Fall 12-15-2011

The Smartest "Guise" in the Room: Why America is Doomed to Repeat an Enron-Like Scandal

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THE SMARTEST "GUISE" IN THE ROOM: WHY AMERICA IS DOOMED TO REPEAT AN ERON-LIKE SCANDAL

2011

BY

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ACCOUNTING & FINANCE

Submitted in Partial Fulfillment of the
Requirements for the Degree of Bachelor of Science
In the Honors Program at
Coastal Carolina University

December 2011

INTRODUCTION

Imagine Diana Peters, a happy employee working at Enron Corporation, one of the biggest and brightest businesses in America. Joining Diana everyday are tens of thousands of other satisfied employees, believing they had a steady and safe job at a corporation that demanded respect, promised continued growth and prosperity, and provided a stable retirement plan for their dedicated staff. Now imagine everything disappears in less than two years. The pensions, the retirement plans, the promises of growth, and the billions of dollars that Enron claimed to have, all disappeared. How could this have happened to a company that saw regularly occurring rapid expansion and a sharply rising stock price throughout the 1990's? Enron, which was repeatedly labeled "American's Most Innovative Company" during their thunderous decade of success, let down thousands of their employees, including Diana, when their house of cards fell and the dubious accounting methods and business decisions known as the Enron Scandal was revealed in 2001. In 2000, Enron had a stock price over $90 per share, and in less than one year, it was down to practically nothing.[1] This collapse of epic proportions left thousands of Americans unemployed as they saw their retirement and pension plans disappear before their eyes, rendering them hopeless for the future and tarnishing their hard work and effort invested into Enron over the previous two decades.

There is no question that Enron has brought change to the landscape surrounding business practices both domestically and globally. After the Enron Scandal occurred, Congress passed a very controversial and groundbreaking legislative act known as the Sarbanes-Oxley Act as a means of stopping the conditions that made this widespread scandal possible. There has been

[1] Giroux, G., "What Went Wrong? Accounting Fraud and Lessons from the Recent Scandals," *Social Research*, 75 (2008), 1205-1238.

a shift in the perception of business in the post-Enron era, specifically accounting and finance, and the landscape is now seen through a different scope and perspective. The significant pokes and prods made to the American business structure and rulebook in the past decade are the result of the Enron Scandal. Although strides have been made and particulars have been changed, an informative and curious professional may ponder whether the landscape has changed drastically enough to ensure another widespread scandal similar to Enron won't happen again, leaving a large portion of the workforce unemployed and without a retirement plan.

There are several reasons why another Enron-type Scandal is prone to repeat itself in the near future. One of the reasons is that Sarbanes-Oxley is not the perfect bill. Although the controversial Sarbanes-Oxley is a valiant effort to reform the environment that fostered Enron, there are major gaps and faults in the bill. Another reason is that there is no present evidence that proves the perception of accounting and finance has changed considerably. For there to be less of a chance of another scandal, it would be an absolute necessity that accounting and finance ethical standards shift considerably. These key causes of the Enron Scandal have gone unaccounted for (no pun attended), and until they are addressed the door is open for future corporate indignity.

LITERATURE REVIEW

The Enron Scandal exposed flaws in the accounting process and set the stage for an enormous and controversial accounting and financial reform bill to be passed. That bill was the Securities Fraud Bill, also known as the Sarbanes-Oxley Act. There is a debate regarding whether or not Sarbanes-Oxley is effective, and many different views have been shared by various scholars. Only Robert Brown is undecided; in his article he concludes that "the permanent effects of Sarbanes-Oxley may eventually become clear enough and susceptible to isolation to permit assessment" and "that day has not yet arrived."[2] Aside from Brown, authors fall into two major categories: supporters and critics of The Sarbanes-Oxley Act. Whether or not Sarbanes-Oxley is working effectively since its passing is extremely important when deciding if the business climate is conducive to corruption and scandal moving forward.

