2. The smartest guys in the room – covering the Enron saga

BETHANY McLEAN
Fortune Magazine, New York

I thought I'd just start by telling you the story of Enron from my own perspective. It is funny that Helen Clark used the word 'antediluvian' and the director of the enforcement of the US securities regulator SEC recently made a comment that many people in the market today weren't around at the time of the Enron collapse. That made me feel like a bit of a dinosaur.

It's hard to believe that it was six years ago that Enron went bankrupt, but I still think that the story is incredibly relevant both for obvious reasons and not-so-obvious reasons, because it is not really just a tale of how executives in one company ran amuck, it is really a morality tale that applies to business people and non-business people alike. It is also a morality tale whose lessons have not been heeded in corporate America.

I got interested in Enron back in early 2001 and it really seems hard to believe from today's vantage point that back then Enron was, as I like to refer to it, an 'It stock'. Just as Hollywood has its 'It girls', the stars at the moment, Wall Street has its 'It stocks', the companies that can do no wrong. Enron stock had gone up more than 50 percent in 1999 and over 80 percent in 2000. Almost every security analyst who followed the company was telling investors to buy the stock. Blue-chip consultants from firms like McKinsey were running around the world preaching to executives how they could make their companies more like Enron. Enron was a super-star company.

Helpful disadvantages as a journalist

I had two big disadvantages as a journalist, but they actually turned out to be advantages in my coverage of Enron. One is that I don't have any formal training as a journalist. I was actually a maths and English major as an undergrad and I began my career for three years on Wall Street crunching numbers as an investment analyst at a big Wall Street bank. I like to say I was an indentured servant because we worked basically about 100 hours a week doing spreadsheets.

That was a career that I stumbled into as a maths major, but it turned out to be an advantage for a bunch of reasons. I guess one obvious one was I learned numbers. I learned how to understand a company's financial statements—or not understand a company's financial statement in the case of Enron. The other was that I learned how not to be intimidated by people and how not to be intimidated by things that I didn't understand and how to just ask questions.

I guess another unseen advantage of beginning my career as a numbers person was that when I came to *Fortune* I wasn't assigned the stories that everybody wanted to write. I wasn't regarded as the star of the magazine. In the 1990s it was an era where everyone wanted to write about the instant millionaires that had been created in the dotcom boom and do profile stories of young multimillionaires. It wasn't really a time when people wanted to do heavy-duty accounting stories, but I wrote those stories because the magazine knew they needed some of those stories. That was the only way that anyone was going to publish anything I wrote. Doing those types of stories gave me access to a different set of sources: the people who were sceptical about what was going on in the business world, people who didn't usually talk to the press but would see that I was digging into these issues and would be willing to share their thoughts with me.

Another disadvantage that turned into an advantage was that I'm not a beat reporter. As a writer at *Fortune* magazine, we don't just have one area that we cover. We don't write about Wall Street, insurance, or the retail world, we tend to bounce around and just find stories wherever they may exist. I think the story I had written about before Enron was on the World Wrestling Federation.

But, again, because the 1990s was this decade of storytelling, it was a time where it was really easy to get seduced by the story, and Enron had a great story to tell. This was the company that wasn't just transforming the world of energy—it was transforming the very way business was done. Everybody wanted to write about that aspect of the Enron story. I wasn't drawn to that—not because I'm immune to that kind of story, but because I just didn't *know* it. I just didn't cover Enron, and so when I started looking at it I looked at the numbers first.

Finding the story

My Enron odyssey began when a good source of mine, a guy called Jim Chanos, who specialised in selling stock short (meaning he's looking for stock that's likely to decline in value) called me and said I think you should take a closer look at Enron. He was amused because *Fortune* magazine, had named Enron its most innovative company for the past six years running. I like to defend my magazine by pointing out that Enron actually *was* the most innovative company in corporate America—we just didn't know how innovative!

