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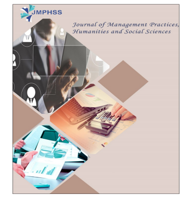

ORIGINAL CONTRIBUTION

The Factors Contributing to a Corporation's Demise: An Analysis of Enron

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Abstract— That the very first decade of the twenty - first century has already seen significant reforms in the major business organisations. The Surbanes Oxley Act 2002 in the United States and the Higgs and Smith reports (2003) in the United Kingdom have both introduced significant improvements to the world's two most important business systems (Sarbanes-Oxley Act, 2002). These changes were implemented as a result of large company failures such as those experienced by Enron, WorldCom, Adelphia, Global Crossing, K. Mart, and Parmalat. Among these corporate failures, Enron is widely considered to be the worst catastrophe in the history of business. This article investigates the factors that contribute to a company's demise and points out any inconsistencies that may exist. The impact from the Enron scandal is used to illustrate the concept of a business collapse.

Index Terms— Enron, Corporate governance, Corporate criminal liability, Corporate collapse, Corporate regulation.

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Introduction

The world's major corporations have already undergone significant transformations over the first decade of the twenty-first century. The Sarbanes-Oxley Act of 2002 in the United States and the Higgs and Smith reports in the United Kingdom (2003) both resulted in significant improvements to the two principal corporate systems in the two countries, respectively. These revisions were developed in reaction to the failure of major corporations such as Enron, WorldCom, Adelphia, Global Crossing, K. Mart, and Parmalat, as well as smaller enterprises. Out of all of these corporate catastrophes, Enron is widely recognised as the worst business failure in history (Powell, 2006). Several commentators have linked it to the Titanic's fatal error (Rapoport, 2002), while others have compared it to Charles Ponzi's frantic business (Baird & Rasmussen, 2002). By the end of the year 2000, Enron's stock had hit an all-time high of $83.13, and the company's market capitalization had surpassed the $60 billion threshold (Webber et al., 2001l Kotb, Elbardan, & Halabi, 2020). It was also named the most innovative major business by Fortune magazine, which publishes an annual list of the world's most renowned firms. Enron filed for bankruptcy on December 2, 2001, precisely one year after declaring bankruptcy the previous year. More than $80 billion was lost by investors, and thousands of Enron workers were laid off, with many of them losing their jobs as well as a major portion of their retirement plans. Enron's investors suffered as a result, and the value of their assets decreased, hurting hundreds of firms throughout the globe. Creditors of Enron who have submitted their claims to the bankruptcy court are expected to get pennies on the dollar, according to the bankruptcy court. The premature downfall of Enron sparked speculative arguments about the corporate structure and governance of the

