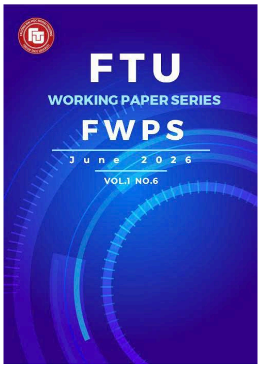

Working Paper 2026.8

- Vol.1 , No.6

TỪ BIG FIVE ĐẾN BIG FOUR: NHỮNG THẤT BẠI MANG TÍNH CHẤT HỆ THỐNG VÀ ĐẠO ĐỨC KINH DOANH TRONG VỤ XÉT XỬ ARTHUR ANDERSEN – ENRON

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Tóm tắt

Nghiên cứu này phân tích những thất bại có tính chất hệ thống và đạo đức kinh doanh đã dẫn đến sự sụp đổ của Enron và sự tan rã của Arthur Andersen - một trong năm công ty kiểm toán lớn nhất bấy giờ ("Big Five"). Vụ bê bối đã phơi bày những điểm yếu đáng kể trong quản trị doanh nghiệp và tính độc lập trong kiểm toán, bắt nguồn từ các hoạt động tài chính bất hợp pháp của Enron liên quan đến các Thực thể có mục đích đặc biệt (SPEs). Cùng với đó, do lệ thuộc vào các khoản phí béo bở từ Enron, Arthur Andersen đã không thực hiện đầy đủ trách nhiệm đạo đức của mình với tư cách là kiểm toán viên. Nghiên cứu này sử dụng lý thuyết đạo đức học theo quan điểm nghĩa vụ (deontological ethics) và lý thuyết các bên liên quan (stakeholder theory) để phân tích những thiếu sót này, chỉ ra cách các yếu tố lợi ích về tài chính, xung đột lợi ích và sai phạm

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trong việc giám sát quy định đã cho phép các hành vi vô đạo đức tiếp tục tồn tại. Theo phân tích này, khả năng phán đoán chuyên môn của Arthur Andersen đã bị làm suy yếu bởi việc phải duy trì mối quan hệ với khách hàng và tăng trưởng lợi nhuận, cuối cùng dẫn đến sự tan rã của công ty. Báo cáo cũng phân tích tác động rộng lớn của vụ bê bối này đối với niềm tin của nhà đầu tư, hàm ý quản trị doanh nghiệp và các khuôn khổ pháp lý. Mặc dù các cải cách pháp lý đã được triển khai, nhưng vẫn còn một số vấn đề cần được giải quyết để xử lý những nguyên nhân gốc rễ của thất bại đạo đức mang tính hệ thống. Cho đến nay, vụ bê bối này vẫn luôn đóng vai trò như một lời nhắc nhở quan trọng về ý nghĩa của việc duy trì tính độc lập và các tiêu chuẩn đạo đức trong nghề kiểm toán. Báo cáo cũng đưa ra các khuyến nghị nhằm củng cố các khuôn khổ quản trị và tăng cường trách nhiệm đạo đức để ngăn ngừa những vụ bê bối tương tự trong tương lai.
Từ khoá: thất bại mang tính hệ thống, quản trị doanh nghiệp, tính độc lập trong kiểm toán, xung đột lợi ích

FROM BIG FIVE TO BIG FOUR: SYSTEMIC AND ETHICAL FAILURES IN THE ARTHUR ANDERSEN - ENRON SCANDAL

Abstract

This study examines the systemic and moral failures that led to Enron's demise and the subsequent collapse of Arthur Andersen - one of the "Big Five" audit firms. Significant weaknesses in corporate governance and audit independence have been revealed by the scandal, which was initially brought on by Enron's illegal financial practices involving Special Purpose Entities (SPEs). Afterward, driven by its reliance on lucrative fees from Enron, Arthur Andersen failed to uphold its ethical responsibilities as an auditor. The study examines these shortcomings using deontological ethics and stakeholder theory, showing how financial incentives, conflicts of interest, and a lack of regulatory oversight allowed unethical practices to persist. According to this analysis, Arthur Andersen's professional judgment was undermined by the demands of upholding client relationships and increasing profits, which ultimately resulted in the firm's dissolution. The report also examines the scandal's wider effects on investor confidence, corporate governance, and regulatory frameworks. Despite regulatory reforms being implemented, some obstacles must be overcome in order to address the underlying reasons for systemic ethical failure. The case continues to serve as a crucial reminder of the value of upholding independence and ethical standards among auditing professionals. The report

concludes with recommendations for strengthening governance frameworks and reinforcing ethical accountability to prevent similar corporate crises in the future.