So when I started to do my homework no one had anything but glowing comments to make about Enron: this was a fabulous company, its earnings were going ever higher and it was changing the way business was done. At least that was on the surface. All the Wall Street analysts had buy ratings on all of the stock. If they had been sceptical, and I think this is interesting in regards to journalism, if people had been sceptical I'm not sure I would have been as interested in this story. I would have thought, 'Well, everybody already knows this already. Maybe there's not such a story here.'

People have asked me why did I take information from a short-seller, given he was biased. But everyone is biased. Find me the fair, objective third-party source. I'm not sure there is such a thing. Your own judgment has to be a factor. If I had reported the story of Enron on the basis of what most people thought, I would have written a glowingly positive story. I had one short-seller saying there is a problem here, I had the off-the-record feeling from people that something didn't add up and I had my own ability to dig through Enron's numbers. But if I had called a third-party analyst they would have said, 'Buy Enron stock'.

The fact that Wall Street analysts were telling investors to buy the stock didn't make me think I might be wrong. I was already very cynical about the way Wall Street research was done and about the conflicts of interest that investment analysts have in advising people to buy a stock. That cynicism proved to be well founded when Wall Street firms settled for US$1.4 billion over conflicts of interest in their research process. I also don't think the press did a good enough job of warning investors that the research wasn't to be trusted, but we can come back to that later.

Under the adoration of Enron there is something very different: people were scared of this company. Very few people would tell me this on the record, and that's one of my many frustrations of being a journalist and I'm sure many of you have run into it. One person told me Enron's annual get-togethers for its investors were like revival meetings. Another person told me that Enron was like a black box and there was no way anyone on the outside could tell how Enron was making its money. This was at the time of the energy crisis in America, when the west coast was suffering from blackouts. And another person said to me Enron's either making lots of money or losing a lot of money, but they'll find a way to hide it: Enron always does.

In Enron's documents there were all sorts of weird things, but among them were these footnotes that detailed weird outside partnerships that were run by the chief financial officer, Andy Fastow. It's incredibly odd in the business world to find a major company whose chief financial officer is also running an outside partnership that does a lot of business with the company. So Enron's reaction when I called them up was like nothing I had gotten before and like nothing that I'd gotten since. Enron chief executive Jeff Skilling became very irate on the phone and said people who raised questions like I did were just throwing rocks at the company. He accused me of being unethical, on the basis that if I had done enough homework I would realise how stupid the questions I was asking were and it was unethical of me to go to press with such outlandish concerns. That's really scary for a journalist because the truth is you could have always done more homework, you could be missing the one fact that changes the whole story.

Enron fights back

Enron never got lawyers involved with my story, but next day three Enron executives—including Andy Fastow—flew to New York to meet with me to explain how their business really worked. We met in a conference room for three hours, going through their numbers. I have to give a lot of credit to my magazine, *Fortune*, here because I always wonder what would have happened if they had behaved differently. I had two of my editors sit in on this meeting because I was young at the time and terrified. Also, I have always believed that it is very hard to ask questions and always hear the answers when you're in a confrontational situation—where you're under the gun and outmanned. It is very hard to do both at the same time. So I thought it was very important to get my editors involved to make sure that if I missed a really logical defence somebody else heard it. It was after the meeting that my editor said, 'Make the story tougher—they didn't answer a single question.'

I later found out that [Enron chairman] Ken Lay called my managing editor, asking him to 'kill' the story. Lay said that I was a young reporter, didn't know what I was doing, and it was unfair of *Fortune* to publish the story. I didn't hear about that until much later. So not only did the magazine defend me, but defended me to the point that the editors didn't even tell me this phone call had come in. I always wondered whether if the magazine had been less supportive whether I would have had the perseverance to push it through.

The story breaks

I published my story in early 2001 in *Fortune* when Enron stock was about US$80 a share. The piece ran with the headline 'Is Enron overpriced?' The story raised a lot of questions about how Enron made its money and pointed out that nobody could figure out how this company was producing profits. But I certainly didn't come out and say that Enron was a fraud. I was frankly too naive at that point to suspect the depth of the problems there.

