : Quality control board that was given power to oversee all public corporate audits and review violations against laws, standards of ethics, and other professional expectations and requirements. Members of the board have limitations such that only a certain amount of them can have ever been an accountant, and even they must not have been in practice in the field within a certain number of years to qualify.

Auditor Independence: Attempt to ensure objectivity in the auditors so the illegal deals could be limited. This also added the requirement that auditors must rotate between companies and disallow auditors to work with corporations they have previously worked for.

Enhanced Accounting Disclosure Requirements: All non-public, insider trades must be announced publicly within a matter of days of the transaction; all information that would be pertinent to an investor while making a decision on buying or selling in relation to the corporation. Company’s financial statements must be reviewed by a committee

Stock Analysts: Regulates stock analysts by creating rules of conduct they must follow. In addition, analysts must disclose any relation to or investment in the companies they cover.

Corporate Executive Accountability: This requires the executives to certify financial statements on a basis of accountability and accuracy. This part of the Act also creates criminal penalties, mostly forfeit personally owned profits and bonuses from the past year, for lying or knowingly certifying false or misleading statements. This also disallowed executives from borrowing money from their company for personal expenses through their powers of high office, meaning that if they wanted to borrow money, they would need to follow the same procedure as the public did. Executives that were found guilty of breaking this act also lost their ability to serve as high power officers of any other public company.

Corporate Boards: This part of the act merely created regulations on what boards of directors can do, and how they need to do it, relative to hiring auditors, and also requires auditors to submit reports about policies used by the companies.

Increased Penalties for Security Law Violators: This drastically increased the penalties on individuals and companies who have violated laws surrounding corporate fraudulent behavior; it increased the protection for “whistleblowers”, increased fines and jail times.

Other Provisions: The act nearly doubled the budget ( to nearly 800 million dollars ) of the committees of groups that oversee this area of financial regulation. This also granted those committees the ability to freeze internal payments of a company that was under investigation.

After having seen the devastation available when the trust of the system is abused, this was a direct rebuttal by the government to prevent the situation becoming this serious again.

Slide 13: Legal Conflicts

Court Cases:

Investors lost 74 billion dollars due to stock value plummets, nonexistent accounts, and investments based on lies.

Thousands of employees lost their jobs either directly due to Enron’s collapse or indirectly by related companies having taken such a heavy economic blow.

All people who had been using Enron’s services to store money such as savings accounts and retirement funds lost all of their hard-earned money.

Millions were impacted by this collapse.

One major class-action lawsuit was initiated by a large group of shareholders, asking for 40 billion dollars in recompense from the remainder of Enron and the banks affiliated with the trades. Many of these banks were just as unknowing of the fraud as the shareholders were, and pressed very hard against the lawsuit while saying they were innocent and should be devoid of blame. Before the lawsuit was able to begin court hearings, it was closed down by the government, and the large group of shareholders received no repayment.

Many other smaller lawsuits were at least partly successful in regaining some money, approximately totaling about 8 billion dollars. However, compared to the amount lost, 74 billion, this was a heavy blow to the shareholders who had just lost everything, only to receive pennies back for dollars spent, if anything at all.