Keywords: systemic failures, corporate governance, audit independence, conflict of interest

1. Introduction

Few corporate failures illustrate the fragility of ethical judgment within market-driven governance systems as vividly as the collapse of Enron and its auditor - Arthur Andersen. Once celebrated as a symbol of financial innovation, Enron systematically obscured its true financial position through aggressive accounting practices, extensive use of special purpose entities (SPEs), and complex financial structuring that transferred risk off the balance sheet. Arthur Andersen, then one of the "Big Five" audit firms, was subsequently implicated and dissolved, transforming the scandal from an accounting failure into a defining case of professional and ethical breakdown within the auditing profession (Power, 1999).

Early academic research largely approached the case through a technical and legal lens, focusing on accounting manipulation, audit independence, and regulatory failure. Detailed analyses document how Enron exploited ambiguities in GAAP and GAAS, particularly in the treatment of special purpose entities and revenue recognition (Benston and Hartgraves, 2002a). This stream of literature often frames the collapse as evidence of insufficient regulation prior to the Sarbanes-Oxley Act (SOX) (Power, 1999b). In parallel, other studies attribute responsibility to individual actors, portraying the failure as the result of professional misconduct or deficient ethical judgment at the personal level (Morrison, 2004a). Power further demonstrates that U.S. corporate scandals are closely linked to dispersed ownership structures and market-based incentive regimes, thereby increasing reliance on - and pressure upon - professional gatekeepers.

As a result, ethical breakdowns are often treated as anomalies rather than predictable outcomes of systemic incentive structures. This study addresses that gap by reframing the Enron-Arthur Andersen collapse as an ethical failure embedded within the institutional design of the auditing profession itself. Drawing on professional codes of conduct, auditing standards, and ethical theories, this research adopts a qualitative, theory-driven case analysis to examine how structural incentives, professional norms, and ethical frameworks collectively contributed to the erosion of auditor independence and public trust. Through this approach, the study seeks to demonstrate that the fall from the "Big Five" to the "Big Four" was not accidental, but the outcome of deeper systemic and ethical vulnerabilities within the audit profession.

2. Theoretical framework

2.1. AICPA Code of Professional Conduct and Generally Accepted Auditing Standards (GAAS)

The ethical and professional responsibilities of auditors in the United States are primarily governed by the AICPA Code of Professional Conduct and Generally Accepted Auditing Standards (GAAS), which together constitute the normative framework of auditing practice (Arens *et al.*, 2020). The AICPA Code of Professional Conduct is issued by the American Institute of Certified Public Accountants (AICPA) and establishes enforceable ethical requirements for certified public accountants (AICPA, 2014).

GAAS provides authoritative standards governing audit quality, performance, and reporting. While originally developed by the AICPA, auditing standards for public company audits are now set and overseen by the Public Company Accounting Oversight Board (PCAOB) following the Sarbanes-Oxley Act of 2002 (PCAOB, 2010).

The AICPA Code articulates core ethical principles, which define auditors' obligations beyond contractual relationships with clients (AICPA, 2014). These principles reflect the profession's role as a public-interest function, positioning auditors as gatekeepers responsible for maintaining confidence in financial reporting (Duska, 2011). GAAS complements this ethical orientation by translating professional values into technical and procedural requirements, emphasizing auditor competence, professional skepticism, and appropriate audit evidence (Arens *et al.*, 2020).

Several provisions are particularly relevant for evaluating ethical conduct in auditing. Rule 101 (Independence) requires auditors to maintain independence in both fact and appearance. Rule 102 (Integrity and Objectivity) mandates honesty and impartial judgment in the performance of professional services. Rule 201 (General Standards), together with GAAS General Standard No. 3 (Due Professional Care), requires auditors to exercise competence, diligence, and professional skepticism. Finally, Rule 501 (Acts Discreditable) prohibits conduct that undermines public confidence in the profession (AICPA, 2014).

Together, the AICPA Code of Professional Conduct and GAAS establish an integrated ethical and professional framework, providing a theoretical basis for examining ethical responsibility and systemic vulnerability within the auditing profession.

