Enron: Widespread myopia☆

Nihel Chabrak a,*, Nabyla Daidj b

a Accounting & Finance, GET – INT (National Institute of Telecommunications), Associate Researcher at DMR – CEREG, Paris IX Dauphine University, France
b Strategy, GET – INT, France

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Abstract

This article looks at the Enron affair in terms of what investors and experts fail to take into account to being able to predict Enron collapse. The authors show how analysts could have predicted Enron’s difficulties in view of the incoherence observed in its strategic decisions, from the viewpoint of the theory of resource-based and competence-based approaches. Certainly, it was hard to suspect that numbers could lie on account of the financial manipulation doubled by the rhetorical discourses of executive managers who succeeded in imposing a flourish image of their company. The authors’ view takes on a political dimension by illustrating the contradictions of the system that sustain the widespread myopia, where everyone is purely alienating himself.

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1. Introduction

“The Enron affair, or the frog who wanted to be bigger than the ox . . .”. The third fable of the first Book of Fables by Jean de la Fontaine1 could be taken as an illustration of what

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☆ Enron activity reports (http://www.enron.com).
* Corresponding author at: INT, 9 rue Charles Fourier, 91011 Eyry Cedex, France. Tel.: +33 1 60 76 41 09; fax: +33 1 60 76 43 83.
E-mail addresses: Nihel.Chabrak@int-evry.fr (N. Chabrak), Nabyla.Daidj@int-evry.fr (N. Daidj).
1 “A frog saw an ox, and found the animal to be of fine stature. As she was not as big as an egg, the jealous frog stretched herself, puffed herself up and struggled to equal the animal in size, saying: “Look, sister, is this enough? 1045-2354/$ – see front matter © 2006 Elsevier Ltd. All rights reserved. doi:10.1016/j.cpa.2005.10.004
happened to Enron, once presented by both academia and the business world as a success story.

A group of French students, when asked what they thought about the Enron affair, seemed to take a different view. They said that what is extraordinary about the Enron affair is that there is nothing extraordinary about it. Admittedly, they were speaking after Enron’s collapse, with the benefit of hindsight, but they did point to aspects that no researcher should dismiss without subjecting them to close analysis and reflection: one of the students made a historical comparison between the Enron scandal and the Panama Canal affair. He said that Ferdinand de Lesseps at least deserved credit for producing something concrete, a useful construction, whereas Enron is the epitome of the kind of company whose activity is both abstract and ultimately pointless. The fall of Enron should not be deplored, because if no task was completed, this is because from the outset no work had been undertaken. In this student’s view, Enron simply gambled on making a quick profit through speculation and gimmicks. The French investors ruined by the Panama Canal affair could at least console themselves by reflecting that they had participated in the construction of a useful structure, whereas the victims of Enron will always have the bitter memory of having been deceived by speculators. Faced with the way Enron’s finances went out of control, other students were more explicit and asked a simple question which several analysts, for various reasons, omitted to ask themselves: “But, what was Enron’s business”?

These perceptions led to reflections which suggest that we should look again at the Enron story and the “film” of events. For this purpose, we will try to examine first the aspects which have attracted most interest from researchers and practitioners in the Enron affair.

Over recent years, the Enron scandal has primarily been associated with a lack of transparency in financial practices and the failure of the corporate governance model. Most of the work has focused on the consequences that are the dissimulation of the poor financial results by various processes. So as a consequence, the Sarbanes–Oxley Act was developed to sanction dishonest executive managers for their “risky accounting practices” and auditors for their complaisance. The “rehabilitation” of the accounting profession was sufficient, from the point of view of legislators and the establishment, to restore the good functioning of the virtuous market!

However, is the problem only related to financial manipulations and to the capacity to detect them? Transparency and corporate governance could contribute to have more reliable figures that transmit a distress signal at time but never provoke nor prevent a bankruptcy which is the consequence of managerial and strategic failure and hazardous decisions. Certainly, there are crucial aspects to be considered with regard to the failure within the

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2 This is the term employed by Darden, Bodily and Bruner in their Enron case study, written in 1986.
3 Students in the first year of the INT Management School, a French High Business School, were asked to hand in a 10-page document summing up their personal views on the Enron affair, as part of their corporate accounting course. For more details about the survey of this teaching experiment, see Chabrak (2004).
4 In the special issue of Critical Perspectives on Accounting (2004), we can read interesting papers proposing complex reading and analysis, going beyond the simple assimilation of the collapse to a failure of governance.
bounds of a system, according to the Bank for International Settlements Report picked by Craig and Amernic (2004). Enron was not the failure of the company but of the various components of corporate governance simultaneously (Craig and Amernic, 2004). But, what should be considered at the level of the company itself is the incoherence of its strategy. As quoted by Hirs and MacAvoy (2003): “Management deliberately destroyed the company. The result can be found in the bankruptcy examiners analysis (the three parts of the so-called Batson Report). That report concentrates on corruption in management and its bank lenders, but we find a different, more systemic fault between the lines. The fraudulent and illegal financial practices, designed to create the appearance of large and growing earnings from operations, came after the strategy had failed and the company was already finished”.