The Sarbanes-Oxley Act was passed by Senator Paul Sarbanes from Maryland and Representative Michael C. Oxley from Ohio in 2002. Nicknamed "SOX", the controversial bill was passed as a direct response to the Enron Scandal and other scandals during the late 90s and early 2000s. Prior to becoming a member of the senate in the 1980s and writing the bill, Paul Sarbanes was a Rhodes Scholar and representative of Maryland's third and fourth district. Michael Oxley was served as a member of the Federal Bureau of Investigation prior to starting his political career. Sarbanes-Oxley, the bill these two government officials spearheaded, attempts to reform corporate governance, auditing standards and compliance processes in corporate America. The bill was almost universally passed in both the House of Representatives and Senate. The bill has drawn both praise and controversy since passing.

Among the critics of Sarbanes-Oxley are A.J Cigler, Roy C. Smith, and Ingo Walter. Smith and Walter believe that Sarbanes-Oxley has costly and unnecessary regulations that will be a financial burden to many companies and ultimately hurt American business. Smith and Walter mention in their article that "20 billion dollars will be estimated front end costs of complying with Sarbanes-Oxley" and this means companies must pay "millions annually to comply with the new requirements."[3] Although Cigler does not argue directly against Sarbanes-

[2] Robert Brown, J. J., "Criticizing the Critics: Sarbanes-Oxley and Quack Corporate Governance," *Marquette Law Review*, 90 (2006), 309-335.

Oxley, he does argue that the Enron Scandal created a perfect atmosphere for "reform oriented elites" to pass "controversial and rushed laws." He continues to argue that Congress "took advantage" of the backlash of the Enron Scandal.[4] While Smith and Walter cite the millions of additional dollars of compliance fees as possibly disastrous to businesses, Cigler takes aim at the unstable political environment that the Enron Scandal created. He describes the panicked state that lawmakers found themselves in, which ultimately gave way to passing controversial laws like Sarbanes-Oxley, as well as the Bipartisan Campaign Reform Act.

Among the supporters of Sarbanes-Oxley reform are David D. Aufhauser, Joseph Mead, and Bob Tillman. Aufhauser argues that Sarbanes-Oxley reintroduces American business to basic concepts, including "an independent board, and independent auditor, and a CEO that is willing to say 'I know my financial means, and what they mean and what I tell you.'"[5] Aufhauser believes that the bill ultimately helps US competitiveness, which is a necessity and underlying theme in our economy. These reasons differ from Joseph Mead's reasons for arguing in favor of Sarbanes-Oxley. Mead notes that the non-profit sector as well as the profit-sector needed reforming, especially after the Enron Scandal. Mead concludes that Sarbanes-Oxley helped solidify an ethical criterion that was followed in the non-profit sector to widespread success. Mead notes the newly enforced regulations in the private sector that were strikingly similar to the regulations in Sarbanes-Oxley helped clean up the non-profit sector so scandals can be avoided

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[3] Smith, R. C., & Walter, I., "Four Years After Enron: Assessing the Financial-Market Regulatory Cleanup," *Independent Review*, 11 (2006), 53-66.

[4] Cigler, A. J., "Enron, a Perceived Crisis in Public Confidence, and the Bipartisan Campaign Reform Act of 2002," *Review of Policy Research*, 21 (2006), 233-252.

[5] Aufhauser, D. D. (2008). OVERALL, "Sarbanes-Oxley Is Good For U.S. Competitiveness," *Texas Review of Law & Politics*, 12 (2008), 433-439.

in the future. [6] With widespread scandals occurring within major non-profit organizations like the United Way and The Red Cross, Mead notes that the ethical climate was in extreme need of an ethical shift, and a series of Sarbanes-Oxley type reforms made that shift a successful reality.

Although Tillman argues in favor of Sarbanes-Oxley, he focuses on three particular aspects of the bill, unlike both Mead and Aufhauser. Tillman notes that the bill will provide new and better tools to effectively prosecute and punish criminals who defraud investors, provides tools to improve investigators' and regulators' ability to preserve and collect evidence that proves fraud, and protects fraud victim's right to recover.[7] Tillman assesses Sarbanes-Oxley with a narrow scope, while Mead and Aufhauser look at the overall themes and criterion created from the passing of the bill and not what specifically is beneficial in the bill itself. While Tillman focuses on the specifics of the reform act and its effect on the private sector, Mead does not relate Sarbanes-Oxley to the private sector in his assessment. Mead takes a different approach when evaluating Sarbanes-Oxley.

