Enron: An Example Of Financial Innovation That Went Wrong

Elisa S. Moncarz  
Florida International University

Raul Moncarz  
Florida International University

Antonio Jorge  
Florida International University

Alejandra Cabello  
Universidad Nacional Autónoma de México

The rise and fall of high profile businesses like Enron, WorldCom and Tyco has been a subject of great debate among regulators, investors, government and academics in the recent past. Enron, for one, was the greatest failure in the history of American mercantile capitalism and had a major impact on financial markets by causing significant losses to banks, insurance companies and pension funds that invested directly in Enron as well as on small and large investors. What went wrong with Enron? A company that was ranked by Fortune as the most innovative company in the United States; a company that exemplified the transition from the production to the knowledge economy. What lessons can we learn from Enron’s collapse? In this paper we present an analysis of the factors that contributed to Enron’s rise and failure. An examination of the role that energy deregulation and manipulation of financial statements played on Enron’s demise is emphasized. We summarize lessons that can be learned in order to prevent another Enron and restore confidence in the financial markets.