2.2. Stakeholder theory

Stakeholder theory emphasizes that an organization has responsibilities to maintain the satisfaction of its four primary groups of stakeholders: shareholders, employees, customers, and the general public (Mahajan *et al.*, 2023). In the context of auditing, this activity is in a special structure separated between the party that pays for the service (the client) and the parties that rely on its output (the public) (Herzberg and Cohen, 2022).

Following this framework, auditors should utilize their specialized knowledge and skills to prioritize the protection of stakeholders who have high exposure to risk and a low ability to protect themselves, particularly their investors and the general public (Mitchell, Agle and Wood, 1997). However, increasing commercialization of auditing activities in recent years has led to the issue that audit firms are more dependent on major clients and, gradually, their main goal is to maximize the overall profit (Ponomareva *et al.*, 2020). This shift transformed the auditors from independent gatekeepers of public interest into commercial partners of their clients. Following the Stakeholder Theory, Arthur Anderson was expected to protect their investors instead of tolerating Enron's illegal activities to preserve its client relationship.

2.3. Deontology theory

Deontology theory is a moral theory that places importance on adhering to the rules and duties regardless of their outcomes, where the Right is given priority compared to the Good (Alexander, 2025; Dilbar, 2024). Because accounting information persuades and influences economic decisions, deontology ethics require the auditors to obey the code of ethics as their moral duties, independent of any consequences (Duska, Duska and Ragatz, 2011).

In contrast, modern auditing activities operate within a client-based model that places more emphasis on profit-making and relationship management. When deontological standards require strict rule compliance, firms often choose the self-serving bias activities to avoid client loss (M. H. Bazerman and K. Morgan and G. F. Loewenstein, 1997). In the following case, despite its professional maturity, Arthur Anderson shifted to profit-oriented outcomes over duty-based ones, betraying its commitment to the public interest.

3. Arthur Andersen - Enron Scandal analysis

3.1 Case description

3.1.1. Overview of Enron

Enron Corporation, formed in 1985 through the merger of Houston Natural Gas and InterNorth, initially operated as a traditional regulated natural gas utility with hard assets like pipelines, but under the direction of Kenneth Lay and Jeffrey Skilling, it capitalized on energy deregulation to undergo a radical metamorphosis into a "gas bank" and eventually a diversified trading giant dealing in intangible commodities (Thomas, 2002). This strategic shift from an operating company with fixed assets to an "investment fund" or hedge fund heavily reliant on derivatives created a volatile financial structure that necessitated complex, subjective valuation methods like "mark-to-market" accounting to recognize unrealized future profits immediately. This precarious business model made the role of the auditor existential, leading Enron to rely heavily on the prestigious reputation of Arthur Andersen (Cunningham and Harris, 2006; Cabello *et al.*, 2009).

3.1.2. Overview of Arthur Andersen

Founded in 1913 by Arthur E. Andersen, the firm established a legacy of rigid integrity under the motto "Think Straight, Talk Straight," and grew into the largest of the "Big Five" by pioneering IT consulting under Leonard Spacek's "one firm" philosophy. However, the firm suffered a major blow in 2000 when the acrimonious split with its lucrative consulting arm, Andersen Consulting (Accenture), stripped away massive revenues and sent Arthur Andersen tumbling into fifth place among the "Big Five" (Squires and Squires, 2003). Desperate to regain its standing, the firm accelerated a cultural shift, initiated by the "Partner Purge" of 1992 that replaced conservative auditors with aggressive sales-focused partners. This erosion of standards culminated in the Enron scandal, where the firm, dependent on over $52 million in annual fees, failed to challenge the client's fraud and subsequently shredded documents, leading to a criminal indictment that effectively destroyed the 89-year-old partnership (Deb and Deb, 2023).

3.1.3. The relationship between Enron and Athur Andersen

The relationship between Enron and Arthur Andersen evolved into a destructive symbiosis where a shared aggressive culture and profound power asymmetry compelled the auditing firm to sacrifice its ethical stewardship for economic survival. Following a radical internal shift that prioritized revenue generation over professional standards, epitomized by the "Partner Purge" of

1992, Andersen's culture increasingly mirrored Enron's risk-taking "cowboy" mentality. This convergence reinforced by a "revolving door" of personnel and the appointment of lead partners like David Duncan who embodied this sales-driven ethos to match the client's aggressive style. Moreover, this cultural alignment was deepened by a severe economic imbalance; as the smallest of the "Big Five", Andersen became dangerously dependent on the approximately $52 million in annual fees from Enron, its second-largest client (Squires and Squires, 2003; Foley, 2008). This financial vulnerability gave Enron the leverage to intimidate auditors and demand acquiescence, leading Andersen to systematically trade off ethics for value by overriding its own internal quality control experts, helping design Special Purpose Entities (SPEs) to hide debt, and ultimately engaging in the obstruction of justice by shredding documents to protect the lucrative revenue stream at the cost of its integrity and existence (Benston and Hartgraves, 2002b; Cunningham and Harris, 2006).