The assimilation of Enron collapse to a problem of financial manipulation does not come from vacuum. An examination of research in management shows the extent to which the company is reduced to a sum of figures, to numbers. Since the colonization of Positive Economic Science, we are living in an imaginary social world that could be explain by a system of scientific equations, situated on other epistemic level (the negation of any relation between the two separate levels) (Tinker, 1985, 1991). This holy system is explaining how human could pursue their own self-interests to the optimal benefit of all (Williams, 2004). In embracing this order, which supposes at the basis that the firm is the property of stockholders, the contemporary accounting model focuses on measurement issues. The question is no longer what we are measuring and to whom it belongs, in other terms how to make a fair distribute of the surplus (Tinker, 1985). This question is moral and accounting is not about these issues, it is the neutral and objective scorecard of business (Solomons, 1991). So, accountants must deal only with calculus of the difference between costs and revenues that should be maximized. The value is purely and simply a matter of financial earnings maximization\(^5\), where earnings are the difference between revenues and expenses, with all consequences that this equation could have. Thus, managers are under increasing pressure to deliver results, to increase EPS. Subsequently, stock prices will grow-up and the value of the firm will rise. Numerous works are in this trend, we simply notice that very few authors take an interest in aspects other than financial ones to evaluate “a business”.

Did investors care about the fundamentals in the case of Enron? Did financial analysts and other market controllers consider any economic concepts in their assessment of the company actual situation? May be they have been impressed by the executive managers’ discourses, and the narrative representation of the company’s activity and achievements (Froud et al., 2004), which imposed a flourishing image of Enron and prevented from doubting about its actual difficulties. The new economy is a favourite ground for rhetoric. The narrative of a company’s success is crucial to create a movement in the stock market. However, it was so easy to predict Enron failure, if an in-depth analysis of its chronology was made. Nobody could miss its inevitable end\(^6\). Let us discipline this investigation by examining, in the first

\(^5\) In this paper, we will not discuss the relevance of the contemporary accounting model and its affiliation to the capitalist order, neither its implications on ethical and moral level.

\(^6\) Reinstein and McMillan (2004) make use of the same term but in a different perspective. If Enron collapse was inevitable, it is because it arose in part from accountants moving away from competently auditing financial statements, in other terms, a “back to basics” approach to auditing, that would have provided real assurance to their readers (Reinstein and McMillan, 2004).
step, if there was any coherence in the strategy pursued by Enron (first section). Then, we will try to find reasons for which nobody did consider this type of analysis consciously or unconsciously (second section)?

2. Back to the basics

In this part of the paper, we set out to present the basic tenets of the Enron strategy in the 1990s, and to ask questions about its economic viability, while putting these various aspects into perspective using the resource-based and competence-based approach. To simplify in the field of strategic management, two complementary approaches enable an explanation of the lasting competitive advantage of a company, or alternatively its difficulties and its positioning problems in the market. An initial “external” analysis of the environment calling on the use of various models including that of Porter (1980, 1985) (the well-known “five forces” framework determining industry attractiveness), which stresses the fact that the company must adapt to its environment and find attractive and profitable sectors, i.e. sectors that are characterised by relatively weak competitive pressure (low rivalry, low threat of substitutes, low threat of entry, low buyer power and low supplier power).

In the case of Enron, the deregulation of energy markets had a direct impact on its strategic investment decisions, and more generally Enron took advantage of a political, economic and regulatory context that favoured its expansion. We prefer not to focus our analysis on these aspects, which are relatively well-known and have been extensively considered in academic literature. A second analysis, based on “resources and competences” (Barney, 1991; Prahalad and Hamel, 1990; Wernerfelt, 1984) insists conversely on the capacity of a company to use and transform its environment. The most competitive company is the one which possesses the most advantageous resources and the competences necessary for the implementation and combination of these resources. It is this approach that we will focus on to explain the difficulties encountered by Enron leading to disaster. For this purpose, we will look back at events as they happened distinguishing four time periods in the light of our framework based on “resources and competences” theory. We will emphasize the fact that Enron had ridden a series of strategic changes that took the firm beyond its competences and resources domain.

3. History and development until 2000

Enron was created in 1986 following the merging of two companies specialising in gas (production and transport): Houston Natural Gas and Internorth. The company specialised in gas production and transport and declared its aim of becoming a world leader in energy trading at a time when markets were being deregulated. Alongside Enron disposed assets,

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7 Authors used these references for the drafting of this section: (Chatterjee and Fellow, 2002; Higson, 2001; Tonge et al., 2003; Wheat, 2002; Dedieu and Gadault, 2004; The Economist, 2001; International Power Generation, 1998; Robb, 2004 and Telecom Asia, 2002).

