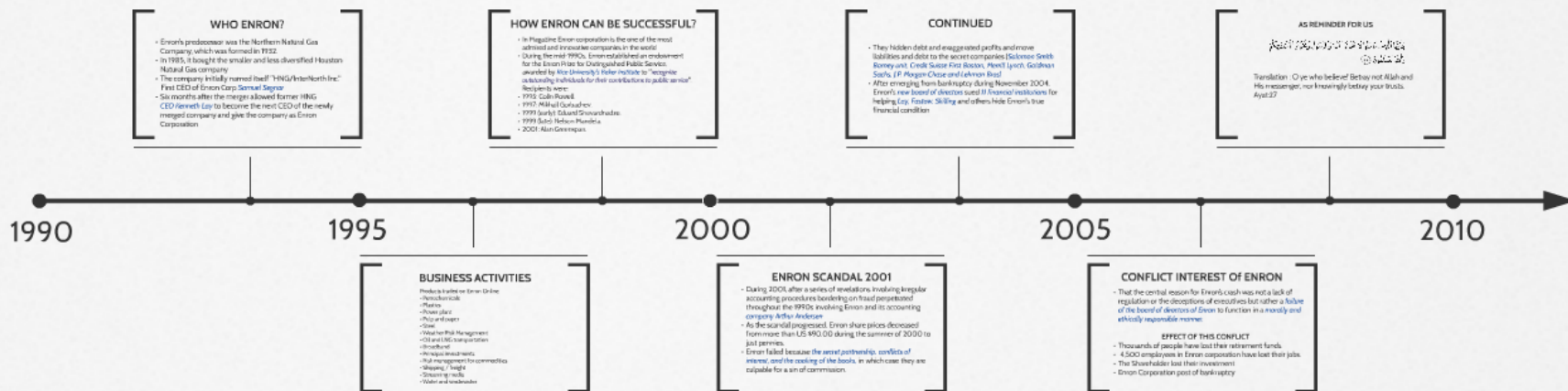
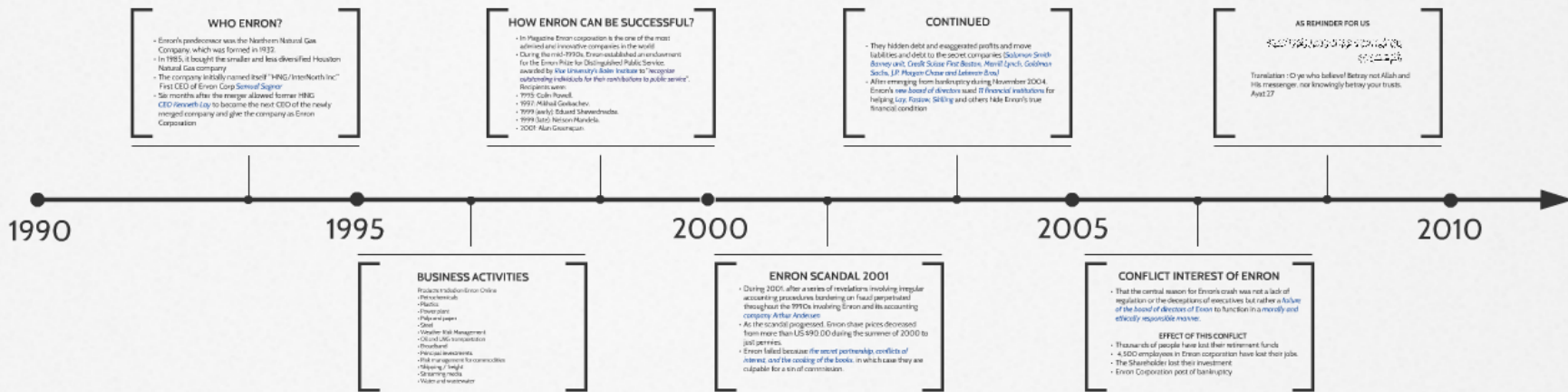


Conflict of Interest in Corporate Finance Harvard Case Solution & Analysis



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WHO ENRON?

- Enron's predecessor was the Northern Natural Gas Company, which was formed in 1932.
- In 1985, it bought the smaller and less diversified Houston Natural Gas company
- The company initially named itself "HNG/InterNorth Inc."
First CEO of Enron Corp *Samuel Segnar*
- Six months after the merger allowed former HNG *CEO Kenneth Lay* to become the next CEO of the newly merged company and give the company as Enron Corporation

BUSINESS ACTIVITIES

Products traded on Enron Online

- Petrochemicals
- Plastics
- Power plant
- Pulp and paper
- Steel
- Weather Risk Management
- Oil and LNG transportation
- Broadband
- Principal investments
- Risk management for commodities
- Shipping / freight
- Streaming media
- Water and wastewater

HOW ENRON CAN BE SUCCESSFUL?

- In *Magazine* Enron corporation is the one of the most admired and innovative companies in the world
- During the mid-1990s, Enron established an endowment for the Enron Prize for Distinguished Public Service, awarded by *Rice University's Baker Institute* to "*recognize outstanding individuals for their contributions to public service*".

Recipients were:

- 1995: Colin Powell.
- 1997: Mikhail Gorbachev.
- 1999 (early): Eduard Shevardnadze.
- 1999 (late): Nelson Mandela.
- 2001: Alan Greenspan.

ENRON SCANDAL 2001

- During 2001, after a series of revelations involving irregular accounting procedures bordering on fraud perpetrated throughout the 1990s involving Enron and its accounting *company Arthur Andersen*
- As the scandal progressed, Enron share prices decreased from more than US \$90.00 during the summer of 2000 to just pennies.
- Enron failed because *the secret partnership, conflicts of interest, and the cooking of the books*, in which case they are culpable for a sin of commission.

CONTINUED

- They hidden debt and exaggerated profits and move liabilities and debt to the secret companies (*Salomon Smith Barney unit, Credit Suisse First Boston, Merrill Lynch, Goldman Sachs, J.P. Morgan Chase and Lehman Bros*)
- After emerging from bankruptcy during November 2004, Enron's *new board of directors* sued *11 financial institutions* for helping *Lay, Fastow, Skilling* and others hide Enron's true financial condition

CONFLICT INTEREST OF ENRON

- That the central reason for Enron's crash was not a lack of regulation or the deceptions of executives but rather a *failure of the board of directors of Enron* to function in a *morally and ethically responsible manner*.

EFFECT OF THIS CONFLICT

- Thousands of people have lost their retirement funds
- 4,500 employees in Enron corporation have lost their jobs.
- The Shareholder lost their investment
- Enron Corporation post of bankruptcy