The Enron scandal set up a unique set of circumstances that made it possible for experts in the field of business and accounting to take a general look at how their fields have been affected and how their fields can become more efficient and ethical in the future. Analyzing the current perception of accounting and finance will help determine if the original conditions and perceptions that made Enron possible are still existent, encouraging future widespread scandal and corruption.

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[6] Mead, J., "Confidence in the Nonprofit Sector through Sarbanes-Oxley-Style Reforms," *Michigan Law Review*, 106 (2008), 881-900.

[7] Tillman, B., "Enron Fallout Spurs Securities Fraud Bill," *Information Management Journal*, 36 (2002), 12.

Among the experts measuring the perception of accounting and finance in the post-Enron era are Mimi Coleman, Jerry Kreuze, Sheldon Langsman, Gary Giroux, Stephen Conroy, Tisha Emerson, Marty Lundlum, Sergi Moskalionov, and Norman Stein. All of these authors look at different aspects of their field and how the Enron scandal has affected their field recently. These authors also make assumptions about the continued implications presented by ethical behavior in the workplace moving forward. Coleman, Kreuze, and Langsman focus solely on the perception of accounting after the Enron Scandal. After compiling statistics, they come to the conclusion that students continue to believe that the value of honesty is still present in the accounting field.[8] They sampled 338 students, and made assumptions based on this sample size when estimating the ethical climate among young professionals. Conroy and Emerson agree that Enron has had positive effects on the ethical climate surrounding accounting and that the profession itself is still viewed as ethical and honest. They argue that accountants and high-ranking business officials are more likely to avoid "accounting tricks" after being exposed to them as a result of the Enron Scandal. Only two universities were studied and they conducted this survey over an extensive 18-month timeframe.[9]

Lundlum and Moskalionov disagree with the previous authors and believe Enron has paved the way for more unethical behavior in Russia, their home country and the focus country of their experiment. They based their research on the opinions of CEOs and concluded that "the current Russian business climate seemed to condone unethical behavior" after Enron.[10]

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[8] Coleman, M., Kreuze, J., & Langsam, S., "The New Scarlet Letter: Student Perceptions of the Accounting Profession After Enron," *Journal of Education for Business*, 79 (2004), 134-141.

[9] Conroy, S. J., & Emerson, T. N., "Changing Ethical Attitudes: The Case of the Enron and ImClone Scandals," *Social Science Quarterly*, 87 (2006), 395-410.

[10] Ludlum, M., & Moskalionov, S., "Effects of Enron on Future Russian Business Leaders: A Time Line Survey," *College Student Journal*, 42 (2008), 1023-1036.

According to a news report by *Professional Engineering*, Enron agreed to invest 55 million dollars in United Electricity System, a power utility company that agreed to a 10 year relationship with Enron.[11] The world is connected through a united global economic infrastructure, and this infrastructure connects the United States business practices to Russia. What happens with regards to American business impacts not only Russia but the rest of the world, and deciphering the perceptions of business in different countries is important to deciding whether a globally connected scandal, like Enron, can happen again. Because of this global interconnection, this makes Ludlum and Moskalionov's findings not only relevant but extremely important to consider when having the conversation about Enron repeating.

The authors mentioned above took a statistical approach in an attempt to measure the accounting climate after Sarbanes-Oxley and Enron, but Stein takes a broader view. While evaluating the accounting field, he discusses the lessons that should be taught in the future, but probably will not be. Among these lessons are mixing investment options and employees, which may cloud the judgment of employees if they have lucrative investments in the company they work for.[12] The practice of mixing investment options and employees was very relevant during the Enron Scandal and the company persuaded employees to reinvest their retirement and pensions back into the then-soaring company. Top executives, such as Jeffery Skilling, cashed their stock just in time, making millions before the walls of Enron collapsed. Stein realizes in his article that investing in the company may create a conflict of interest when attempting to run the corporation ethically. Overall, Stein has a somewhat negative perception of the effects of the

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[11] "US Utility Moves into Russia," *Professional Engineering*, February 11th, 1998 [serial online] 11(3):10. Available from: Academic Search Premier, Ipswich, MA. Accessed September 26, 2011.
[12] Stein, N., "Three And Possibly Four Lessons About ERISA That We Should, But Probably Will Not, Learned From Enron," *St. John's Law Review*, 76 (2002), 855.