8 The environment of the firm consists of all the external influences that affect its decision. Several macro-environmental models exist: political, economic, social and technological factors (PEST), LCAG (Learned et al., 1965). These environmental frameworks are directly linked with industry analysis (developed by Porter).
considered to be non-strategic (industrial assets in the United States), it launched into a
diversification of its businesses particularly by means of an extremely active policy of
acquisitions carried out at a very rapid rate.

We consider that there are four main phases explaining Enron’s transformation from a
utility and a pipe line company to a market-maker in energy, commodity and derivatives.
These phases reflecting the four main lines of development strategy are shown in Table 1
below. In the space of 15 years, Enron becomes world number one in the electricity trading
sector. It was the seventh largest company in sales terms in the United States in the year
2000.

The table illustrates the savage and unrestrained diversification adopted by Enron, with-
out any consistent strategic vision with regard to its core activity. Enron’s activities relied
primarily on delivering and brokering energy domestically in a deregulation context that
led to spot prices’ increases for electricity and natural gas (Reinstein and McMillan,
2004). Then, Enron “pioneer(ed) markets for commodities that had never been traded
before, including fiber-optic bandwidth, pollution-emission credits and weather derivatives”
(Eisenhardt and Sull, 2001, p. 114), running an on-line exchange (EnronOnLine), one of the
largest e-commerce sites. Enron changed itself into mainly an unregulated derivative-trading
entity (Reinstein and McMillan, 2004).

Froud et al. (2004) indicate that this restless movement into new activities did not signal
underlying problems; rather it was taken as evidence of management prowess. In fact,
before the collapse and at that time, this business strategy gave rise to highly enthusiastic
comments, suggesting that Enron was a successful model for companies moving from the
“old economy based on industrial production” to the “new economy based on services and
knowledge”. According to Kim and Mauborgne (1999), Enron exemplifies this transition
to a “new economy based on knowledge”.

Business schools, academic, media and experts endorse Enron success in plunging in
uncertainty and navigating in the new world of deregulated energy. In April 2000, Fortune
published a long tribute to Enron “Imagine a country-club dinner dance, with a bunch of old
fogies and their wives shuffling around halfheartedly to the not-so-stirring sounds of Guy
Lombardo and his All-Tuxedo Orchestra. Suddenly young Elvis Presley comes crashing
through the skylight, complete with gold-lamé suit, shiny guitar, and gyrating hips. Half the
waltzers faint; most of the others get angry or pouty. And a very few decide they like what
they hear, tap their feet . . . start grabbing new partners, and suddenly are rocking to a very
different tune. In the staid world of regulated utilities and energy companies, Enron Corp. is
that gate-crashing Elvis”. Enron was the sleepy pipe line company that had reinvented itself
as an energy trader and maker as mentioned by Zellner (Business Week, 24 July 2000). For
Kim and Mauborgne (1999), notice that if Fortune has ranked Enron, five times, as the “most
innovative company” in the United States, it was because it has struck upon repeated value
innovation which allows a serious decrease of the cost of gas and electricity to customers
by as much as 40–50%. This was possible while Enron was reducing dramatically its own
cost structure by “for example, creating the first national spot market for gas in which
commodity swaps, future contracts and other complex derivatives effectively stripped the
risk and volatility out of gas prices” (Kim and Mauborgne, 1999, p. 46).

In brief, Enron was highly regarded by media, academic professors and stock market
analysts because it has broken the capital-intensive business model of the gas and electric
<table>
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<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
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<tr>
<td>Industrial activity of gas production and transport, and electricity production and transmission</td>
<td>Start of business diversification into energy distribution, raw materials trading and services</td>
<td>Continuation and acceleration of the international strategy of diversification into trading (wholesale energy, retail energy and broadband) Development of the sale of speculative financial instruments Enlargement of its business portfolio to include other sectors:</td>
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<td>Diversification of businesses into trading in a large number of commodities (gas, electricity, coal, wood, paper, resins, plastics, metals, etc.). Enron launched its electricity trading businesses in June 1994 and was to become the largest operator in this market in the United States before extending its businesses to other markets:</td>
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<td>- Construction and management of energy production plants: Dabhol in 1996 in India (a highly controversial project)</td>
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<td>- Acquisitions of telecom networks (sale of bandwidth capacities to customers such as ISPs) and building of an 18,000 mile fiber-optic network to deliver video</td>
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<td>- Water distribution</td>
<td>Global online trading activity</td>
<td>November 1999: creation of “EnronOnLine”, the first global raw materials trading site. Enron was one of the leaders in the development of electronic marketplaces</td>
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Intensification of the globalisation process through a large number of direct investments in foreign countries:
- Acquisition in 1997 of the Sutton Bridge gas-fired power station in the UK
- Setting up of generation sites in Spain in 1998 to get around barriers to entry
- Development of joint ventures and subsidiaries in Norway, Italy, Germany, Belgium, Nigeria, United Arab Emirates and Japan

Enron becomes one of the main players in credit risks with the launch of instruments for managing risks in energy markets and other raw materials markets (hedging of climate risk, enabling electrical companies to protect themselves against climatic variations)

The system handles transactions in more than 30 countries

Source: based on information and data from Enron annual reports, Datamonitor (2004) and business press.