Although Enron was an important and profitable client, Arthur Andersen was a large global audit firm and had many other clients in the market. Thus, losing this client would have resulted in reduced revenue and significant financial strain on the company. However, such an impact would have been manageable, and the loss of the company would not have resulted in the collapse of the firm. Without this scandal, Arthur Andersen might have faced financial difficulties but would probably have remained a credible and functioning audit firm.

3.2. Case analysis

3.2.1. Systemic failure

The failure of Arthur Andersen in the Arthur Andersen-Enron scandal should not be viewed solely as the consequence of the firm decisions or individual unethical choices. However, this failure primarily reflects a systemic failure of the audit industry itself. The regulatory, business model and economic structure of audit firms place them in a grey zone that may eventually lead to unethical decisions (Eisenberg and Macey, 2004; Morrison, 2004b). For them, maintaining professional independence conflicts directly with the survival and goals of a business, which is to maximize profit and shareholder value. This system forces audit firms to sacrifice ethical standards without clear mechanisms to protect themselves or act otherwise (Watkins, 2003). The Arthur Andersen-Enron case represented a typical complex triangular relationship between audit firms, their clients, and the public.

Systemic failure in this situation is mainly about conflicts of interest, where the audit firm is put in a situation where they have to be responsible with both parties and the interest of each party conflicts with one another. These conflicts happen because of industry rules and practices, including first, the client pays model, under which the compensation of audit firms come from their clients; and second, the consult-audit model, under which the audit firms perform both consulting and auditing service to the same client.

The client-pay model

The client-pay model is the foundational reason for the conflict of interest between the public and firm's client. Although the audit firm is expected and required to protect the public from fraud and uphold the truth, their revenue comes from the very firm that they have to examine (Eisenberg and Macey, 2004). This put the audit firm in an ethical dilemma: applying strict standards to the client may jeopardize customer relations and the auditor's future income; however, this income comes at the cost of compromising principle and ethics (Watkins, 2003).

In the Arthur Andersen-Enron case, Enron was far beyond a normal client of Arthur Andersen, but a highly profitable revenue source. By 2000, Andersen earned approximately USD 52 million from Enron, of which half came from audit services, while the remainder came from consulting services (Arthur Andersen, 2000). This dependence significantly weakened Andersen's ability to carefully examine and criticize Enron's accounting practices, particularly regarding SPEs.

From the professional viewpoint, this action constitutes a violation of Rule 101 (Independence) and Rule 102 (Integrity and Objectivity). Even if individual auditors believed they were acting objectively, the appearance of compromised independence alone was sufficient to undermine public trust. Moreover, the pressure to retain Enron as a client discouraged the exercise of professional skepticism required under GAAS General Standard No. 3 (Due Professional Care).

From the ethical viewpoint, with regard to deontological theory, which emphasizes compliance to duties and principles regardless of outcomes. Auditors have an unconditional duty to serve the public interest through truthful reporting. However, the client-pay model systematically encourages auditors to prioritize client satisfaction over public responsibility, thereby creating a structural environment in which ethical duties are routinely subordinated to economic incentives (Linthicum, Reitenga and Sanchez, 2010). This represents not an individual moral failure but a systemic contradiction between ethical obligation and institutional incentives.

The consult-audit model

When analyzing the relationship of Arthur Andersen and Enron in this case, we have to consider both its role as an auditor and a consultant for Enron. Consulting services involve advising management on strategy, system design, and financial optimization, which put the auditor in the position of upholding managerial interests. Auditing, by contrast, requires critical evaluation of management's representations (Eisenberg and Macey, 2004). When these roles are performed by the same firm, the auditor's objectivity might be sacrificed.