The story was actually pretty meek. I didn't write about those outside partnerships ran by Andy Fastow because the accountants and Enron's board of directors had signed off on these. They had said these are OK. So, while I was sceptical about the role that the Wall Street analysts played, I was not sceptical at all about accountants and boards of directors. I thought these are the people in the market who are the gatekeepers. They must be doing their jobs. I look back on that and fault myself for being very naive, but I actually think that we have a right to that naivety: we should be able to rely on the gatekeepers to do their jobs.

So what happened next was that Enron stock started to plummet and in August 2001 Jeff Skilling abruptly quit as the company's chief executive. The *Wall Street Journal* started to run stories about those off-balance-sheet partnerships run by Andy Fastow. On Sunday, 2 December 2001, at 2 o'clock am, Enron declared what was briefly the largest bankruptcy in American history.

I've always loved this story, told to me by a former executive, that in order to declare bankruptcy the Enron team flew up on the crown jewel of the Enron fleet, the US$45 million G-5 corporate jet, and they stayed at the Four Seasons Hotel in Manhattan. The former executive said: 'We should have flown up on Southwest Airlines and stayed at the Ramada Inn.'

At the time Ken Lay was in denial. He said: 'We were the quickest ones in and we will be the quickest ones out', meaning that he thought the company would emerge from bankruptcy. Here we are six years later. Ken Lay has passed away, after being convicted and sentenced to years in jail. Enron's accountants Arthur Andersen—once one of the nation's top five accountancy firms—is gone, brought down by an obstruction of justice conviction. People joke that the remaining accounting firms should be called 'The Final Four', a reference to US basketball.

Researching the book

I'd love to say that I always planned to write a book, that it was a time in my career that I thought about it. But like most journalists we tend to react to events as they are put in front of us. I found myself in the middle of a big story and before I knew it I had a book contract. That was another panic because my co-author, a writer at *Fortune,* Peter Elkind, and I knew that in order to tell this story we would have to get former executives to talk to us. That was really difficult because of the criminal investigations swirling around the company. There were days when I would call 20 people and not a single person would call me back. But eventually over time people did begin to talk.

My co-author and I talked to hundreds of people from all levels of Enron and I learned a lot of really surprising things. I think for me the most surprising aspect of the Enron story was the notion of self-delusion. I always thought when I got people to talk I'd get to ask, 'So, how did you do it? How did you commit fraud in your division? How did you make up the numbers?' And people would say. 'All right, here's how we figured out how to do it in my division.' But that wasn't the way it happened. In most cases very few people working at Enron had any idea of what was happening right in front of them. I think part of that is we all tend to operate in our own little silos, with our heads down, and don't often look up to put together the pieces of what's happening around us.

I think that in some cases the people at Enron who could have seen what was happening were just blinded by rationalisations and self-delusion. One person—a former senior executive—was even idealistic, describing her early years at Enron as being creative and changing the way markets worked. I think there were particulars of life at Enron that made that really likely. One was the culture of the place. It was incredibly free spending. You could hop on a plane and fly first class to just about anywhere in the world. There was the new US$200 million dollar skyscraper being built in downtown

Houston. A former Enron executive who had worked in London, who had been an investment banker for 10 years, came to Enron as a very sophisticated businessman in Enron's last year of life. He worked at one division and thought, 'This is crazy—we are booking earnings but there is no cash coming in the door.' He moved to another division of Enron and thought, 'We're booking earnings but there is no cash coming in the door.' He moved to a third division of Enron called RAC, risk assessment and control, and thought, 'There's no risk assessment here whatsoever—these guys just get run over by the people who want to do deals.' But he'd go back to the company's London offices, which overlooked Buckingham Palace, and think, 'Well, the money must be coming from somewhere.' And I think that summed up the attitude for a lot of people.