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next generation of corporations. It has been suggested that Enron's demise was caused by a variety of organisational issues. In 1985, Kenneth Lay formed a partnership with two natural gas pipeline firms that grew into Enron, the world's largest corporation. From its beginnings in the construction of gas pipelines, it has expanded its scope of activities to encompass the trading of natural gas. Enron took advantage of the liberalisation of the energy business in the 1980s, which was followed by the deregulation of the electrical market in 1992, to make a fortune. As a result of deregulation, energy enterprises were given the opportunity to diversify their practises and boost their competitiveness.This progress enabled Enron to develop and establish itself as a market leader in a number of industries, including electric power generation, coal mining and steel production, pulp and paper manufacturing (including paper mills), water treatment, and the deployment of broadband fibre optic cable capacity. Throughout the 1990s, both local business and foreign activity saw significant growth. He conceptualised and created Enron's diversified trading strategy in 1988, and he served as President and Chief Operating Officer (COO) until August 2001, when he was named CEO for six months before resigning from the company (about 4 months before Enron filed for bankruptcy). "We are a firm that builds markets, Enron's Jeff Skilling famously said in an interview. Enron was also a trailblazer in the development of new product categories "After we've created the market, we'll continue to grow it," (Deakin & Konzelmann, 2004) says the market builder. Prior to diversification, Enron's accounting method was straightforward: the corporation reported just the real costs of delivering the gas and the actual profits gained from selling the gas to users, with no adjustments made for inflation. Following that, the company began using "mark-to-market" accounting practises. Being reliant on future profit production has shown to be complicated and tough, which is made much more difficult when market circumstances are forecasted using projections. The employment of Special Purpose Entities (SPEs) by Enron was the second dubious practise to come to the public's notice after the use of shell companies. Private equity and loan money are used to support Special Purpose Entities, which are shell firms established by a sponsor for a specific purpose. They have a certain function to do. Enron, for example, was able to use SPEs to finance the purchase of natural gas reserves from producers, allowing the company to expand its operations. It was as a result of this arrangement that a stream of money generated by the sale of reserves was distributed to the SPE's shareholders. Chewco (which was owned and administered by an Enron employee named Michael Kopper), Raptor, and a partnership known as LJM Partnerships, which was managed and controlled by Andrew Fastow, were among the SPEs that the Enron Corporation recruited between 1999 and 2001. Fastow and other top Enron executives reaped substantial financial rewards as a result of their business partnerships. Aside from that, SPEs were utilised for off-balance sheet financing, which resulted in an inaccurate representation of the company's financial health. Another important actor in the Enron crisis is the audit firm 'Arthur Anderson,' which was hired by the company to conduct an investigation. It was only Arthur Anderson who was fully familiar with all of the financial calamities at the time they occurred. The fall of Enron has prompted a slew of issues about the nature of corporate governance and how it should be conducted. This essay offers some interesting conclusions about Enron's downfall after looking at it from the eyes of a wide range of parties involved in corporate governance. The board of directors, shareholders, and other stakeholders, as well as the gatekeepers, are all scrutinised in the wake of Enron's downfall, which is documented in detail. In this section, we will discuss the significance of these stakeholders' responsibilities in corporate governance, using the Enron case as an example. Also considered will be whether or not this collapse might have been averted, and whether or not the lessons learned may be used in the future to help prevent similar events from occurring. Several prominent individuals have been sentenced to death as a result of their criminal participation in the Enron affair, which occurred in the wake of the financial crisis. Individual criminal responsibility, as well as the need of such responsibility in corporate governance, is also be discussed in depth.

THE BOARD OF DIRECTORS

Because the board of directors serves as the company's heart, it is critical that it be in good condition, physically active, and well fed in order for the firm to run efficiently (Soloman & Soloman, 2004; Eckhaus & Sheaffer, 2018). The board of directors of a company in the United States (US) is often comprised of a large number of persons. In the majority of organisations, the Chief Executive Officer (CEO) and the Chairman are the same individuals. At the time of its formation in 2001, Enron's Board of Directors was made up of 15 members, some of whom had previously served on the board of directors of Enron or its predecessor organisations for more than two decades prior to that. In the past, they had five regular meetings every year, each of which began with a dinner and ended with two full days of meetings. While working in the energy industry, some of Enron's directors served on the boards of directors for other companies throughout their tenure with the company. Five committees were established: an executive committee, a finance committee, an audit committee, a remuneration committee, and a nominating committee. The executive committee was responsible for the overall direction of the organisation. In his role as CEO and chairman of the board, Kenneth Lay oversaw the company's operations, while Skilling acted as president and Chief Operating Officer (COO). Among its responsibilities include analysing the company's general business strategy, choosing and rewarding top executives, evaluating the company's outside auditor, overseeing the preparation of financial statements, and monitoring the company's overall performance. Briefly stated, the board of directors' responsibility is to protect the interests of shareholders in a corporation. Aside from that, directors have a fiduciary duty to their shareholders, which is to protect the value of their investment in the organisation (The Business Round Table, 1997). Individuals who served on Enron's board of directors were rewarded in a variety of ways including cash, restricted stock, phantom stock units, and stock options. Approximately $350,000 in total cash and stock compensation was reported to have been received by Enron board members in 2000, more than double the national average for board pay for a publicly listed firm in the United States (2001).