Enron scandal, and he shares his doubts about the future of business practices in the post-Enron world.

Many experts in the field have focused on what went wrong during the Enron scandal and how different aspects of the corporation, like corporate governance, should be fixed in the future. David Kershaw examines whether or not the American style of accounting differs from the accounting style in England and whether or not that led to the scandal and will lead to future scandals. Kershaw finds that the United Kingdom system of accounting focuses on principals while the American style of accounting focuses on rules, and concludes that there doesn't have to be a change because the systems of accounting did not fuel the scandal. He also concluded that the ethical ideologies of the employees form the structure of the firms.[13] Susan Stabile attacks another aspect of the business world and calls for a change that will help businesses in the future. Unlike Kershaw, Stabile blames short term profit maximization for Enron, and notes that many employees have stock options, retirement accounts, and have future investment in the growth of their respective company. This idea of getting rich quickly and mixing business with pleasure supports Stein's argument rather than Kershaw's. She notes that Sarbanes-Oxley does not do a sufficient job reforming this aspect of business, and calls for more reform to protect workers and avoid short term profit maximization.[14]

Gary Giroux aggress with Stabile and calls for more reform regarding stock options in the future. Giroux goes into detail about how Sarbanes-Oxley does not protect against subprime loan problems, which may lead to more hardships and scandals in the coming years. Enron was a

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[13] Kershaw, D., "Evading Enron: Taking Principles Too Seriously In Accounting Regulation," *Modern Law Review*, 68 (2005), 594-625.

[14] Stabile, S. J., "Enron, Global Crossing, and Beyond: Implications for Workers," *St. John's Law Review*, 76 (2002), 815.

scandal both within house and involving independent firms. Arthur Andersen eventually went bankrupt when the auditing firm attempted to salvage their firm after being exposed for contributing to the massive Enron fraud and cover-up. Giroux calls for a more extensive reform act to be passed that covers not only independent accounting fraud but also fraud within the corporation.[15]

Karim Rebeiz attacks another angle of the post Enron atmosphere and uses a survey to generate an idea of what makes a successful boardroom and corporate structure. Rebeiz concludes that there needs to be a massive change in corporate governance in order to avoid another Enron scandal. He concludes that although Sarbanes-Oxley calls for more transparency and accountability; the future boardroom should be driven by principals and guidelines. This argument is similar to Kershaw's main idea, which is employees and their ethics are the deciding factor that contributes to the ideology of the corporation they work for. He surveys top qualified professionals in the business field to help generate his conclusion.[16]

Keith Johnson agrees with Rebeiz that there needs to be a change in the structure of the company in years to come. Instead of focusing on the employee within the corporate governance of the company, he argues that there needs to be a change regarding shareholders' priorities. Johnson feels as though shareholders must do a better job of acting as a check and balance for the company in the future, which includes completing tasks like changing faulty board members

[15] Giroux, G., "What Went Wrong? Accounting Fraud and Lessons from the Recent Scandals," *Social Research*, 75 (2008), 1205-1238.

[16] Rebeiz, K. S., "Boardrooms of Energy Firms in the Post-Enron Era," *Journal of Energy Engineering*, 132(2006), 44-51.

and being an active presence in the firm.[17] Johnson is the only scholar that blames shareholders rather than management for recent scandal in the past decade, particularly Enron.

Overall, most scholars agree that a change must occur within different aspects of the typical corporation to avoid widespread scandal and corruption from evolving and repeating. Although the scholars believe different aspects need to be changed, it is evident that they believe that the ideal balance and structure, mixed with the appropriate legislation, has not been created yet, and until that happens we may have to take caution.

Another piece that needs to be examined when investigating this argument is the nature of capitalism and human nature in general. Although it is possible that a precise course of action could be taken to greatly enhance the ethical climate surrounding business, even if this were to occur there is a chance that human nature and greed will always take precedent over even the best reform acts. An exploration into the basic underlying forces of human nature and America's Capitalist system needs to take place in order to be able to accurately assess the chances of a colossal scandal occurring again.