Another was the money that people were paid, and these figures are from the Joint Committee on Taxation. In 1998 Enron's 200 most highly compensated employees took home a total of US$193 million in salaries, bonuses and various forms of stock. In 1999 that leapt to US$402 million and in 2000 they took home US$1.4 billion, which was the last full year before Enron went bankrupt. Each of the top 200 employees made more than US$1 million, while 26 employees made over US$10 million. In 2001, the year Enron went bankrupt, at least 15 employees made over US$10 million.

Another big surprise in reporting on Enron was our desire to find someone to scapegoat. It's really nice that when a scandal happens to contain it somehow—well, this isn't a big problem for the world because this was one particular person's fault. In Enron's case Andy Fastow became a convenient scapegoat for what was wrong.

The defence attorneys in the trials of Ken Lay and Jeff Skilling, which took place in the Spring of 2006 in Houston, cast Andy Fastow as the source of all evil in Enron. In fact, that was never true. Enron was not a good business that was brought down by a crooked chief financial officer. It was rather a bad business that was propped up by a lot of the shenanigans of the chief financial officer. The company never really had any cash—a lot of its investments were flat-out disasters. Andy Fastow ended up pleading guilty to fraud on two levels. One was using the partnerships to steal money from Enron, but the other was using the partnerships in order to help deceive the outside world about Enron's true profitability. That's just one in a whole bag of tricks that Enron used in order to deceive the outside world about its financial condition.

A third surprise for me, as a maths major who had worked in finance, was that the Enron story really isn't about the numbers. Business stories are never really about the numbers. That's why they are so interesting—they are stories about people. The Enron story for me is the flip side of so much possibility. These larger than life characters who for a period were the seeds of what really was Enron's greatness but then its eventual destruction. There is an element of tragedy here as well, because these people were all self-made. They became what they were by sheer force of will, but they all had these fatal flaws and these fatal flaws in the 1990s environment in Houston, Texas, were all brought together in this one company. It was combustible.

The characters in the Enron story

Let's start with **Ken Lay**, who was the founder of Enron and CEO for many years. He was the son of a Baptist minister. He grew up dirt poor and until he was 11 his home had no indoor plumbing. But with his incredible achievement in the world of American business came some really dangerous things. One was a sense of entitlement and an inability to draw a line between what was his and what was the company's. Another of my favourite Enron anecdotes came from an executive telling me that he'd gone to use one of the corporate jets to fly to an important business trip only to be told there were no corporate jets because all three of the company planes were being used by members of Ken Lay's family.

I think it's worth pausing here for a moment on the importance of a CEO and the issue of actions versus words. I don't know if the same is true in New Zealand, but in the wake of Enron's bankruptcy in the States there has been a huge focus on corporate governance. You'll hear a lot of companies talk about their visions and values, their belief systems. Ken Lay was the head of Enron's Visions and Values Committee. He spoke a lot about values, respect, integrity, communication and excellence. He said, 'We work with customers and prospects openly, honestly and sincerely. We treat others as we would like to be treated ourselves. We do not tolerate abuse or disrespectful behaviour. Ruthlessness, callousness and arrogance don't belong here.' These are sayings you could hear today from any company. But at Enron the words did not matter. It was rather the actions of those at the top that set the tone of the organisation. I think therein lies a big lesson.

A few more characters. **John Wing**, who in the book we call Enron's first prima donna. He built the first overseas power plant in Teesside in England.

At the time it was the largest co-generation plant in the world. It made Enron millions in real money but John Wing was hired and fired by Ken Lay three times. He ultimately took over US$25 million out of the company. And he set a precedent at Enron for people getting whatever they could take from Enron. He was the first to see Enron as not a place for a long and happy career, but rather for mutual exploitation.