The Enron Board of Directors seemed to be as taken aback by the company's demise as the rest of the world, which was understandable. However, over the course of three years, there were more than a dozen occasions in which the Board of Directors' concerns about the firm's conduct should have been voiced to the corporation. The board was told about the existence of multiple special purpose entities (SPEs), including LJM and Chewco, as well as the purposes and characteristics of each. Despite the fact that the company's Board of Directors was not kept in the dark about many of the company's difficulties, the board did not take action. Accounting practises that put the company at danger, a large number of transactions that were not reported off the books, illegal conflicts of interest deals that were approved, and excessive remuneration schemes were all devised and approved with the knowledge of the company's board of directors. The most significant of the problems arose as a result of the participation of Enron corporate personnel in the design and operation of several of the company's fictitious SPEs. Mr. Michael Kopper, a senior financial employee of the company, was in charge of the Chewco SPE, which he controlled via a network of limited partnerships and corporations. The Raptor transactions featured a number of relatively junior Enron workers who worked in accounting and financial positions, such as Fastow, who was in charge of the LJM SPEs and was heavily involved with a lot of the organisations involved in the transactions. During a 1999 board meeting, not only was Fastow's involvement in the LJM transactions acknowledged, but the board also accepted his participation on the suggestion of Ken Lay, then-CEO and Chairman of the board of directors. These allegations were vigorously denied by the directors, who claimed that information had been withheld from them; for example, Mr. Winokur, former chairman of the Finance Committee stated that "we cannot be held responsible for failing to address or remedy problems that have been withheld from us." If the Enron board were aware of the questionable transactions taking place at the company, they owed it to the public to be more careful and diligent in their investigations of such occurrences. Directors would be careless and indifferent in their job if they were not aware of the unique circumstances, to name a few examples. Aside from that, Fastow was given a total of $30 million for his participation in the LJM transactions. When the agreements started to fall apart in October 2001, the board of directors launched an inquiry into Fastow's compensation, which resulted in the discovery of his entire compensation package. As a result, the firm made the decision to terminate his job with the company. It is difficult to determine if Fastow violated any legal obligations by failing to notify the Enron board of directors since the funds in issue were not received during his time as Chief Financial Officer (CFO). On the other hand, it is difficult to comprehend why the board did not launch an investigation earlier. They should have done more to protect the interests of the shareholders, and their failure to do so was a violation of their legal obligations. It was as a result of this that the directors shared blame for the company's failure. This demonstrates the directors' lack of independence, since the vast majority of the work was completed by Skilling and Lay on their own time. The result is that more collective capabilities must be offered rather than an individual approach in order to allow directors to engage in the firm's most essential concerns. Enron's executives received a significant portion of their compensation in the form of stock options, which is a practise that is widespread in the majority of other US-based corporations. The frequent use of stock option awards tied to short-term stock price movements may explain the management's emphasis on quick expansion, as well as its attempts to inflate reported profitability in order to fulfil Wall Street's expectations of the company's performance. After the proxy deadline (February 15), Enron declared in its 2001 proxy statement that the following stock option awards would be voided: 5,285,542 shares for Ken Lay, 824,038 shares for Jeff Skilling, and 12,611,385 shares for the whole board of directors. According to the most recent available data, Enron had 96 million shares outstanding via stock option programmes as of December 31, 2000, accounting for more than 13% of the company's total outstanding ordinary shares. It was anticipated that these awards would be exercised within three years, and there were no limits on the selling of bought shares, according to Enron's proxy statement. The Securities and Exchange Commission (SEC) revised the regulations under Section 16(b), Securities Exchange Act of 1934, to allow officers and directors to execute stock options and sell the underlying shares without first holding them for the necessary six-month holding period (Coffee jr, 2003; Jones & Stanton, 2021). Management who artificially inflate stock prices through premature revenue recognition (as Enron did through mark-to-market accounting) or other techniques may now be able to sell their shares in the short term, leaving shareholders to bear the costs of a subsequent stock decline if the stock price cannot be maintained. In light of these limits, the personal interests of the company's major actors take precedence over the interests of its shareholders, who are largely ignored. Because of the absence of a pay committee and the lack of openness around it, it was difficult to keep track of the salaries of the directors. Stock options and cash were awarded to members of the Board of Directors in addition to a fee for advisory services. Chartered accountant Lord John Wakeham, for example, received $72,000 a year from Enron in consulting fees for accounting services supplied to the company. Chairman John Urquhart and his Connecticut-based consultancy business collected a total of $493,914 in commissions and fees in 2000. Charles Walker, a tax lobbyist and board member, earned $70,000, which he used to fund his personal and professional ventures. According to company papers, the National Tank Firm delivered equipment to Enronin for a total of $1,035,000, $643,793, $535,682, and $370,294 between 1997 and 2000, at a cost of $1,035,000, $643,793, $535,682, and $370,294. In order to get an advantage, the filmmakers must have played a game of chess among themselves. Director's duties should be confined to the scope of his or her professional expertise; should a director choose to engage in other endeavours, he or she should consider stepping down from the position of director. To put it another way, high board remuneration served to keep the board from seeing early indications that the underlying reality was crumbling. Furthermore, the function of non-executive directors was a source of contention. They were contentious since they were paid as consultants and some got monies as gifts from their respective universities and medical centres, making them a source of contention. Both the Sarbanes-Oxley Act and the Higgs report have emphasised the significance of enhanced non-executive board independence as a consequence of this. Non-executive directors' duties can only be enlarged by expanding their engagement; even if a non-executive director is highly qualified, he or she will be ineffectual if he or she does not have the necessary understanding of the firm. Additionally, the establishment of an independent pay committee comprised of outside directors would improve the openness and fairness of the compensation system overall.