ISP: Internet Service Provider.
provider. After paying the fixed costs and by applying these tools to infinite transactions at insignificant marginal cost, Enron succeeded in increasing returns (Kim and Mauborgne, 1999). And this innovative success was endlessly recycled by business press, by academic strategists “always trying to find business cases that proved their point”, and essentially by Enron executive managers (Froud et al., 2004).

The question that should be asked at this stage of the analysis is to know if Enron could have resources and competences necessary to achieve this high-risk strategy, otherwise its collapse would be the logical exit. In making reference to the resource-based and competence-based theory, we could attain other sceptical conclusions.

4. Synopsis of the Enron strategy: the failure of diversification, the resource-based and competence-based approach

The resource-based view has become an influential approach for analyzing corporate strategy. It is based on the idea that the organization can be studied as a set of resources, which may differ depending on the company. In this approach, the aim is not to focus on the external environment of the company but instead to thoroughly analyze the company’s resources. The resources are of various kinds: physical (machines and plant locations), human (qualifications and degree of adaptability of personnel) and financial. They may also be intangible and may be based on goodwill (existence of intangible assets such as a patent, brand or know-how). “Resources and capabilities can be viewed as bundles of tangible and intangible assets, including a firm’s management skills, its organizational processes and routines, and the information and knowledge it controls” (Barney et al., 2001, p. 625). Intangible assets are particularly important in that they are hard to access and imitate. They often constitute strategic resources, i.e. unique resources from which the company’s competitive advantage stems.

The analysis of the strategic capacity of a company depends on three main factors. The concept of resources is thus often associated with the concept of organizational competences, i.e. the routines, know-how and processes that are specific to the company. They must be hard to imitate in order to create a lasting advantage. They form part of the “core competencies that are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies” (Prahalad and Hamel, 1990, p. 82). More, these competencies “enable the organization to outperform its competitors or to offer a level of value that is clearly superior” (Johnson and Scholes, 2001, p. 178). The third element is balance between the resources, which involves referring to the concept of Strategic Business Units (SBU) in order to arrive at the most comprehensive vision of the company’s strategy, enabling a definitive judgement to be made about the balance (or imbalance) of the business portfolio.

This approach enables us to arrive at an evaluation in terms of resources and competences, and explain the difficulties of Enron by pointing out the resources and/or competences that

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9 Prahalad and Hamel (1990, p. 86) consider SBU and core competence as two alternate concepts of the corporation. SBU was an analytical tool devised to manage the diversified corporation in the 1970s when the competition was primarily domestic. According to the authors, companies need new principles such as “core competencies”. 
Enron lacked in order to be able to build a lasting competitive advantage in its diversification logic. Table 2 sets out the main lessons that can be drawn from the internal strategic diagnosis of Enron until 2002.

In point of fact, Enron failed for several reasons. First, it moved too far away from its core business (unlinked diversification). As Enron progressively diversified its business portfolio\(^{10}\), the company increased its failure risk because the goals pursued did not match the resources/competences that were available. As explained by Roos (quoted by Chatzkel, 2002), “The requirements for a robust intellectual capital-based business model are quite simple. Intellectual capital is a resource-based view of the company and it is one that has the strategic perspective of the managers”. Given that there is a strategic consensus on what is to be achieved, the first question is: “Do we have the resources needed to do it? In Enron’s case, in the early years, the answer was probably ‘no’ (…)”.

Furthermore, Enron’s failure stemmed from the fact that it considered trading as its core business and not as a business that was complementary to its traditional basic businesses. The principle was now not to own the production capacities.

Finally, its failure can be put down to its “going out of control, or indeed its bulimia” for new businesses, and the rapidity with which it increased the number of SBUs, without taking the time to “digest” the new units and consolidate them. May be the corporate internal discourse and the value leaden by this strategy accentuated this euphoria. In analyzing Enron’s year 2000 Annual Report Letter to shareholders, Craig and Amernic (2004) stress the aggressive, extremist and imperialistic language used to describe the company as “Enron the Magnificent”. While Enron’ ethical charter promotes values such as respect, integrity, communication and excellence, “the only meaningful performance measure was the relentless pursuit of profit at any cost” (Arnold and De Lange, 2004, p. 755). Arnold and De Lange (2004) explain that, since the arrival of people like Skelling, a kind of a self-fulfillment culture and a fierce internal competition are at work in the company. Executives’ managers seem running behind any trade making money for them, even if it was at the expense of the firm’s longevity and survival (Arnold and De Lange, 2004).

After recalling some basic economic concepts that should be considered in the assessment of Enron, let us examine why this was not undertaken neither by investors nor essentially by financial professionals and market controllers.

