

# S.P.O.V. \*

\* Student Point of View

## Surviving Enron

*Turning shattered innocence into resolve for a better corporate America*

By STEPHEN PLAUCHE

**M**ANY THINGS, good and bad, have been written about Enron Corp. over the last five years. Once thought to be a shining example of the 21st-century business model, Enron will now and forever stand as the poster child for greed run amok and the absolute failure of the corporate governance system in the United States.

My employment with Enron began as a financial analyst June 30, 1997. Exactly five years, one promotion, eight business units, and one massive bankruptcy later, I left the firm on my own accord, having weathered the storm of massive layoffs and corporate malfeasance. How did the experience change me as a person, and what personal impressions or scars remain? More important, what insights can I share with the Vanderbilt community that will make us all better corporate citizens and more aware of the potential hazards facing managers today in the global business community?

When I arrived on the Enron “campus” in 1997, I was the epitome of the young and green “eager beaver,” ready to conquer all, make money, and do whatever it took to make Enron the best energy trading company in the world. What I quickly discovered was that outside the fast-paced trading floors and

serene corporate finance floors, few Enron employees were satisfied with their position in the firm. Nearly everyone I met wanted to be a “commercial guy”—the person who cut the deals, traded the positions, made the money, had all the respect, and could basically do no wrong. After a few months on the wholesale-energy commodity desk, I found that this mind-set permeated from the top of the organization and was most clearly manifested by Jeffery Skilling, a Harvard M.B.A. who had left McKinsey & Company to start up Enron’s wholesale gas trading business.

Skilling was a hard driver. Case in point: He was such an avid believer in “pay for performance” that he instituted the now-infamous “yank and rank” performance review process whereby the bottom 10 percent of the employees in the normal distribution were sent packing twice a year. People commented that his ruthless behavior often mirrored that of Louis XIV, himself a master of power, control and politics. For example, at one point it was reported that Skilling felt his position as front-runner for the position of C.E.O. was threatened by two other top executives in the firm. What did he do? He promoted both of them to the position of vice chairman and nominated them for seats on the Enron board of directors. Skilling, following the example of the Sun King, was “keeping his friends close, but his enemies closer.” Over the next year, he gave one of these directors a new business unit to man-

age that he thought would ultimately fail. It did. The second executive lasted longer but ultimately left the firm in frustration. Unfortunately, due to Skilling’s paranoia and lust for power, Enron lost two of its finest and most admired leaders: Rebecca Marks, also a Harvard M.B.A., and Joe Sutton, a former high-ranking U.S. military officer. When you posed a threat to Skilling, the gloves came off.

It seemed that Skilling’s desire for power was matched only by his greed and burning desire to prop up the stock price. Case in point: A close friend interviewed with Andrew Fastow, Enron’s former C.F.O., for an analyst position in his financing group, nicknamed the LJM group. The acronym stood for the first letter of the first names of Fastow’s wife and two children. The group’s main responsibility was to structure Enron’s off-balance-sheet financing transactions, those designed primarily to help fuel the firm’s stratospheric growth rate. My friend related that during the interview, it became apparent that much of the group’s activity revolved around highly questionable accounting and business practices. When my colleague asked Fastow what Skilling thought of the group and its place in Enron’s future, Fastow replied, “Skilling loves the deal flow we bring into Enron. Its like cocaine to him—he can’t get enough.” Given the debt level associated with LJM-related transactions and the effects they had on Enron’s ultimate demise, it appears that

this was a habit Skilling and Fastow should have kicked.

I have numerous other anecdotes from my time at Enron. Some of the more memorable ones include watching former NBA-great Clyde Drexler play a pick-up game of basketball with Ken Lay in front of the company's HQ during lunch hour; sitting in the field boxes watching the Houston Astros play the New York Yankees in the first baseball game at the stadium formerly known as Enron Field; watching the value of my in-the-money options jump nearly \$13 per option in one trading session because Scott Nealy, C.E.O. of Sun Microsystems, appeared at a press conference where Skilling and Lay formally announced Enron's entrance into the broadband markets; hearing Skilling call a respected Wall Street equity research analyst an "asshole" under his breath while on a conference call explaining the firm's seeming web of financial statements; listening to Ken Lay describe in agonizing pain that the firm would be forced to merge with Dynegy Corp. in order to survive; and ultimately witnessing as thousands of my co-workers watched their computer screens go blank and hearing the voice of an HPD officer telling them to pack their bags and vacate the building in a half hour's time on Monday, Dec. 3, 2001, the day after the firm had filed for bankruptcy protection. Although this day gratefully didn't mark the end of my tenure at Enron, this day did mark the end of my innocence forever as a trusting and loyal employee of corporate America.

What are my recommendations and take-aways from this experience? First, if something in corporate America appears too good to be true, it probably is. Second, never put anyone you work for or with on a pedestal, no matter how respectable, honest and smart they appear to be. Every person is suscepti-

ble to the basest of human emotions including greed, pride and envy. Third, it is of paramount importance that everyone in corporate America do all they can to ensure that the best people sit on their firm's board of directors. Board members are the last line of defense for deviant manager behavior and corruption. They are charged with the ultimate

responsibility of keeping the weights of all firm stakeholders balanced over time. With this awesome power comes awesome responsibility. Without a strong board dominated by unbiased outsiders, no company is imperious to a similar Enron calamity.



My thoughts on this subject appear to be cynical, but it cannot be helped; I am a product of my environment, and the pain of the experience is now a firmly entrenched part of my nature. I wouldn't give up my five-year Enron experience for anything, but I will always be tormented by thoughts of what could have been for me and thousands of my

former colleagues had Enron's executive management acted more ethically and honorably. I am certainly less trusting and more suspicious than I once was, and find myself much more reticent to give people the benefit of the doubt. Perhaps because I loved my company too much, my most lasting impression is the pain of betrayal I felt when the truth surfaced regarding just how wrong Enron's executives had acted in their attempt to fatten their own wallets at the expense of many of the firm's stakeholders.

I urge tomorrow's leaders to learn from the mistakes of yesterday's leaders. Don't let hubris and your personal desire for riches turn you into monsters who lead more by fear and intimidation than by example, inspiration and admiration. Wake up every morning hungry and humble, ready to take on the challenges of the new day in a moral and ethical manner. Above all else, think for yourself and make decisions you will be able to live with later in life. Don't be lemmings, allowing personal relationships and peer pressure to persuade you to throw your weight and vote behind potentially unlawful and fraudulent activities. If we can rise above at least a few of humankind's basest emotions, maybe we can avoid another string of corporate scandals that have had such a permanent effect on our country's stability and outlook on life.

Stephen Plauche, a former Enron employee, is a second-year student at Vanderbilt's Owen Graduate School of Management, where he serves as editor-in-chief of the Owen School's student-run newspaper, *The Bottom Line*. He interned this past summer on Wall Street for a bulge bracket investment bank and plans to return to Wall Street on a full-time basis after graduation.