CORPORATE SHAREHOLDERS AND OTHER INTERESTED PARTIES

As a way of compensating themselves for taking on the risk of investing, shareholders want a return on their investment. The shareholders are the owners of the enormous fortunes that sustain the vast corporate structures that we see around us today. Stakeholders, on the other hand, are persons who are actively engaged in the operation of a firm. They have taken on the position of quiet observers in the management of a firm when everything seems to be going smoothly, despite the fact that this is an illusion in which they are participating. The engagement of shareholders and stakeholders in corporate problems is desirable and necessary in certain conditions; nevertheless, in other technical settings, their participation may be impossible. For example, the nomination of major actors inside a company should be subject to shareholder approval prior to being implemented. When it came to the Enron case, Ken Lay, the company's CEO, was engaged in the selection of key players. As a result, investors bear a portion of the responsibility. A lot of times, management was under immense pressure to achieve or exceed excessive expectations. Even if the real findings do not satisfy expectations, it is possible that they will be met via the use of fabricated findings. In the short term, this is a successful strategy that pleases everyone, but it is a long-term catastrophe. In other cases, shareholder approval is not feasible due to time constraints in the business. As a result, in the case of a publicly traded firm such as Enron, board approval will almost probably be sufficient to validate the transaction. In this case, due to the dispersed nature of the shareholder base, it is difficult to get shareholder approval, and corporate law does not need it in the vast majority of instances. Shareholders were informed about Fastow's participation in Enron's 2000 annual report after the transactions were completed but before the company's financial troubles became apparent. As long as things appear to be going swimmingly on paper, investors are more likely to reduce their reliance on gatekeeping services in the mistaken belief that excellent profits will continue indefinitely. Enron highlights how many investors were probably deceived by inflated numbers, but they could have exercised more caution, especially given the fact that institutional investors controlled more than 60% of the company's shares at the time of the collapse. Therefore, when everything is going well, investors are unconcerned, and their job, along with the role of other stakeholders, should be more than that of a passive spectator in these situations, according to the literature. For example, the excessive compensation given to managers and directors should have been brought to the attention of the shareholders. As a result, investors are only permitted to interfere if they see anything unexpected or alarming happening inside the organisation. The passengers on a ship, for example, have the least amount of information and competence concerning the technical aspects of ship management; in contrast, the captain and his crew have the necessary knowledge and experience in this area. The passengers will have little recourse if the ship runs aground on an iceberg, even if they paid for their trip in advance of the voyage.