In the Arthur Andersen-Enron case, this conflict was significant. Andersen consultants played a direct role in designing Enron's internal systems and financial structures, including SPE arrangements later subject to audit scrutiny. Andersen partners approved accounting treatments for structures they had previously helped design (Nelson, Price and Rountree, 2008a). Auditing such structures would have required Arthur Andersen to question, and potentially discredit its own consulting work. In such situation, Arthur Andersen lost the motivation for rigorous examination as doing so would threaten their consulting revenue.

Under stakeholder theory, firms have responsibilities to multiple stakeholders, including shareholders, regulators, employees, and the broader public (Freeman, 2010). However, the audit-consulting model framed the client firm as the dominant stakeholder, decreasing the interests of investors and the public. In prioritizing consulting revenues, Arthur Andersen implicitly redefined its stakeholder hierarchy, placing Enron's management above its public-interest obligations.

This conflict also violates Rule 501 (Acts Discreditable), as the resulting loss of public confidence damages the credibility of the profession as a whole. This issue was not unique to Arthur Andersen but happened across the industry prior to the Sarbanes-Oxley Act (Asthana, Balsam and Kim, 2009). The systemic acceptance of dual service provision normalized ethical compromise and blurred professional boundaries, making ethical failure both foreseeable and, to some extent, inevitable.

The client-pay model and the audit-consulting duality created a self-reinforcing system of ethical erosion. Economic dependence discouraged confrontation; consulting relationships fostered alignment with management; and weak regulatory oversight failed to correct these distortions in a timely manner. Within this system, Arthur Andersen's subsequent decisions, such as tolerating aggressive accounting treatments and destroying audit documents, were not solely subjective decisions but responses required by structural pressures.

3.2.2. Ethical breakdown of Arthur Andersen

Although analysis of systemic failure shows that Arthur Andersen (AA) operated in a high-pressure professional environment where conflicts of interest and the structure of the auditing industry undermined professional independence, these systemic factors cannot fully justify AA's behavior. Beyond structural constraints, Arthur Andersen maintained ethical agency conduct and made proactive choices that directly impacted the collapse of Enron and the auditing firm itself (Bharat Rajeev, 2021). Arthur Andersen failed ethically through three main aspects: (i) the willful acceptance of questionable accounting practices, (ii) proactive ethical violations through the destruction of audit documents, and (iii) the abandonment of ethical obligations to stakeholders.

Arthur Andersen demonstrated a willful acceptance of aggressive accounting practices when he accepted and did not question Enron's use of a series of Special Purpose Entities (SPEs) to conceal off-balance-sheet liabilities and losses. Technically, SPEs were not illegal instruments, but numerous studies showed that Enron's SPEs did not fully meet the requirements of economic independence, while Enron maintained effective control over these entities. Meanwhile, Arthur Andersen was not entirely unaware of these risks; on the contrary, there were indications that the auditing firm understood the complexity and sensitivity of the transactions involving SPEs (Steven L. Schwarcz, 2002; The Enron Saga, 2026).

Instead of performing the auditing role with a high degree of professional skepticism, Arthur Andersen chose to accept, and even "tip off on" accounting interpretations favorable to Enron, allowing the company to recognize profits prematurely and remove significant liabilities from its consolidated financial statements. Charlie's research indicates that in the Enron case, the auditing process was flawed when auditors were unwilling to confront management, even after identifying material misstatements in the financial statements (Charlie Cullinan, 2004; Carrie Cabral, 2020).

Ethically, this behavior goes beyond the scope of a typical professional error. The continued acceptance of questionable accounting practices reflects a conscious choice to maintain client relationships and economic interests, rather than to protect the integrity and transparency of financial information. Therefore, Arthur Andersen's failure in this case was not only a failure of professional competence, but also a violation of the principle of integrity – a core foundation of professional auditing ethics.

If the first argument reflects a passive and complicit form of ethical failure, then Arthur Andersen's act of destroying audit documents represents an active ethical misconduct – a deliberate and intentional violation of ethics. After Enron was investigated, Arthur Andersen's staff proceeded to destroy documents related to the audit, including emails and working papers. Arthur Andersen itself admitted to destroying these documents while the case was under investigation (Reuters, 2002). Destroying evidence in the context of an investigation shows a clear attempt to hinder the transparency and accountability of the audit process. This is no longer a gray area of professional judgment, but an act of intentional concealment.

