Profile of Enron: The Rise and Fall

In our opinion, the financial statements…present fairly, in all material respects, the financial position of Enron Corp. and subsidiaries as of December 31, 2000.…”

Arthur Andersen LLP, February 23, 2001

In our opinion, management’s assertion that the system of internal control of Enron Corp. and its subsidiaries…was adequate to provide reasonable assurance as to the reliabilities of financial statements, and the protection of assets from unauthorized acquisition, use or disposition…is fairly stated, in all material respects, based upon current standards of control criteria.2

Arthur Andersen LLP, February 23, 2001

Enron stock was at $84.63 on December 24, 2000, and closed at $0.26 on November 30, 2001. It filed for bankruptcy on December 2, 2001.3 This case describes how Enron rose so high, fell so low, and impacted the lives of so many. What could have been done, when, by whom, and at what cost?

From Pipelines to Market Maker

In July 1985, two natural gas pipeline companies, InterNorth and Houston Natural Gas (HNG), merged to form a company valued at $2.3 billion that would come to be known as Enron.4 Although, at the time of the merger, Ken Lay was the 42-year-old chairman of the smaller HNG, he emerged as the CEO of the combined entity.5 Lay was a likable, hard-working man who easily mingled with workers at all levels.6 Over time Lay’s easy-going management style manifested itself in the new organization. The company’s divisions operated almost autonomously; they were even allowed to set up their own salary and bonus plans.7 He also encouraged the units to take big risks so that they could reap big rewards. Because of their early successes, the units came to think of themselves as invincible.8

One of Lay’s first big actions as CEO was to hire the consulting firm McKinsey & Co. to help with the development of new products. Jeff Skilling, who worked on the Enron job for McKinsey, created an innovative financial product that had never been applied to the gas business.9 As a result of this work, Lay offered Skilling a position as the head of Enron’s trading business.10 In contrast to Lay’s easy-going management...