GATEKEEPERS

In the financial services industry, gatekeepers are well-known middlemen who offer verification and certification services to investors on the basis of their good reputations. It was brought to light after the collapse of Enron that questions were raised about what the gatekeepers were doing during all of the disasters that had occured. As a result of the accounting rules in the United States, businesses were permitted to establish special purpose entities (SPEs) to handle assets that were not on the balance sheet. Fraudulent transactions with fictitious affiliates were carried out by Enron in order to falsify the company's financial statements. The debt on the company's balance sheet was transferred to the balance sheet of the fictitious affiliate. Gatekeepers at Enron, which included investment banks, attorneys, and accountants, were allegedly involved in these fraudulent transactions, according to the investigation (Aguirre, 2003). SPEs were created to serve as fictitious entities for this reason. As a consequence of the assistance provided by these SPEs, Enron's financial statements were overstated. Enron's demise was practically certain when the bogus SPE transactions came crashing down in the autumn of 2001, just as the company's financial situation was deteriorating further. Following Chewco, the liquidation of LJM and Raptor was the following two SPEs to take place. The transactions were originally accepted by the corporation, but after reviewing them, Arthur Andersen determined that they were incompatible with accounting rules and should be revoked. As a result, rather than thoroughly scrutinising these fraudulent transactions and informing the company's directors of the dangers involved, the auditors chose to ignore them, contributing to the company's skewed market image. Because of the effect that Enron's phoney companies had on the company's balance sheet, credit rating agencies downgraded the company's long-term debt when the company's fraudulent organisations were uncovered. The outcome of this was that Enron was forced to file for Chapter 11 bankruptcy protection (Plender, 2003). This was more than just a mere clerical error on the side of the financial management team, either. No one ever asked the auditors to explain the issue, and they only did so when they were compelled to do so. The auditors also engaged in "mark to market" accounting practises that were permitted by SEC standards at the time; this was akin to placing matches in the hands of a toddler, since the consequences were catastrophic (Stewart & Stewart, 2006). Therefore, it was Enron's misuse of the "mark-to-market" accounting practise that ultimately caused the firm to go bankrupt in 2001. In addition, the auditors at Enron displayed a lack of independence in their work throughout their tenure there. In court documents, it is revealed that Andersen received paid not just for audits but also for advising services, and that the company often switched employees with Enron. A total of $72 million in income was generated by Arthur Andersen in 2000, with audit fees accounting for $25 million and consultancy fees accounting for another $27 million. Aside from that, it received huge fees (tens of millions of dollars) for arranging SPE transactions, which were ultimately the most expensive in terms of financial loss for the company. According to the company, Vinson and Elkins, Enron's legal consultants, were also actively engaged in the structuring of these deals, which was a first in the industry. A significant chunk of the Enron and related corporate crises may be traced back to a deterioration in professional standards among legal and accounting "gatekeepers" in the late 1990s and early 2000s (Coffee jr, 2002). Furthermore, it is critical to distinguish between the two primary responsibilities of auditors, which are auditing and consulting.

At the time, this approach was considered legitimate inside the legal system of the United States. The audit committee of Enron is more competent than the audit committees of other companies. Dr. Robert Jaedicke of Stanford University, an accounting professor and former dean of the Stanford Business School, served as the committee's chairman. The group had six members and was led by him. Because of the large amount of business on the committee's agenda, it only met for brief periods of time (Healy & Palepu, 2003). As a result, despite the fact that the corporation was governed by a superior audit committee, the company failed to fulfil the responsibilities of the audit committee and was fined. The reason for this can be deduced simply from the fact that the sessions were short in duration. The question arises as to why the committee, which was comprised of highly qualified individuals, failed to recognise and report on the deceptive behaviour in a timely manner. As a result, the audit committee's duties should be expanded in order to encourage more openness and dependability in the organisation. As previously stated, a more responsible and independent committee with more frequent and meaningful meetings that allow for proper discussion of important audit issues is essential in order to accomplish this. The committee's responsibility should be to guarantee that investors are fully informed about the company's economic realities, among other things. For example, in the case of Enron, it is likely that the investigation would have led in more public information being made available regarding the special purpose firms involved. Audit committees should use caution in ensuring that a firm's work is conducted in an open and transparent manner.

