The End of Enron’s Empire

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EXECUTIVE SUMMARY

Enron Corporation was the seventh largest company in the U.S. when its collapse shocked the nation. Enormous assets and careers staked on those assets went up in flames. It was the largest single failure in U.S. corporate history at the time and remains the most egregious case of corporate irresponsibility. Yet aside from the infamous fraudulent accounting practices, the Enron story has much to tell us about online commodity trading, decentralized IT management, and a hyper-competitive working environment. Pioneering new methods in e-commerce, Enron used electronic technology to facilitate business transactions and managed to create the largest e-commerce Web site in the world. While pushing off-the-books accounting to new levels on the one hand, Enron, on the other hand, innovated some very forward-looking projects, and what began as a smart business plan ended in disaster.

Keywords: decentralization; ethics; generally accepted accounting principles; integrity; morality; organizational responsibility; special purpose entities

ORGANIZATION BACKGROUND

In 1985, Houston Natural Gas merged with InterNorth, a natural gas company based in Omaha, Nebraska, creating what was to become Enron. The company was a natural gas supplier with some 37,000 miles of pipeline.

Later that year, provision for third-party access to pipeline supply began. Enron worked to bring clients aboard its pipeline...
services. Kenneth Lay, a former Exxon executive, became chief executive officer (CEO) of Enron in 1986. In early 1987, the company unveiled its new logo and its first global advertising campaign. Also that year Enron, acquired Zond Corporation, a leading developer of wind energy as a power source, and formed Enron Renewable Energy Corp. Enron then acquired Portland General Electric (PGE).

In 1987, growing needs for natural gas in Florida spurred an expansion of the state’s gas transmission with Enron playing a part. A year later, the company expanded into the UK as soon as that country’s energy market commenced liberalization. Enron thereupon became the first company to construct a new power plant in that country’s newly privatized electrical power industry. As yet, these developments had little impact on shareholders over the period from 1986 to 1993.

As electricity markets started to undergo deregulation, Enron commenced its power marketing business in 1993. The turn of the millennium saw Enron move from strength to strength, launching EnronCredit.com as the first real-time credit department for corporations and Enron Net Works for new market opportunities in e-commerce for a broad range of industries. Enron’s influence extended into the White House, where oilmen George Bush and Dick Cheney sought Enron’s advice in making national energy policy. And yet, the company saw no need to pay taxes in four of the last five years of its existence.

*Fortune* magazine named Enron America’s Most Innovative Company for six years from 1996 through 2001. Investors and the public at large perceived the energy business to be solid and responsible. Few, if any, guessed that Enron was about to turn it into a casino.

**SETTING THE STAGE**

In the early days of information technology (IT), its potential and value were poorly appreciated. At many firms, the IT department was a black hole. In contrast, at Enron, IT was a value-driven service that every department had to have. Throughout the company, everyone wanted the best available. Managers were infatuated with IT but were at a loss about how to manage it. The company standard, as the firm embarked upon IT management, provided that anyone who could fill out an online application form and furnish a report promising a 38% return on investment in a project would get approval for their own IT system. Spending on IT soon spun out of control.

This IT strategy was based in part on a desire to appear caring for the employees. In the mid-1980s, Enron president Richard Kinder encouraged the idea of decentralized IT management, because, for one reason, he believed that decentralization allowed Enron to be more responsive to customer needs. The management of business operations already was segmented into division units, creating islands of would-be independent operations within the company. Enron allowed each of these segmented business units the freedom afforded by having its own IT department.
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