# Enron Scandal: Jeffrey Skilling As A Person Of Interest

My chosen person of interest is former Enron chief executive officer (CEO), Jeffrey Skilling. Skilling joined Enron in 1990 and would first become the company's chief operating officer (COO) and later on its CEO. Skilling and Enron's chairman, Kenneth Lay, worked side by side in Enron and were both found guilty of several accounts of fraud in 2001 following the collapse of the company. I am choosing to write about Jeffrey Skilling because in my opinion, he played one of the most critical roles in not only the beginning of Enron's fraudulent activities, but also in cultivating the particular work environment among employees of the firm. Skilling becoming CEO for the company was undoubtedly a turning point for business and for profits.

Skilling was hired shortly after two traders from Enron were convicted: one of whom received a suspended sentence, and the other was convicted of fraud. These employees, Tom Mastroeni and Louis Borget were two of the firm's biggest money makers for Enron but had had their financial success from primarily illegal gains. They had done so by manipulating earnings, destroying daily trading records and gambling away far more money than they could handle. "Keep making us millions" ? was Lay's attitude towards all of this. However, now that some of Enron's most lucrative traders had been imprisoned, new big ideas were needed for Enron. It was at this point Jeffrey Skilling was hired.

What I found extraordinary about Skilling's hire was the one specific condition that had to be met before he would even accept his position at Enron. This was that he would be permitted to use a certain kind of accounting known as mark-to-market (MTM) accounting. This form of accounting allowed Enron to book potential future profits on the very day a deal was signed, no matter how much or how little cash actually came in the door. To the outside world, this essentially meant that Enron's profits could be whatever Enron said they were.

The fact that this condition was put forward by Skilling before he even joined Enron, I find quite incredible. To me, it almost as if he was paving the way for potential future financial fraud before he even joined Enron, which is clear evidence of Skilling's greed and profit-driven nature. But what is perhaps even more astounding is that the accounting practice condition was both signed off by auditing firm Thomas Anderson and approved by the Securities and Exchange Commission (SEC) without any red flags being raised. Skilling took this form of accounting one step further with what he called hypothetical future value (HFV) accounting. "If we do that, we can add a kazillion dollars to the bottom line" said Skilling while explain how he was going to boost Enron's profits.

With a new form of accounting in place that would completely mask the reality of Enron's financial statements, Skilling set about finding new ideas for the firm. He wanted to find a new way to delivery energy. Enron would become a stock market for natural gas, rather than physical supplies being restricted by the natural flow of the pipelines, which transformed energy into financial instruments that could be traded like stocks and bonds. It is clear at this point that Skilling's main motivation was simply money. With such a financial model in place, Enron had no real need for typical assets as such because of the company's aggressive investment strategy being so strongly promoted within the firm.

For example, the California power scandal showed a cruel side of Enron which Skilling was leading. He joked that the difference between the Titanic and California was that at least when the Titanic sunk it still had its lights on?. Creating artificial power shortages in California drove up the energy price by 300% to 400%, and west coast traders made nearly $2 billion dollars off this alone. Meanwhile, it cost the state of California $30 billion. To make a joke about it in the way he did is practically unimaginable, and it showed his utter disregard for anything other than money.

Part of what I found most interesting about Jeffrey Skilling was his institution of the performance review committee. This meant that employees would be graded on a scale of 1 to 5, 5 being the lowest and roughly 10% to 15% of all employees had to be rated a 5, all of whom would be cut from the firm. This created a huge culture of aggression and fear among the employees – drivers which Skilling found very effective. While I will maintain that a competitive atmosphere in the workplace is necessary to promote ambition and success, the way it developed at Enron drove employees to fraudulent extremes. In an interview, an Enron trader said: “If I am on the way to my boss’s office talking about my performance and stepping on somebody’s throat doubles it, well I’ll stomp on the guys throat. That’s how people were” ?.

It is clear that Skilling had a very Darwinian view of how the world worked. His favourite book was The Selfish Gene by Richard Dawkins ? – a book which hugely influenced his style of management. The book is about the process of natural selection and survival of the fittest, the latter of which directly relates to his introduction of the performance review committee. As there was always a pressure on employees to stay above the bottom 10%, competition turned into greed, which later manifested itself as fraud. This was quite simply because Skilling believed money and fear were the only things that truly motivated people. This incredibly cut-throat culture is something I believe Skilling is predominantly responsible for, and perhaps one of his most permanent marks on Enron.