Some arguments that this was merely the behavior of a few individuals within the organization are not morally convincing. This behavior occurred within the organizational culture of Arthur Andersen, where pressure to protect the company's reputation and interests may have been prioritized over ethical obligations to the public. Research on market reaction shows that admitting to document destruction led to a significant decline in investor confidence not only in Arthur Andersen but also in other clients of the firm, demonstrating the severity of this ethical failure (Nelson, Price and Rountree, 2008b; Cheryl Linthicum, Austin L. Reitenga and Juan Manuel Sanchez, 2009).

From a Stakeholder Theory perspective, Arthur Andersen has an ethical obligation not only to Enron as a client, but also to broader stakeholders, including investors, financial markets, regulators, and the public. As an independent auditor, Arthur Andersen was expected to act as a public watchdog, protecting the integrity of the financial system and maintaining market confidence. However, in practice, Arthur Andersen's decisions showed that the firm prioritized client retention and revenue from auditing and consulting services over its ethical obligations to the public interest (Unerman and O'Dwyer, 2004). Research on corporate social responsibility and reputation indicates that after the Enron scandal, Arthur Andersen's reputation was severely damaged, and its social responsibility efforts were insufficient to compensate for the loss of market trust (Cheryl Linthicum, Austin L. Reitenga and Juan Manuel Sanchez, 2009).

The choice to protect short-term economic interests over upholding professional ethical standards reflects a profound ethical misalignment between the social role of auditors and the actual behavior of Arthur Andersen. From an ethical standpoint, this failure not only undermines the legitimacy of Arthur Andersen as a professional organization, but also contributes to shaking public confidence in the entire independent auditing system (Lim, 2010)

3.3. Affected Stakeholders

3.3.1. Internal Stakeholders

Enron Top Management and Senior Executives

As the people who are responsible for Enron's corporate strategy and financial reporting practices, top executives exercised decisive influence over the adoption of aggressive accounting methods and complex financial structures that obscured the company's true economic condition.

Following Enron's collapse, senior executives faced severe legal and personal consequences. Key figures in top management were prosecuted for fraud and for misleading investors through manipulated financial disclosures. In addition to criminal convictions and financial penalties, these executives experienced substantial losses of personal wealth as Enron's share value collapsed. More importantly, they became enduring symbols of corporate misconduct, suffering irreversible reputational damage that effectively excluded them from future leadership roles in major corporations. Top executives such as CEO Kenneth Lay, former CEO Jeffrey Skilling, and CFO Andrew Fastow suffered major legal and financial impacts after the company collapsed. Fastow was convicted of fraud and served a prison sentence, while Skilling was convicted on multiple charges related to misleading investors. These leaders also lost much of their personal wealth and were widely blamed for Enron's failure, making it impossible for them to return to senior positions in large corporations (Teather, 2006).

From an ethical perspective, the experience of Enron's top management illustrates how failures at the highest level of governance can translate into personal accountability while simultaneously inflicting widespread harm across the organization. Their actions not only violated legal and professional standards but also shaped an internal culture in which financial performance was prioritized over transparency, integrity, and long-term sustainability.

Enron's employee

Within Enron, a group of employees were internal stakeholders directly involved in the implementation of the company's deceptive financial practices. These individuals held positions in areas such as trading, accounting, financial engineering, and risk management, where they helped operationalize complex schemes including mark-to-market accounting and the use of off-balance-sheet entities such as special purpose entities (SPEs).These employees did not merely suffer job losses like other non-culpable staff following Arthur Andersen's collapse. Because they were directly involved in the Enron audit and related decisions, they faced additional consequences beyond unemployment. Although none of these employees were criminally convicted in the same way as Enron's senior executives, they nonetheless lost their jobs, suffered significant reputational damage, and faced civil lawsuits, outcomes that profoundly disrupted and, in many cases, permanently altered their auditing careers (Dodd, 2025).

This illustrates that employees directly involved in the Enron audit bore heightened responsibility and suffered disproportionately severe consequences compared to non-culpable Andersen staff, reinforcing the ethical distinction between collective institutional failure and individual professional accountability.

Arthur Andersen lead partner

At Arthur Andersen, senior leaders and partners were also seriously affected by the firm's collapse. Even though only a small number of individuals were directly involved in illegal actions, the entire leadership group suffered reputational damage. When Andersen effectively ceased operations in 2002, its leaders lost their positions at one of the world's leading accounting firms. Many were forced to seek employment at other firms or leave the accounting profession altogether, often carrying a long-term stigma linked to the Enron scandal (Teather, 2005).