5. Beyond “high-risk” accounting practices

Papers on Enron have looked at the financial engineering which enabled the manipulation of the financial statements and shaped the investors perception of the company. Certainly, there are many accounting and auditing issues in the case of Enron\(^{11}\). But, as mentioned by Williams (2004), Enron is not simply “a technical failure susceptible to a technical fix” (Williams, 2004, p. 995). Thus, we are not addressing, in this paper, the question if

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\(^{10}\) In 2001, Enron’s business portfolio consisted of the following SBUs: transport and distribution, wholesale services, retail energy services, broadband services and the ubiquitous Corporate & other.

\(^{11}\) Benston and Hartgraves (2002) delineate six accounting and auditing issues, for which they analyze the effect on Enron’s financial situation.
Table 2
Strategic diagnosis of Enron: a resource-based and competence-based approach

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<tr>
<td>Changes in Enron’s business activities</td>
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<tr>
<td>Industrial activity of gas production and transport, and electricity production and transmission</td>
<td>Start of business diversification into energy distribution, raw materials trading and services</td>
<td>Continuation and acceleration of the international strategy of diversification into trading</td>
<td>Global online trading activity</td>
</tr>
<tr>
<td>Resources (physical, human, organizational, technological and intangible assets)</td>
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<tr>
<td>Physical resources: at a very early stage, Enron began to sell production capacities, which put it in an uncomfortable position, particularly in subsequent periods, and which was not always very coherent in terms of choice of location</td>
<td>In the electricity trading field, holding production assets that can meet peak needs is one of the key factors for success. Enron instead opted for almost total outsourcing of its supplies, and gradually abandoned all its own production of electricity</td>
<td>Switch to an “intangible intensive” business model</td>
<td>Strengthening of previous model</td>
</tr>
<tr>
<td>At the outset Enron had financial and technological resources that enabled it to get around barriers to entry and position itself in markets in a highly favourable deregulation context</td>
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</table>
**Competences**

| + | Enron had worldwide know-how in gas production and transport, and then in electricity generation and transmission. This was its core business |
| −− | Enron wanted to be present in distribution and in the trading of various capacities (gas, electricity\(^b\), water, telecoms, etc.) which cannot be managed in a similar global way. Enron did not have specific competences available for each of these "products" |
| − | In relation to a model of this type, “Enron, in its newer, market-based activities did not have an adequate base of experience to guide itself and did not have the necessary counterpoints in place” (Saint-Onge quoted by Chatzkel) |

More specifically, for the online trading activity\(^c\) Enron developed insurance and risk hedging mechanisms, but did not necessarily have the competences, which could be provided in particular by financial institutions (insurers, banks).

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*Source:* adapted from Daidj strategic management course (INT Business School, 2005).

\(^a\) *Notes:* (+) refers to a positive diagnosis (−) highlights a lack of resources or competences with regard to those required by the activity in question and (±) refers to mixed judgment.

\(^b\) A large number of "electricity markets" have sprung up worldwide. On these markets, producers, transmitters, distributors and traders trade electricity at prices which are constantly fluctuating. Electricity trading is a high-risk business, and is unlike other trading activities in that it is impossible to store electricity, and in that demand varies sharply depending on the seasons and times of day and night.

\(^c\) The Enron electricity trading site accounted for up to US$ 10 billion of transactions a day. As Pollack (2002) explains: “Of course Enron was not a bank. But the ease of setting up online markets made it think it could perform many of the functions of a bank. And in this they were only taking the next logical step in a period when banking functions have been assumed by companies from a wide variety of economic sectors (…). Enron’s unique contribution was to be the first to try it almost entirely online”.
these practices were fraudulent or high-risky, because it depends on the level of corruption and opportunism of corporate executives and accountants, as suggested by authors such as (Arnold and De Lange, 2004), those professionals who certainly did not receive sufficient lessons in ethics during their schooling, or on other more tricky problems about the level of perversity of the US GAAP and more generally the contemporary accounting standards. In the case of Enron, accounting practices were misleading in spite of their compliance or almost with these rules. Hayes and Baker (2004) think that the present approach of accounting that focus on accounting rules could be at the origin of some misleading financial reporting. Enron used US GAAP to obscure the economic substance underlying its transactions. Most of them were certainly in accordance with US GAAP but were fictitious and had been undertaken to achieve a financial reporting objective. In other cases, the substance of the transactions was difficult to discern and the respect of accounting rules allows just to reflecting their form. A principle-based approach, promoting the concept of substance over form like the International Accounting Standards framework (IAS), would be better to catch the essence and the realistic view of the business (Hayes and Baker, 2004). Mouck (2004) quotes how the existing financial accounting rules were obviously motivating factors for the way Enron constructed its financial statements. Enron’s collapse pushes the FASB and the SEC to explore changes with regard to the use of their rules by corporate executive managers of Enron. But this amendment will very likely motivate the development of new practices (Mouck, 2004). We think that the problem is more complicated as these rules lack legitimacy with regard to a criterion of justice which will be determinant for their acceptance by people being subjected to them (Williams, 2002).