In an any annual evaluation of the management undertaken on Enron's behalf by their accountants or lawyers, as was the case with the other financial institutions. Previously, this was not considered a standard corporate governance practise, but it is becoming more common (Branson, 2003). If Enron transactions, particularly those involving the SPE, had been scrutinised earlier, it is possible that numerous errors would have been avoided. One such blunder was Fastow's $45 million profit on LJM transactions, which was a costly oversight. Additionally, gatekeepers are responsible for drawing attention to unfavourable practises and informing the public of the consequences of these practises. "Although the law authorises you to do so, please refrain from doing so.It is a horrific conduct," the attorneys must emphasise emphatically. Therefore, any hostile conduct noticed by the attorneys should be reported to them immediately, even if the act seems to be advantageous in the short term. To put it another way, rather than acting as hired gunmen who just follow out instructions, attorneys must act as actual counsellors to the people they represent.

In addition, the function of credit rating agencies was a controversial subject during the Enron investigation and investigation into Enron. In his testimony during the first Enron hearings, Senator Joseph Lieberman, whose Senate committee was in charge of the proceedings, said that "the credit-rating companies were dismally inadequate in their coverage of Enron." They often avoided asking questions and just accepted as true whatever Enron's leaders decided to tell them. Although Standard and Poor's analysts claimed to rely heavily on information available through public filings with the Securities and Exchange Commission, they not only failed to read Enron's proxy statement, they were also unaware of what information it might contain." Consequently, the credit rating agencies relied on the firm's information to determine their ratings (Senate Committee on Governmental Affairs, 2002). When everything is going well, the agencies seem to be disinterested in the situation. The objective of credit rating agencies is to present a clear picture of a company's progress; as a result, they must depend on information other than that provided by the company in order to do this.

RESPONSIBILITY FOR CRIME

Over the past decade, there has been a dramatic growth in the personal liability of corporate managers and directors (Kroger, 2005). In this particular instance, criminal responsibility was either non-existent or minor. The managers who were found guilty of securities fraud got light punishments. As previously stated, the twenty-first century has brought significant corporate reforms; one of the most notable consequences of large-scale company failures has been an increase in criminal liability for corporate crimes, which has been one of the most notable consequences of large-scale company failures. Management and directors involved for the collapse of WorldCom, Tyco, and Enron, as well as other company disasters, were sentenced to lengthy prison terms. A criminal prosecution for any fraud or misappropriation of funds would seem to be a reasonable consequence in this circumstance, given the vast sums of money at risk in the organisations.

During the Enron investigation, Lay was found guilty of all six charges levelled against him; on the other hand, Skilling was found guilty of nineteen of the twenty-eight charges levelled against him (Flood, 2006). The insider trading allegations against Skilling were thrown out, but he was found guilty of all eighteen remaining offences, which included conspiracy, securities fraud, and making false statements. Skilling was sentenced to 24 years in jail on October 23, 2006, (Fowler, 2006) despite the fact that he was facing up to a maximum term of 185 years in prison at the time of his conviction. Lay was found guilty of further bank fraud counts in a concurrent bench trial, but he died of heart failure on July 5, 2006, as a result of the cardiac failure (Eichenwald, 2006). A large number of jury members claimed publicly after the judgement that they were unable to appreciate Enron's deceptions, but that the amount of the damage done to employees and the community affected their choice whether or not to penalise the firm for its actions. He entered a guilty plea to two counts of wire fraud and securities fraud and agreed to serve a ten-year prison term in exchange for his cooperation. He turned informant and provided assistance to federal authorities in their investigation. Although he had previously consented to a ten-year jail term, Fastow got a six-year prison sentence followed by two years of probation (CNN, 2004). His wife, Lea Fastow, who worked as an Enron assistant treasurer, was arrested and charged with a misdemeanour tax offence, according to court documents (CNN, 2004). She agreed to plead guilty in exchange for a year in prison and an additional year of supervised release after pleading guilty. Accordingly, the key protagonists in the Enron tale were headed to a dismal finish. The judges unanimously agreed that they were unable to comprehend the intricacy of the case. This may lead us to conclude that special corporate crime juries comprised of persons who are educated about company operations may be required in certain situations. This will result in more fair trials that are not predicated on the testimony of a defendant who has agreed to a plea bargain with the prosecution.

