ON THE HORIZON
HISTORY LESSONS

BY GLENN RIFKIN

The Man Behind the Crooked E

Enron's Jeffrey Skilling made everyone more skeptical of 'great' leaders.

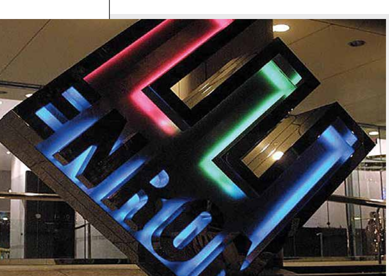
In February 2019, with little fanfare, Jeffrey K. Skilling likely will walk out of a Montgomery, Ala., federal prison a free man. Skilling, the former CEO of Enron Corporation, will have served 14 years of a 24-year sentence for masterminding one of America's costliest corporate frauds.

The Enron saga may have faded a bit from memory given the Wall Street meltdown in 2008 that triggered the Great Recession and nearly collapsed the global economy. But in 2002, Enron and its "crooked E" logo were symbols of corporate America gone wrong—a phantom business run by leaders who cared about only their own finances. Skilling's actions cost investors and Enron employees billions, but it may have cost leaders of all organizations something more valuable: credibility.

It didn't start out that way, of course. Skilling graduated in the top 5 percent of his Harvard Business School class in 1979 and eventually became one of the youngest-ever partners at the consulting giant McKinsey & Company. His consulting work for Enron so impressed company founder Kenneth Lay that, in 1990, Lay hired the young Skilling as CEO of Enron's Capital and Trade Resources division. Skilling foresaw massive potential not in producing energy or moving it from place to place but in trading securities based on the energy's value. By the late 1990s, the once-sleepy Houston firm was a $100 billion trading juggernaut, making it the darling of nearly everyone. (Fortune named it "America's Most Innovative Company" for six straight years.) "We are no longer an energy company. We are a company that makes markets," Skilling said in 2000.

By then Enron was the seventh-largest US corporation by market value trading paper, coal, metals, plastics, chemicals, even Internet bandwidth. Skilling called ExxonMobil a dinosaur and boasted that there was a "very reasonable chance" that Enron would become the largest corporation in the world. "He was the smartest guy in the executive suite and the least reluctant to let you know it," the Houston Chronicle wrote of Skilling.

But Enron's rise was based on vastly inflated profits and a business structure so opaque that few



THE SMARTEST GUY IN THE ROOM

1990
Enron founder Kenneth Lay hires Jeffrey Skilling

2000
Enron reaches No. 7 on the Fortune 500 list

FEBRUARY 2001
Skilling becomes CEO, gets $132 million pay package

AUGUST 2001
Skilling resigns, citing personal reasons


Jeffrey Skilling in 2000.

people outside a handful of senior executives really knew what was happening. In early 2001, some analysts, investors and journalists became skeptical of Enron's seemingly magical ability to produce billions in profits while owning few assets. More people started asking questions, and soon investors learned about Enron's accounting practice of hiding losses in special accounts that didn't appear on the firm's financial statements.

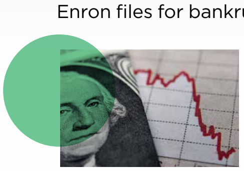
It wasn't necessarily the company's accounting that made Skilling so reviled, however. It was his actions as the scandal unfolded. Throughout 2001, Skilling and Lay publicly stated that everything was fine and that Enron's share price would rebound. At the same time, the duo sold tens of millions of dollars of stock based on insider information about the company's actual losses. Outside investors lost billions while many of Enron's 20,000 employees lost their jobs and life savings. Enron filed for what at the time was largest Chapter 11 bankruptcy in business history. (It was surpassed by Lehman Brothers in 2008.)

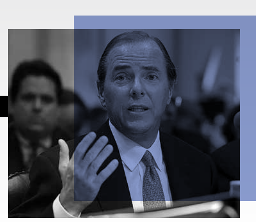
In 2006, Skilling was convicted of securities fraud, insider trading and conspiracy. (Lay was also convicted but died before sentencing.) The duo emerged as two of America's most notorious corporate villains; Time magazine placed the combo of Skilling and Lay second only to Bernie Madoff on a 2009 list of the Top 10 Crooked CEOs. Skilling long maintained his innocence, saying that Enron was "complicated," and there had never been criminal intent behind his actions. A succession of judges and juries didn't believe him. In 2013, he agreed to pay $45 million and drop his appeals in exchange for a 10-year reduction in jail time.

The saga inspired a best-selling book, "The Smartest Guys in the Room" by Bethany McLean and Peter Elkind, which portrayed Skilling as a brilliant but egomaniacal, abrasive workaholic who refused to accept any responsibility for the company's fraudulent and destructive behavior. "The tale of Enron is a story of human weakness, of hubris and greed and rampant self-delusion; of ambition run amok," McLean and Elkind wrote.

Stakeholders were disgusted by the Enron scandal and similar high-profile frauds of the early 2000s, and the United States enacted stricter regulations and financial reporting requirements for companies. The Sarbanes-Oxley Act made the CEO and CFO individually responsible for the accuracy of their company's financial reports and set new disclosure mandates for boards, among other things. Nearly a dozen other countries enacted similar laws. Thanks to Skilling, leaders all over the world can no longer say they are honest, consistent and transparent; they have to go to great lengths to prove it. ●

DECEMBER 2001
Enron files for bankruptcy





FEBRUARY 2004
Skilling is indicted on fraud and conspiracy charges; pleads not guilty

MAY 2006
Skilling is convicted, later sentenced to 24 years in prison


DAILY NEWS

RED, WHITE & BLUE ANGELS

LAY AWAY!

Enron big shots Ken Lay, Jeff Skilling guilty

JUNE 2013
Skilling agrees to drop appeals and pay $45 million in exchange for reduced jail time

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