Skilling was clearly also a very influential figure within Enron. The example given in the film Enron: The smartest Guys in The Room was that Skilling was originally quite the nerd who wore old-fashioned glasses. However, as soon as he underwent LASIK surgery and no longer needed glasses, so did practically everyone else at the firm in his footsteps. This was an element of Skilling’s macho facade which was reflected a huge flaw in the company itself – huge insecurity beneath a facade of excellence. I think Skilling was very insecure, and the perceived performance of Enron reflected this. On the surface, Enron was an incredibly lucrative and attractive company. It was voted as the most innovative and admired company by Fortune Magazine 6 years in a row. By the end of the year 2000, while other internet companies’ stock prices were tumbling, Enron stock increased by 90%, and 50% the previous year. In reality, however, this performance did not at all represent the true financial condition of the company, which was in fact abysmal. Enron was losing money and some of its projects were going horribly, such as their power plant in India. Similarly, Skilling’s insecurity meant that he often organised adrenaline-chasing trips for small groups of friends and customers, effectively just to demonstrate how macho he was. He is quoted as saying “I like guys with spikes”?, in other words people with something extreme about them. In reality, I only believe he said this because as the company was beginning to fail, Skilling needed to keep up the appearance of strength and looking good, which he did by surrounding himself by individuals who also were searching for extreme experiences for outward appearance.

In my opinion, the best kind of leaders lead by example. They set the standard for (preferably)

good conduct and inspire their employees to follow on in such a manner. Without setting a good example from the top of a firm, I do not think you can always expect to see your employees operating ethically or to as high a standard. This was the case for Skilling and the employees of Enron. Because so many of the traders were obsessed with the value of the stock for their own interests, they would do anything to make sure the stock price kept rising – a motivation engrained in them by Skilling. Skilling was clearly intelligent but also quite arrogant. When asked in his Harvard Business School interview “are you smart”, he replied “I am fucking smart” ?. His pride was pivotal in incentivizing competition in the firm, and I would argue that this pride was what lead to the downfall of Enron in the end.

The trait I believe characterized Jeffrey Skilling above all, however, was his incessant hypocrisy. In his hearing, he firmly stated “I did not do anything in the entire time I worked for the company that was not in the interest of the shareholders ?.” This statement is a double-edged sword. On one hand, Skilling’s constant generation of new ideas for the firm was nothing short of impressive and inspirational, such as entering the cybersecurity or streaming market. However, his goal for profit clouded his vision and meant he would take on new philosophies without considering the security of shareholders and employees due to the fraudulent ways in which these ideas were carried out. The mantra “keep making us millions” ? sums up Skilling’s mindset rather well, regardless of how ethically he let himself believe he was acting. When increasing amounts of analysts and journalists began to dig into the truth behind Enron’s seemingly flawless financial statements, Skilling’s hypocrisy truly came forward. Fortune reporter, Bethany McLean, examined Enron and spoke on the phone with Skilling to address some questions about Enron’s accounting that she had. Feeling threatened, Skilling audaciously called McLean’s questioning unethical as in his opinion, she had not done enough research into the company and was therefore not entitled to be asking such a question. Skilling also called another questioning analyst an “asshole” which started a huge controversy. For the CEO of such an “it” company to make such inappropriate comments was incredibly poor form, and he was rightly criticized for it, in my opinion.

In conclusion, I think the unending fraud of Enron’s original financial success carried on for so long that illegality eventually became the new norm. As long as the perception was kept up, it wasn’t fraud. Enron’s motto of “ask why” is almost amusing in its irony. The downfall of Enron came from a lack of banks, lawyers, auditors and employees asking why. While these entities all denied any involvement, it was all too clear. The shutting down of auditing firm Arthur Anderson, America’s oldest accounting firm, certainly proved this. Although some employees did have the courage to speak up, such as Mike Muckleroy, the firm still had enough time and power to get away with its activities. According, to an article in CNBC? published in March this year, Skilling is looking at ways to re-enter the energy business with ventures he came up with in 2015 while serving his prison sentence. Among others, Lou Pai, another former Enron employee, is one of the people he is discussing his early-stages project with. It will be interesting to see if anything comes of this, and I look forward to following it in the news. However, his return to the energy industry is something that worries me more than anything else. In 2001, Skilling was convicted of 19 counts of conspiracy, securities fraud, insider trading and lying to auditors?. I believe he got what he deserved, but I cannot help imagining what Skilling could have done to change the world if he had stayed within the confines of the law.