William A. Niskanen supports the idea that greed will always be the underlying force driving capitalism and is not going anywhere in the future. Niskanen notes that "greed and gravity are always with us, and capitalist markets usually channel self interest into mutually beneficial behavior."[18] Greed exhibited by the top executives at Enron was evident throughout their tumultuous reign. This idea of not being able to fix basic human flaws and tendencies are supported by the Milgrim Experiment. The Milgrim Experiment was an experiment conducted by Yale University that focused on how far humans would oblige to an authoritative figure. The experiment showed that many of its subjects would completely disregard ethics and even perhaps even go as far as killing another human-being if they were taking orders from an authoritative figure. In the context of the Enron Scandal, as the documentary *The*

[17] Johnson, K. L., "Rebuilding Corporate Boards and Refocusing Shareholders for the Post-Enron Era," *St. John's Law Review*, 76 (2002), 787.
[18]Niskanen, William A., "The Undemanding Ethics of Capitalism," *Cato Journal,* 29 (Fall 2009), 559.

Smartest Guys in the Room explains, even the most innocent bystanders in the business world are prone to oblige to an unethical authority figure and sacrifice their moral code.[19] McLean argues that this exact phenomenon happened during the Enron Scandal, as underlings followed blatantly unethical procedures simply because they were being told to. Many professional scholars, such as N. Badhwar, have come out in support of the Milgrim Experiment. Badhwar agrees with the principal that "while there is plenty of real-life evidence that most people wait for others to take the lead on most issues, we could not have known how persuasive-and momentous-the phenomena of bystander apathy and divided responsibility are till we had experimental evidence for them." Badhwar goes on to defend the fact that people follow others' orders and give an "answer that contradicted the evidence of their own senses."[20]

FINDINGS

These scholars have discussed various aspects of the Enron Scandal and provided a solid insight into the Sarbanes-Oxley Act, the perception of accounting and finance after Enron, human nature and their ideas of what structure a perfect ethical and ideal corporation should contain. Although these authors have focused on specific individual issues, none of the authors have pieced together different arguments and given a definitive answer on whether or not another Enron-type Scandal is doomed to repeat itself. The scope of the authors is very focused, which causes a problem when examining the big picture. No scholar has attempted to combine these arguments and look at the business landscape at a more macro level. By analyzing the different arguments at hand and combining them into one central argument, one can conclude that America is heading in the wrong direction in terms of repeating widespread corruption in the workplace. Because of pieces that are both in and out of America's control, another massive scandal similar to Enron is bound to repeat itself in the near future.

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[19] *Smartest Guys in the Room.* DVD, writers McLean, Elkind & Gobney (2005; New York: Magnolia Pictures)
[20] Badhwar, N., "The Milgrim Experiments, Learned Helplessness, and Character Traits," *Journal of Ethics,* 13(2009), 257-289.

One of the main reasons America is likely to repeat the pattern of massive corporate scandal is the Sarbanes-Oxley Act. After reading the discussion of respected professionals in accounting and finance, it is clear that Sarbanes-Oxley is not the perfect reform bill and does not reform every aspect of business that can lead to unethical behavior. Companies are paying more compliance fees to comply with Sarbanes-Oxley than in previous decades, as Smith and Walter suggest in their analysis. In general, one would think that paying money to comply with regulations is a high-quality method of reform, but making corporations pay more fees could potentially lead to problematic consequences in the future. Businesses are not only shrinking plowback investments into their own company but investments to other companies as well. Less investment coupled with a decrease in the number of initial public offerings because of the "millions of dollars" that Smith and Walter mention in their financial analysis as Sarbanes-Oxley compliance fees has persuaded more companies to go private since the passing of the bill, hindering economic growth. In a *Wall Street Journal* article, James Freeman mentions that the Public Company Accounting Oversight Board has seen "costs that have gotten out of hand, particularly for smaller companies" and that 70% of smaller companies and 44% of larger companies state that Sarbanes-Oxley has motivated them to go private. In the same article, Freeman also mentions that "77% of smaller foreign firms say that the law has motivated them to consider abandoning their American listing."[21]

A company is more prone to commit serious fraud when they have continuous bad quarters or bad years financially. In the case of Enron, the more they found themselves in bad financial standing, the more fraud and scandal they committed, magnifying the devastation when the bottom fell out of the company. Although the regulations that will require compliance will