In addition, we are not examining the conflict of interest issues and the nature of the relationships developed between Andersen’s accountants and their clients. Reinstein and McMillan (2004) treat this issue and the move toward risk-based auditing approaches as key factors of auditors failing to detect Enron fraudulent financial activity. Authors indicate that many red flags had been missed or ignored that could have brought Enron’s true financial position to light much sooner. The same concern is shared by Cullinan (2004) who is imploring the incapacity of auditors to detect frauds and suggests that multiple approaches should be applied to improve this capacity. We only think that the solution is not in multiplying a posteriori controls and sanctions, if we are generating a priori motivations for doing the contrary. Briloff (2004) asks scholars to “help restore certified public accountancy to the pantheon of learned professions devoted to the public interest” (Briloff, 2004, p. 796).

These issues had been treated by G.W. Bush (2002) in his speech on 9 July. He stresses the idea that accounting is practised nowadays in the shadows, and thus is misleading, lacking transparency and shading the truth. The Sarbanes–Oxley Act illustrate the institutional and regulatory response to problems arouse by Enron and other scandals, namely the crash of public confidence, the demand for transparent disclosures and the restoring of

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12 Even at this stage, we can argue that the personification of the problem is not relevant. Many researchers have shown that individual characteristics are insufficient to explain moral behavior in organizations. They consider the corporate culture, which is a culture of greed and self-interest, in the best traditions of neo-classical economic theory, as a good and serious predisposition to its members to behave unethically. Thus, scandals and abuses will continue to plague the capitalist system if problems are not treated at the system level and its underlying political and institutional structures (O’Connell, 2004).
the accounting and auditing profession (Burrowes et al., 2004)\textsuperscript{13} who loses its reputation (O’Connell, 2004). Surely, this paper is not dedicated to analyse the scope, nor the relevance of remarks made by president Bush. They are quoted only to illustrate how much accounting has received sustained attention by the media, common people and even the political sphere.

Accounting had been reduced here to its technical aspects and the deception in the case of Enron was described to be made possible solely by “window dressing” or “cooking the books” practised by some dishonest executive managers, a few “bad apples” who should be eradicated from the “holy” system to prevent future occurrences. In this paper, we will try to demonstrate that accounting is appealing our attention more for its role in the reproduction of a symbolic order and the maintaining of status quo. In reducing Enron affair to a technical question about how financial statements had been elaborated and audited, researchers and practitioners continue to ignore the most important side of accounting, namely its social, rhetorical and ideological essence\textsuperscript{14}. Moreover, the trend to emphasize on technical and economic expertise when constructing a discourse about accounting is masking the substantially ethical nature of accounting. It is a form of obscuring the essentially moral nature of most accounting issues (Williams, 2002, 2004). A simple question is “where did all these bad apples learn to behave that way”? Therefore, the problem is deeper than the technical capacity of accounting to provide measurements about a business. The question is to know how accounting, by its own description, could be a part of a more global order and how it could displace attention from its real problems.

Sometimes you know that you cannot trust a number but for certain reasons you will use it to justify and legitimate your action. Accounting image was used in the case of Enron to legitimate what people want Enron to be and to reinforce their blindness. Here is what we can learn from the story of Enron: In point of fact, everyone either deliberately or unconsciously refused to see what was happening, in a sort of widespread myopia. Admittedly, the senior management actively exploited the shortcomings of the system to add to the complexity of their financial statements a system of obfuscation at two levels, by corrupting all authorities that were likely to reveal the risky accounting practices, and by manipulating the perceptions of the general public (Chabrak, 2004). But, no one wanted to take a critical view of this company, even people who were well-informed about its actual situation. Everyone had a desire to believe that the company was too good. There was a kind of a “premise of Enron as a faith stock” (Arnold and De Lange, 2004, p. 753).

The “formating” of public opinion was made possible by the use of religious references and occasional patriotic calls by senior Enron managers. In a society which is strongly impregnated with religious values and in a rather unusual national security context, this discourse construction is merely ideological from a critical perspective. We quote two declarations made by Kenneth Lay and Jeffrey Skilling, namely “I believe in God and I believe in free markets” and “We are on the side of the angels, in every business we have been in, we are the good guys”. Furthermore, to prevent employees from selling Enron

\textsuperscript{13} Using a critical realism framework, this paper presents an analysis of the issues addresses by the Sarbanes–Oxley Act.

\textsuperscript{14} Amernic and Craig (2004) quote the importance of an accounting education reform, in the post-Enron era to improve the critical thinking of students in making them more sensitive to these characteristics of accounting.
shares, executives announced in their internal communications that this kind of behaviour was a betrayal of the firm, even “a lack of patriotism”!

This type of discourse involves rhetoric of persuasion in the sense that the objective sought is to convince “the audience” of the reality and truth of what is being said (Hunter, 1990). It is necessary to the battery of belief-forming institutions (Tinker, 1985). Religious and patriotic terms are supplements as they constitute “extras” with reference to the block considered as complete. Their role is to introduce opacity which is necessary to impose logo centric conclusions, about the status of the market and of the company itself. Craig and Amernic (2004) consider that the micro-discourse in the case of Enron contributes to the elevation of the concept of the MARKET and win-at-all-costs form of capitalism.