These people held primary responsibility for audit strategy, client relationship management, and the exercise of professional judgment in evaluating Enron's complex financial structures and accounting treatments. Their position placed them at the intersection of technical auditing decisions and commercial considerations, particularly given Enron's importance as a major client. As a result, when the scandal emerged, these senior partners faced severe professional consequences, including loss of employment, reputational damage, and exposure to legal and regulatory scrutiny. For example, David B. Duncan, the lead audit partner on the Enron account, ordered the destruction of thousands of audit documents during the SEC investigation. He was dismissed from the firm and later pleaded guilty to obstruction of justice, becoming a central figure in the legal proceedings against Arthur Andersen (Forbes, 2002).

Arthur Andersen consulting and auditing executives

Beyond the lead partner, Arthur Andersen's broader group of auditing and consulting executives comprised internal stakeholders responsible for implementing decisions about audit practices and client relationships. The dual role of providing both traditional audit services and lucrative consulting work for Enron created conflicts that raised ethical questions about the firm's ability to act as an independent gatekeeper.

When the Enron scandal unfolded, Andersen's executives were unable to contain the resulting reputational crisis. Although these executives were not always directly involved in day-to-day audit judgments, their choices shaped the environment in which ethical standards were compromised (Ewing, 2022). The collapse of Arthur Andersen demonstrated how ethical failures at the executive level can propagate throughout an organization, transforming strategic governance decisions into systemic risks with irreversible institutional consequences.

3.3.2. External Stakeholders

Investors

The collapse of Enron firstly led to severe financial losses for investors and a significant erosion of their trust in financial markets. Since the fraud was discovered, Enron's stock price dropped from around $90 to under $1 per share, leading to investor losses of billions dollars. In the four years to its bankruptcy, shareholders are estimated to have lost about $74 billion, mostly due to misleading financial disclosures and accounting practices (Bondarenko, 2025).

These events had systemic effects on financial markets. The devaluation of Enron's stock contributed to broader market volatility, which damaged investor trust in audited financial statements, and forced practitioners and regulators to reconsider the reliability of corporate disclosures and the role of auditors in gatekeeping the market confidence.

Non-culpable Employees & Pension Holders

The scandal also harm non-culpable employees and pension holders who neither participated in nor benefited from the unethical practices. These individuals had no control over accounting decisions, audit judgments, or corporate governance, however, they faced financial losses and long-term damage to their careers.

Many junior employees at Arthur Andersen lost their jobs despite having no authority over client retention or audit approvals. Similarly, Enron's pension holders employees were affected because of a 401(k) pensions was invested in company stock. When Enron's share price collapsed, the value of these pensions was plummed, resulting in more than 20,000 employees loss of billions of dollars (Zolkos, 2003).

This outcome highlights a moral injustice inherent in systemic ethics failure that those with the least power and responsibility bear the highest costs, while ethical risks created at the structural level were effectively transferred downward to non-culpable stakeholders.

The Public

Beside financial markets and stakeholders, the Enron-Arthur Andersen scandal also weakened public trust in capitalism. Capitalism systems rely not only on market efficiency but also on the belief that core institutions including corporations, auditors, and financial reporting mechanisms operate in sync within acceptable ethical boundaries. The fact that a major corporation could misrepresent its financial condition under the approval of a reputable audit firm challenged this foundation assumption (Carnegie and Napier, 2010).

For the public, the scandal reinforced perceptions that capitalism provide protection for powerful insiders while exposing ordinary citizens to hidden risks. The scandal suggested that ethical misconduct was not an isolated incident but the result of deeper structural weaknesses in corporate governance and professional oversight.

Governments and Regulators

The Enron-Arthur Andersen scandal also damaged the credibility of governments and regulatory institutions. The failure to detect large-scale fraud raised public concerns about the effectiveness of existing regulatory and the ability of regulators to protect the public interest. As a result, government faced strong pressure to respond.

Therefore, major regulatory reforms were introduced, most notably was the Sarbanes-Oxley Act (SOX) in 2002 and the Public Company Accounting Oversight Board (PCAOB), which aimed to strengthen auditor valuation and restore market confidence (Kalelkar and Nwaeze, 2011).

