Career Management in a Post-Enron World

By Timothy J. Fogarty

Just when you thought you knew what was what, it changes. The world of accounting has been shaken to its knees by the events that sent the Enron Company into bankruptcy and Andersen into oblivion over the past year. New legislation has been passed that will change the conduct of audits and the assignment of responsibility for financial reporting. But this is just the top of the iceberg. The Enron/Andersen scenario will have lasting effects that will include how you manage your career, and what you should expect to encounter along the way.

Is there anyone out there that hasn't at least a basic familiarity with the facts of the sudden fall of one of the larges corporations in the US , and the complicity of a venerable accounting firm? What at first looked like just another "audit failure" became an intricate web of corporate misdeeds and accounting shenanigans. Enron insisted upon an accounting, that to call aggressive, would be an understatement. Using a staggering set of "off balance sheet" entities, Enron could not survive a downturn in the economy and the erosion of their competitive advantage. Enron also employed a culture that featured hyper-entrepreneurism, selfishness and an "anything goes" ethos. Contrary to the spirit of auditor independence, Andersen facilitated or cooperated with Enron's attempts to maintain what would eventually prove to be a house of cards. Andersen worked closely with Enron to produce financial reporting that was arcane and deceptive even if it was within the letter of Generally Accepted Accounting Principles. As concluded by a jury in Houston, Andersen obstructed justice in a case that featured a rampant document destruction that seemed to be motivated by impeding legal action.

You will be reading about the implications of these events for years to come. However, it may not be apparent that these include lessons that you can begin putting into practice while still in school. The early years of your career as an accountant will provide many more opportunities to demonstrate that you are a "post-Enron" practitioner. Although some of these ideas reflect how the world will have changed for the professions, many are choices that only some will make.

While in College

Enron/Andersen cannot be reduced to individual ethics. Nonetheless, had there been a well-positioned person with the courage to stand up and question what was happening well before the unraveling, a different story might have occurred. At a minimum, Enron/Andersen provides the accounting student with a backdrop that would invigorate formal training in professional ethics. Ethical instruction will no longer be ghettoized but will be brought to the forefront of what it means to be an accounting profession. Be prepared to drink deeply at this well, if for no other reason than the heightening of expectations for accountant behavior in the new environment.

After Enron's collapse, Andersen (somewhat ironically) decried auditing that took a rules-based approach to the accounting that is produced for users. As long as detailed rules exist, there will be a temptation to just barely comply, even in circumstances that demand more. A focus upon principles, and their purposes begins in the accounting course work. The legacy of Enron for auditors may be to turn students away from a slavish preoccupation with the technical features of rule after rule after rule. This transition will also require a similar change from accounting faculty who might have induced students to think of FASB pronouncements and SASs as if they were sections of the Internal Revenue Code. In other words, students need to develop an appreciation of the limits of client advocacy in their coursework.

The financial news of 2001 and 2002 provided all with a vivid opportunity to observe the interconnections between the various parts of the business world. Financial analysts, investment brokers, corporate attorneys, and audit committee members all played roles in the drama that unfolded. This complex intertwining between parties with varying interests recommends that students see the big picture. Understanding accounting is one thing (and a valuable one), but seeing how accounting becomes a vital input into the work of others is another. This imperative illustrates the value of a curriculum loaded with business electives that would serve to take the accounting student out of the functional silo. Along similar lines, one could argue that a liberal arts background, steeped in sociology and political science, would be helpful to make sense of the history that was made before our eyes.

Entering the Workplace

Much has been said (particularly in this publication) about the difficulties of the transition between being a student and being an accountant. If anything, the Enron/Andersen affair adds new dimensions to this passage.

Internships have been a valuable chance for the student and the firm to become mutually acquainted without material risk. Strategic students are regularly successful at boot-strapping internships into offers of full-time employment that allows them to either bypass campus interviewing or do it with the increased confidence of having an offer in hand. After Enron, students need to use their intern experience to sample the ethical environment of a firm. They need to look for the many small ways that a firm can live the words that they speak about doing the right thing. The student should appreciate that a firm's interest in being competitive and in being profitable has to be tempered by a sense of realism and respect.

Students must also use the formal interviewing process to gather vital information about the moral climate of organizations that they might join. The human and financial consequences associated with sudden collapse and bankruptcy are too large for any potentially affected person to ignore. Students need to overcome the tendency to avoid potentially unpleasant topics. There is nothing inappropriate in asking a potential employer for evidence that employees that stand up for integrity in financial reporting are not made to suffer. Much can also be inferred from the compensation arrangements that are offered. While hefty performance incentives might be appealing to students convinced that the world is their oyster, they are rift with inducements to a "whatever it takes" culture.

<u>Post-Employment Opportunities</u>

Obviously, there is no substitute for being there. Even with an internship, students will not have enough opportunity to take the full measure of their employer. If there is more than meets the casual eye, it is seasoned employers that will know about it. Odds are that you will learn as many more favorable things about the moral climate than unpleasant things. Nonetheless, the lesson to learn is that you have to keep your eyes open throughout your career. Don't always take the easy explanation for events, especially if they routinely come back to the fault of isolated individuals,. If systems and incentives tend to induce bad results, find out if there is any hope to change them. In retrospect, the people that worked at Enron and Andersen appear irrational, especially now that the “Monday morning quarterbacks” have pointed out the telltale signs of doom that went undetected. It could be that those people were just too close to be able to see, and accepted too many practices as natural. This is an easy trap to fall into, especially for those without a wealth of information about alternative practices.

Auditors need to be especially wary of the largest, most powerful and most important clients. Enron presented Andersen with a risk that could not be managed. Over the years of their association, Enron wore Andersen down to the point that it could assert no meaningful resistance. For the partners and key staff on this engagement, the personal incentives to keep the client happy were overwhelming. No textbook lesson on auditor independence could stand up to such “real world” pressure once it had attained such momentum. The key for an individual in similar circumstances is to not let it get started. The small compromises and acquiescences may lead to bigger ones in the future. Never underestimate the power of those with money at stake (clients or auditors) to redefine the situation in their favor. This provides the auditor with a need to be eternally vigilant.

Both Andersen and Enron were far-flung enterprises filled with hard-working and honorable people that had nothing to do with the circumstances of their company’s demise. These individuals are the truly wronged parties, losing their employment and good portion of their personal wealth as the result of the acts of a comparative few. Organizations, unfortunately or fortunately, collectivize the fate of its members to some degree. As long as public accounting firms are partnerships, partners are particularly exposed. While most of this comes with the territory of modern life, it does not represent a permanent inevitability. The long run management of the risk entails consideration of trading it for entrepreneurial risk. As you move up the learning curve (and the income curve), you might be able to retain your standard of living without the risk of other people's actions if you become a sole-proprietor. This is a longer-term lesson, but a valuable one nonetheless.

CONCLUSION

This article has argued that career management in a post-Enron world is fraught with new concerns. While every corporation is not an Enron and every accounting firm is not an Andersen, it is reasonable to speculate that there will be other spectacular crashes in the future. Although a reasonable person beginning their career should not be obsessed with these matters, neither should a person ignore them.

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