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[21] Freeman, J., "The Supreme Case Against Sarbanes Oxley," *The Wall Street Journal*, December 15th, 2009.

make it harder for the corporation to commit simple fraud, corporate methods of fraud will become more sophisticated and evolve over time, especially if the unethical corporation continues to view unfavorable financial information, which hefty compliance fees will contribute to. Although major flaws are present in the bill, it is undeniable that reform is needed and Sarbanes-Oxley is taking a moderate step in the right direction in terms of corporate reform. If Sarbanes-Oxley was the perfect reform bill that could ensure the chance of scandal in the future is minimized, then the massive compliance fees would be a necessity to stabilize corporate America and they would make sense. Unfortunately, scandal in business has a history of evolving and becoming more elusive, and adding more debt on the corporations' financial statements may have the opposite effect on the ethical landscape of the corporation and make unethical corporations become more creative when cheating the system.

Although Sarbanes-Oxley is a step in the right direction with regards to corporate reform, there are clear shortcomings present in the bill. One of the crucial reasons that Enron was able to happen was the mark-to-market accounting procedure that Enron utilized. This procedure allows companies to mark the fair-value of a future endeavor on their books, even if the profit has not been made. In the case of Enron, they were able to put future profits on their books as current revenues, even with the revenues not being earned yet. This fair-value system of accounting leaves room for manipulation and discretion, which are two elements that should ideally be avoided when creating the corporation's financial statements. None of the scholars mentioned the fact that Sarbanes-Oxley does not extensively reform mark-to-market accounting procedure. There is no clear answer whether mark-to-market can even be reformed because the whole theory is based on estimation, which is an abstract concept and difficult to police. Until serious strides are made in this area and a more uniform system of accounting is used across the board to minimize accounting manipulation, companies will continue to benefit unethically off mark-to-market accounting procedure.

It is hard to disagree with the scholars as they describe the benefits of Sarbanes-Oxley. Supporters and some critics alike note that the reform has made positive strives against preventing future scandals and has helped establish ethical behavior to an extent, and I agree with this concept. The scholars have mentioned the fact that Sarbanes-Oxley introduces measures to protect fraud and introduces stricter audit standards. Scholars have also noted that the bill helps collecting evidence against fraud easier. The biggest criticism of Sarbanes-Oxley is that the bill does not touch several major ideologies and aspects that helped make the Enron Scandal possible. The supporters of the bill leave out these key points that critics touch on, like reforming employee investment plans that reinvest into their own company. Allowing top executives to personally invest their own wealth heavily in the company they work for clearly presents a conflict of interest, and the bill does not extensively reform this important issue. Supporters note that the bill has made strides in prosecuting fraud, but fail to realize that the bill does not produce enough prevention of key issues, like employee reinvestment plans and other antics that condone an overall ideology that is solely based on short term profit maximization.

There is a spirited debate over whether or not the perception of accounting and finance has changed since the beginning of the 2000s. Supporters of a non-changing ethical climate have used a statistical approach to analyze their respective fields. Although these experiments have produced concrete and scientific results, there are problems evident in their methods.

The authors Coleman, Kreuze and Langman, who argue that the value of honesty is still present in the accounting field, sampled only 338 students in their research. Because they utilized such a small number of students and focused solely on one age group, their research lacked both diversity and magnitude. Conroy and Emerson, when attempting to measure the same aspect, encountered the same problem. Conroy and Emerson focused on only two universities, which means a diverse study body from various colleges and universities across the United States was not questioned about the ethical climate, rendering their argument somewhat ineffective.

The feat of measuring the current corporate ethical climate is extremely difficult to accomplish. The education of the students being surveyed, the sample size and diversity of the group, and the format of the survey in general are factors that need to be considered when conducting a reliable and accurate survey. The problem that these scholars face is that the students may not be totally qualified and educated on the "accounting tricks" enough to give a real answer, and this problem cannot be measured or identified. Surveying students with no elaborate and detailed business background leaves room for larger error, on top of the error that is going to show up naturally in the results. The structure of the survey, like the wording and different interpretations that can be drawn from reading the survey, can leave room for ambiguity when conducting a survey of this nature.