But, why Enron executives made excessive use of religious and patriotic register? To answer this question, we have to make a contextual analysis of the Enron executives’ speeches and consider the characteristics of American society and the political and security context since the terrorist attacks of September 11, to understand the influence of the Enron executives’ discourse on American citizens. Americans are known to be very sensitive to questions in relation to religion. Thus, it is important for Americans to elect a president who is a good family man. The Monica Lewinsky scandal would not have the same impact on French citizens. By the way, François Mitterand was blamed for hiding his cancer, nevertheless known before the beginning of the election campaign for his second mandate, and not for lying about his illegitimate daughter, Mazarine Pingeot. Therefore, the religious discourse of G.W. Bush reflects a persuasive strategy. Slogans like “the Axis of Evil” would be probably fatal, if pronounced by French politicians who would claim to come from a secular tradition. De Tocqueville notices that in America, religion and democracy go hand in hand, contrarily to France, where Catholicism and democracy constitute two opposite poles. The history of religious monopoly in Europe is the principal cause of this difference.

In fact, the principle “one faith, one law, one king” illustrates the ideological insertion of conformity to the Catholic Church, which has considerably conditioned French political history. Thus, the French “combat républicain” has been doubled with an engagement against the Church. Since 1787 the political authority in the United States has evolved without weaving any kind of relationship with a particular Church. Furthermore, it was possible to protest and question the political system through religion. For this reason, the religious sphere constitutes a real democratic ground. In the United States, patriotism and spiritual commitment are combined successfully. The history of the country has shown it through religious engagement and civic struggles such as the fight for black emancipation, at the time of Lincoln, or through the commitment of several religious leaders who were militant against the Vietnam War or in favour of civil rights, such as the emblematic pastor, Martin Luther King. Consequently, patriotic slogans with religious undertones are used by politicians and have echoes in American minds, as the famous sentence with which the president concludes his speeches “God bless America” (Chabrak, 2004).

To conclude, the meaning of a speech results from a perpetual displacement in relating it to forces placed, consciously or unconsciously, outside the story and the structures which surround it. Thus, the religious discourse used by Enron executives is only the manifestation

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15 Extras are elements considered as strange with reference to the block to which they come on top of.
of persuasive rhetoric. The displacement effected, reveals this discourse as produced by the dominant group, addressed to a definite audience, at specific time. These characteristics testify to its ideological content as this discourse stems from a determination to legitimise what has been communicated, and so give a slant to the perceptions of Enron (and the hole system), and then to dictate investor behaviour.

Besides the managed executive managers’ discourses, Enron set up a kind of opacity at all levels of control, thanks to the involvement of a large number of players, both financial and political, using money to suborn and influence their judgement\textsuperscript{16}, and the close links existing between the academic world and its directors\textsuperscript{17}, thus exploiting the weaknesses of the system. For example, Darden, Bodily and Bruner wrote the first Enron case study in 1986 entitled “The Transformation of Enron, 1986–2000”. This strategic case study used by business schools, particularly in the U.S. proved highly successful as some 7000 copies were sold. In this case study, the authors stressed that Enron was a success story. It was not until 2002, after the company’s misadventures that the authors brought the document up to date. It is now entitled: “Enron, 1986–2002: Critical Thinking about the Enron Story”. Another example, 5 days before Enron’s collapse, 5 of the United States top 15 analysts were strongly recommending buying Enron shares, 3 were recommending buying with no particular enthusiasm and 5 recommended holding on to the shares. Only two recommended selling Enron shares. In reality, the financial statements were not so complex as to prevent anyone from seeing the collapse ahead. Dynergie, the company that was thinking of taking over Enron, began to analyze its financial statements and abandoned the attempt after only 19 days.

In addition to pressures exerted by Enron on analysts, experts and journalists to avoid the revelation of its difficulties, another aspect that emerges from Enron story should be considered. It reflects the contradictions of nowadays capitalism. If everyone failed to see the difficulties of Enron, it is because no one wanted to see them; it was in no one’s interest to see this “bizarre aggregation” collapse. According to Paul Krugman of Princeton University, “the affair brought to light things that we should have known but that we did not want to see”. An INT\textsuperscript{18} student thinks that Enron may have taken advantage of a form of collusion by certain individuals. For various reasons they preferred to conceal the problem, as the situation was profitable, probably hoping that a magic sponge would come and wipe everything away. After all, who would want to cut off the head of the hen laying the golden eggs?

Afraid of losing a client with the clout of Enron, and in order to go on making profits on share trading, the financial experts preferred to pretend to be short-sighted. The employees who lost everything in the end in some instances had the competences needed to grasp the difficulties of their company. Some INT students think that the “victims” would be better

\textsuperscript{16} See Froud et al. (2004) for further details about the political context and web of interests and power around the company.