CONCLUSION

In the end, Enron was doomed to fail under the prevailing corporate governance framework, which resulted in the company's failure to survive. A company's willingness to take risks is essential, and the stakes of its managers and directors are as important to the success of its operations. Risk taking should be examined to the greatest degree feasible in order to safeguard the interests of shareholders and other stakeholders as a consequence of this. Risky business practises were used by Enron's management as a means of expanding the firm's operations, resulting in significant financial loss for the company. One can virtually never get out of a situation if they are engaged in dubious behaviour, and this is particularly true when the company's reputation is at stake. For the time being, the only option available was to continue taking risks and living dangerously in order to maintain the company's reputation. But despite everyone's best efforts, things continued to worsen, particularly when fraudulent behaviour by certain people, such as Fastow, began to take precedence above the organization's interests. The presence of governance standards and norms in place at the time of Enron's collapse allowed for "poor governance," even if "great governance" had been the only thing that could have rescued the company. For example, the Securities and Exchange Commission (SEC) permitted "mark-to-market" deals notwithstanding Enron's misuse of the practise. This reveals a failure in corporate governance on both the internal and external levels.

Implications and Recommendations

If we want to prevent another Enron-style calamity, we must ensure that all business players perform admirably in their respective duties. The blood flowing through Enron's veins could not function properly because of the company's damaged and unsuitable heart (the directors). Having an impartial and proactive board of directors is essential; if they had thoroughly scrutinised the company's activities, they would have discovered the fictitious transactions that were conducted via SPEs. Furthermore, if they had been on their own, they would have posed some substantial obstacles in this area. The absence of appropriate committees contributed to Enron's downfall even further. For example, the Salaries Committee would have operated as a check on the remuneration of managers and directors, among other things. Furthermore, it is contentious to combine the roles of CEO and chairman within the same organisation. To be more successful, the shareholder's role must be more active than that of a passive spectator. Because of this, individuals may act as a deterrent by getting more engaged in the firm's activities (particularly when it comes to compensation), rather than moaning about their plight after the company has been destroyed. Enron's creditors are likely to have suffered as a result of the Gatekeepers' actions, and rotating accounting partners rather than relying on the services of a single individual may have been advantageous. Also important is the protection of auditors' independence, which must be ensured by explicitly distinguishing their consulting and auditing roles. Additionally, the role of the audit committee is critical in ensuring the transparency of a company's financial operations. It is possible that fraudulent transactions will be discovered early if the audit committee is objective and diligent in its monitoring of the organisation. By preventing any illegal activity within the organisation, the attorneys can serve as a check and balance for the organisation. To do this, it is preferable to provide them more authority rather than maintaining them just for rarely implemented recommendations. Credit rating organisations are crucial gatekeepers; but, in order to be successful, they must depend on sources other than the businesses' own reports. Finally, the threat of criminal prosecution for corporate fraud will dissuade workers from taking unnecessary risks in the course of their jobs. However, despite the fact that management's success is dependent on risk taking, they will always be concerned about failing because of the possibility of increased criminal culpability. Criminal responsibility, as a result, must be limited to cases of fraud detection, with criminal convictions only being issued in certain situations. In this way, for example, Fastow was held liable for the profits he made from the illicit LJM transactions he participated in. When it comes to Enron's collapse, I would argue that the leadership's character failed them, as did a lack of accountability, which allowed for dishonest behaviour to flourish. "It has been discovered through research that ethical behaviour is bolstered at the very top of the hierarchy. It The compliance with ethical standards by the management team acts as the foundation of the business (Daly, 2002).

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