The reason that Lundlum and Moskalionov have the stronger argument is because they pulled opinions from CEOs of their home country when compiling their statistics. Although they run into some of the same problems that the previous scholars do, they were at least able to get the opinions of professionals that have succeeded in their field and been exposed to much more business experience then business students.

The scholars have presented three circumstances that are possible: the climate has not changed; the climate has gotten worse; and the climate has become more ethical. Hypothetically, let's say the first circumstance is correct and the climate is still viewed as "honest" and the same as the past. If the ethical climate has not changed, it would be in the same form the climate was in when Enron took place. This would lead any young professional to believe that another scandal could occur in these conditions, because it already has. If the circumstance has gotten worse, the climate is in even worse position then when Enron occurred, which can only lead to a risky future. If the third argument is correct and the ethical climate has gotten better, we would have been able to see this change take effect. There has been no rapid decline in fraud and corruption in the past decade, and the breaking of the 2008 Financial Crisis proves this fact. The crisis makes it hard to believe there has been a measurable ethical increase in the past 10 years of business. The only way that this argument could lead someone to believe Enron won't repeat is a *dramatic* shift in the profession. Although hope remains for future young professionals to break the ongoing trend, none of scholars make a solid argument that there has been a dramatic change in the past decade in the professions of accounting and finance.

William A. Niskanen provides insight into a unique aspect of this argument that the previous authors do not investigate. One piece of the puzzle, which is solely touched on by Niskanen, is motivating forces in the capitalist market and human nature in general. Perhaps ensuring another scandal doesn't occur is not as simple as a series or reforms and regulations that can be put in effect. Niskanen makes an interesting point when he states that as long as there is competitiveness in American markets, the motivating force is going to consist of greed and advancement. Although there is no definitive answer as to whether or not the desire to be among "the haves" will outweigh reformation of the system, this aspect needs to be touched upon when looking at the research question objectively. Many experts in the field agree with Niskanen that greed and advancement, whether it is good or bad in terms of ethical violation, will most likely drive the typical business person. In our system of economics, a little bit of greed can be healthy and beneficial. The reason that the consumer experiences new and exciting products, sees the movies with the advanced special effects, eats the incredible food at the restaurant and utilizes the latest technology comes down to businesses wanting to advertise and deliver an above average product, compete in the market place, and make profit. The basic American economy system is based on competition, and that will never change. Although competition defines the American economic system, there is also a dark side to this competition. In recent history, especially in the past decade, corporate America has seen this greed taken to a whole new level to the tune of bailouts, bonuses and deception. There is no perfect set of reforms that could possibly be passed to take away this extreme competition and force our system of economics to stay at a moderate level of greed because that is impossible to measure. As long as there is extreme competition and greed driving the American market, large-scale scandals will always emerge from the cracks.

Another feature of human nature that the scholars did not discuss is authority. As the Milgrim Experiment proves, humans are capable of performing acts they never thought would be possible. The acts may even avoid or come in direct opposition of the individual's personal ethical code of conduct. With an authoritative figure directing orders, humans have proved that they will take orders that may violate their ethical code of conduct, which is exactly what happened in the case of Enron. Executives in Enron were leading the group in an unethical direction, and even as employees starting to question the ethical values of their superiors, they continued to do the tasks that were asked of them. This trend of blindly following authority will continue unless there is a massive shift in human nature, which does not seem likely to occur. If there is no shift, then authoritative figures will continue to have support from their subordinates, even if the executives decide to lead in an unethical manner. This could lead to future scandal as CEOs take advantage of this proven facet of the corporate environment.

An example that the scholars left out of their discussion is the Financial Crisis of 2008. During this crisis, the housing market collapsed and a series of scandalous and fraudulent activity was discovered by major corporations across America. This scandal led America to the brink of a full financial meltdown. Although the particulars do not need to be discussed in the context of this research question, the underlying factors should be mentioned because they are similar to Enron's. The scandal differs from Enron because the crisis involved more corporations and a variation of different ethical violations, but the motives and characteristics are strikingly similar. Both scandals included dishonesty, the motivation of wealth and greed, and taking advantage of an imperfect regulatory system. While Enron centered on Enron Corporation and Authur Andersen, the financial crisis of 2008 was consistent in many banks and bond rating agencies, and the scheme was more involved and elaborate in creating wealth for the unethical. The fact that another elaborate and larger scandal occurred after Enron proves that scandal has the capability to evolve and withstand aggressive reform efforts from Congress.