\textsuperscript{17} In the words of Harris (2003): “Sometimes those relationships are financial, with professors engaging in work for the companies they are researching. Harvard’s Pankaj Ghemawat, for example, was making a reported US$ 50,000 annually as a member of an Enron International Advisory Council when he wrote the case “Enron: Entrepreneurial Energy”, published in 2000. Ghemawat responds that his interest in writing on Enron predated his joining the council, a post that gave him no access to confidential information”.

\textsuperscript{18} INT is the French high business school where the teaching experience had been undertaken.
described as “bad losers”. Each one of us should have considered that disaster was one of the possible outcomes of the bets we were making every day by trading on the casino market. In view of this, how can people who take advantage of unjustified euphoria – such as the speculative new technology bubble – as long as it is favourable to them, then lament the consequences of Enron-style scandals when the boomerang comes back when they are not expecting it? A former employee said that “Many of us were working in groups that were losing money and we thought something screwy was going on. But, the stock price was soaring” (Financial Times, 8 April 2002). No serious reaction was registered to such oddness. This is the widespread myopia inherent to capitalism contradictions: everyone could alienate himself (Tinker, 1985).

As described by Mark Cuban in the Berenson’ Book, the presentation of a company getting ready to sell shares is more like a road show, where an amazing presentation should be prepared for savvy investors, who do not care about the business and how it worked, who do not ask themselves if companies do well or do poorly. Their only motivation is to be “there were a lot of people talking about the company and that they should be there” (Berenson, 2004, p. xvi).

Obviously, to prepare the show, consultants are with the service of managers who should visit big mutual funds, hedge funds, pension funds, “anyone who can buy millions of dollars of stock in a single order. It is a sales tour” (Berenson, 2004, p. xv).

Finally, as another INT student stressed, widespread hypocrisy invariably arises in the type of Enron affair, which tends to lend credence to extreme oversimplifications: “criticise, denounce, and consider a way of operating, values and practices as a release, when one would have quickly taken advantage of it, used it or abused it if there was a capital gain to be made”. Enron, long adulated as “leading the revolution”\(^{19}\) is now singled out as a paragon of dishonesty. Its directors, who were seen as the “messiahs of the new economy”, are dismissed as crooks. Its former supporters have today become its main detractors. Those who were the first to take advantage of the system are today the first to denounce it.

People were blinded by their greed and nobody care about Enron delirium. They were powerless to carry about the fundamentals of the company. Froud et al. (2004) quote how Enron successfully presented itself as a company that is creating value and its shareholders accepted this image of Enron without asking themselves if these allegations were economically founded. So, much return was in game to be more critical and to consider what was beyond numbers, what kind of company was Enron. It was assimilated simply to a magic money machine. Instead of restraining them, Market professionals and corporate executives, as Berenson (2004) states, chose to feed the frenzy. This was the chronicle of an announced death. How many people should we accuse for?

Dear Sir, Madam,

We accuse:

The directors of Enron, the auditors, the financial analysts, the rating agents, the bankers, the business lawyers, the journalists, the politicians, . . . , and may be yourselves and ourselves\(^{20}\)!

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\(^{19}\) A book published in 2000 by Gary Hamel describing the success of Enron.

\(^{20}\) We paraphrase the celebrated “I accuse” letter of Zola.
While today Enron no longer exists, have we really understood what happened? Do we have the determination to see what really happened? Or do we prefer to continue not to see? In that case, it would be extremely probable that other scandals along the same lines as Enron will be reproduced. The contradictions of capitalism could systematically generate them because of the widespread myopia inherent to the system.

“It is difficult to get a man to understand something when his salary depends on his not understanding it”.

Upton Sinclair 1878–1968

6. Conclusion

The originality of the approach adopted in this paper is to highlight how the collapse of Enron was predictable because it was inevitable. In considering only financial aspects, the experts and academic researchers were able to underline several dysfunction’s in relation with the lack of transparency and the managers’ manipulation intentions, once the scandal shook our society. Using the resource-based and competence-based approach, we illustrate how Enron was condemned because of its purely speculative objectives. Enron was the illustration of the very type of companies striving within the abstract and the unnecessary and betting on speculation and astuteness to make rapid profits. In other terms, it was a big slot-machine! Investors and even analysts were scrambled and did not see the company bankruptcy coming. It is because they trust numbers and did not realise the rhetoric employed by Enron executive managers in their discourses, which had contributed to mystify the company results and representation and to displace attention from its unwise strategic choices. Finally, in this paper we demonstrate that the story was yet more problematic as many people refused consciously or unconsciously to see actual difficulties of the company. Nobody was able to ask a simple question about what was Enron’s business? No one raised this bizarre aspect as long as it was profitable for everybody.

When Enron collapsed, the Sarbanes–Oxley Act was advanced to provide the guarantee so that the scandal will not be reproduced in the future. Actually, it gives answers only to the questions in relation to financial communication aspects. It maintains and reinforces the only representation of a company, the number, indeed the profit. The regulators have once again missed the opportunity to ask the basic questions and to elevate the problematic of our system and the widespread myopia it involves. By remaining silent on this matter, this Act is accused to contribute to the system’s reification.

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