However, from an ethical perspective, this response represents an illusion of reform. Regulatory actions helped addressed symptoms rather than root causes. While compliance requirements increased, the core structure of the auditing market particularly the client-paid model within a highly concentrated Big Four system remained unchanged. The Enron case therefore highlights the limits of regulation in addressing systemic ethics failure.

4. Discussion

4.1. Legal responses and the limit of regulation

The collapse of Arthur Andersen prompted extensive regulatory reforms, most notably the enactment of Sarbanes-Oxley Act (SOX) and the establishment of the Public Company Accounting Oversight Board (PCAOB), aimed at restoring confidence in financial reporting (The Economist, 2002). However, the Enron-Arthur Andersen case demonstrates that regulation alone is insufficient to address systemic ethical failure in auditing.

Ethical breakdown in auditing often arises not from explicit legal violations, but from legally permissible practices that generate persistent conflicts of interest. Because auditing relies heavily on professional judgment and sampling, it becomes ineffective when senior management deliberately conceals information, while subsequent responses tend to individualize blame rather than interrogate institutional conditions (Sridharan et al., 2002; Morrison, 2004). Appeals to organizational and financial complexity further operate as moral rationalizations, allowing formal compliance to substitute for substantive ethical responsibility (Doost, 2003). This exposes a core limitation of regulatory reform: legal frameworks tend to correct procedural deficiencies while leaving intact the economic dependencies that undermine ethical judgment. Notably, the client-pays audit model remained unchanged after SOX, preserving auditors' financial reliance on the very firms they are tasked with scrutinizing. As a result, regulation constrains observable conduct but cannot resolve the underlying moral tension between public accountability and private remuneration. Beyond this regulatory boundary, ethical outcomes depend less on rule compliance than on discretionary choices made within structurally misaligned incentive systems.

4.2. Implications: The persistence of systemic ethics failure

Arthur Andersen's dissolution is often interpreted as evidence that the auditing profession corrected itself by eliminating a deviant firm; however, this view overlooks the persistence of the institutional framework that enabled ethical failure. Auditing is a trust-based profession in which credibility, once compromised, cannot be restored (Power, 1999a). Andersen's downfall therefore reflected a reputational breakdown rather than a definitive moral reckoning, revealing the extent to which ethical failure was systemic rather than firm-specific.

Nelson et al. (2008) show that market reactions attributed to Andersen's loss of reputation were significantly confounded by industry and macroeconomic factors, undermining claims of a clear market judgment. Morrison (2004) similarly demonstrates that ethical failure was treated as firm-specific despite systemic conditions shared across the profession. Contemporary developments further reinforce the relevance of this concern. In recent years, Big Four firms have simultaneously advised clients on ESG strategy and provided assurance over related disclosures, audit firms increasingly replicate the audit-consulting conflicts evident in the Enron-Arthur Andersen case. Such dual roles risk recreating structural compromises of independence, especially in areas where measurement standards remain fluid and regulatory oversight is limited (Edgecliffe-Johnson and O'Dwyer, 2021; Jolly, 2021). Taken together, these observations indicate that systemic ethical failure is not a historical anomaly confined to the early 2000s, but an enduring risk embedded within the market structure of professional services. As long as audit firms operate under a client-funded model that prioritizes revenue growth and client retention, ethical conduct will remain vulnerable to commercial pressure. Without structural reform that realigns incentives with public accountability, the conditions that precipitated the Arthur Andersen collapse may re-emerge in less visible forms.

5. Conclusion

The collapse of Arthur Andersen in the Enron scandal is not merely the result of individual ethical failings but reflects a deep-rooted systemic issue within the auditing profession. The client-pay and consult-audit models created inherent conflicts of interest, where auditors' financial dependence on their clients compromised their independence and ethical judgment. These structural incentives led Arthur Andersen to overlook Enron's questionable accounting practices, including the use of Special Purpose Entities (SPEs) to conceal liabilities. Moreover, the Enron-Arthur Andersen case exposed critical flaws in the auditing industry, especially the tensions between auditors' professional duties and their commercial interests. While regulatory reforms like the Sarbanes-Oxley Act sought to address these issues, they were limited in scope, failing to dismantle the structural incentives that fostered ethical violations. The persistence of these systemic risks in the modern accounting field, particularly with the rise of audit firms performing both consulting and auditing services for the same clients, signals that the ethical compromises witnessed in the Enron scandal are still prevalent. Without comprehensive structural reform, the conditions that led to the Arthur Andersen collapse may continue to undermine the integrity of the profession.

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