The scholars discuss other elements that would make the corporation less prone to conspiracy and fraud that should be explored in the future. One of the ideas that Stein makes apparent is the mixing of heavy personal investment opportunity with top executives. This idea makes sense because limiting the amount of money invested in the company by the top executives can help minimize the conflict of interest within the corporation. Scholars have also agreed upon reforming stock options and reforming corporate governance to make sure that top executives cannot serve on certain boards. After reading the scholars' arguments, it is clear that America needs to shift to a more foreign system of corporate governance. In Europe and Asia, businesses have two separate boards, one consisting of top executives and one consisting of an outside presence. The idea behind this logic is to minimize the conflict of interest that arises when top executives serve on the board of their respected corporation.

When top-level managers serve on the board of their company and invest heavily with their own money back into the corporation, they may be prone to condoning unethical behavior as a means of not losing everything they have. In a smaller example, if a poker player was betting with a big pot and had a lot of money riding on the outcome, common sense says the poker player would be more likely to cheat. Now imagine a CEO of a firm with their entire fortune and future in the pot. Although it works for some executives like Steve Jobs, it does not work for every top executive. Steve Jobs, former CEO of Apple, made a salary of only $1 and made his millions off of stock investments. This is not commonplace and should be regulated more heavily in the United States. All it takes is one unethical CEO with his back against the wall to make way for another scandal of epic proportions and epic consequences.

CONCLUSION

Faulty accounting tricks and corporate deception led to the destruction of Enron, one of the biggest corporations in America and a major player in global commerce. The Enron Scandal left tens of thousands of innocent employees without a job, not to mention the other employees from different firms and corporations indirectly affected by the demise of Enron. Enron has cast a dark shadow on American business since the revealing of Enron's reckless and blatant disregard of any ethical code of conduct. Will this situation occur again? Unfortunately, there is a strong likelihood that it will.

After examining the discussion by respected academics, the evidence strongly favors another scandal to occur. The Sarbanes-Oxley Act, although taking strides against fraud and making it easier to prosecute fraud with stricter penalties, is flawed and does not touch upon certain areas that need reform. Although penalties will be more fierce upon prosecution, root causes of scandal, such as the conflict of interest created when top executives serve on various boards in the corporation and mark-to-market accounting procedures, have gone unnoticed. In a broader view, there are certain things that Congress cannot control, like greed acting as the underlying motivational force in the capitalist market. Congress also cannot control the fact that in many circumstances humans will most likely follow an authoritative figure while sacrificing their code of conduct based on scientific findings.

This comes down to a classic battle of good decision making versus poor decision making. Ultimately, individuals are responsible for their actions. If young professionals develop a stable background in the ethical history of business and form a logical ethical code at a young age and corporate reform continues to police different aspects of the corporation effectively, the chance of a future scandal will be minimized. Although the evidence and history points in the opposite direction, young professionals in the accounting and finance field should not be underestimated. Although a complete ethical change is unlikely, if the next class of professionals improves on previous practices and this trend continues, an ethical climate that drives on honesty and integrity across all corporations and circumstances could possibly be obtainable in the long run, but most likely not in the near future.

These areas of research need to be tracked and any progress needs to be measured in the future to continue to reevaluate this question accurately. Eventually we will be able to see the long-term effects of Sarbanes- Oxley and these effects need to be tracked in the coming years.

The ethical climate needs to be continuously measured as well. Surveys and summaries should continue to gage the ethical climate among young accounting and finance professionals. Other factors should also be measured, like changes in corporate governance and investment options within corporations. Lastly, other reform attempts, such as the Dodd-Frank Act, need to be examined. Future progressive reform movements could prove valuable in closing corporate loopholes and preventing future scandal to occur. If all these areas of research are tracked accurately, we can continue to ponder whether America is making strides against preventing widespread corporate scandal or whether America will always be prone to repeat actions similar to the tragic Enron Scandal.

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