John Wing's lover and protégé—and now bitter enemy—was a woman named **Rebecca Mark**. She grew up on a farm in Kirksville, Missouri, a small town in Missouri. She put herself through college. She was for a time one of the most glamorous figures in American business. She flew around the world building power plants and pipelines in remote places, from war-torn regions of Central America to the countryside in India. Enron built what was for a while the largest foreign investment in India, a US$3 billion power plant that today doesn't operate.

To understand what went wrong you have to understand how Rebecca Mark and her team were paid. They put together financial projections over a period of, say, 20 years for what a power plant or a pipeline would make. Then they would discount back that cash flow to the present and Rebecca Mark and her team would be paid 9 per cent of that estimated value. They were paid this money before so much as a shovel had been put in the ground. Then they would go off to the next project and Enron wouldn't leave anybody who was responsible for making sure the power plant or pipeline actually produced the financial results it was supposed to produce, which needless to say most of them didn't. Jeff Skilling has always blamed Rebecca Mark for bringing down Enron. He liked to say she poured gasoline all over the balance sheets. I have to admit I had some admiration for her because whatever else she was she was not a quitter, which Jeff Skilling would later prove himself to be.

It was remarkable that Rebecca Mark's operation and **Jeff Skilling's** business could exist in the same company, because Jeff Skilling hated hard assets. He was a big believer in intellectual capital and wanted to believe that steel in the ground, pipelines and power plants were figments of the old world, and the new world was all about brains and ideas.

Skilling was also self-made. He went to Harvard Business School and worked at McKinsey. People described him as incandescently brilliant with the ability to capture the most complex idea in sparkling simple terms. I was sitting in a bar with a guy who used to work with him soon after the Enron bankruptcy. He said to me, 'I blame Jeff for everything that went wrong at

Enron but if he walked into this bar with a new business idea I would follow he straight out of the door.' So he had this kind of Pied Piper quality to his intelligence.

Cliff Baxter was the chief deal guy at Enron and Jeff Skilling's closest confidante at the company. He committed suicide in the wake of the Enron bankruptcy. I think it is a testament to the intensity of the story around Enron that there was speculation that Baxter was murdered in order to prevent him from spilling some of Enron's darkest secrets. The Police Department even had to conduct an investigation, although he had left a suicide note.

Andy Fastow, was the company's chief financial officer. He began as Enron's CFO at age 36. One of the most interesting things about Andy is that you would think the motivation for stealing money must be that they needed money. But Andy Fastow was married to the daughter of one of Houston's wealthiest families and had millions of dollars. He never would have needed a penny. So it sheds an interesting light on white-collar crime because it usually is never about the money per se.

A guy named **Lou Pai** was the head of Enron's trading business in its early years and later became head of another disastrous business venture. He was known for two things. He was a brutal political in-fighter and was obsessed with strippers. He actually walked out on Enron with more money than anybody else, some US$250 million. He had a simple excuse for selling stock—he was divorcing his wife in order to marry a stripper with whom he'd had a child.

Mark-to-market accounting

When Jeff Skilling joined Enron from McKinsey back in 1991 he had one condition: he insisted that Enron use a form of accounting called mark-to-market accounting. This was a lot like how Rebecca Marks' international team was paid. You have a contract in which cash is going to come through the door, say over a 10 or 15-year contract, but you say the value of this contract is x dollars today, so you book that x dollars in your income statement today, although the cash comes in over the life of the contract.

There are a lot of good and bad things about mark-to-market accounting. Like any accounting system it is only as a good as the people who use it. The biggest reason for Skilling wanting to use this method of accounting was really philosophical and it tells you a lot about how Jeff Skilling thought. He believed that if you had an idea you should be able to book the full value of that idea on your income statement right away. That's because the idea was everything and the execution was nothing—if you didn't do that then you were only ever clipping coupons from some greater man's idea.

So over time Enron began to use this form of accounting for its entire business. In a sense, they stole from the future until there wasn't anything left. Mark-to-market accounting also came with a couple of dangerous things. One is that, although you are booking earnings up front, the cash still comes in the door over the life of the contract. So over time there are bigger and bigger discrepancies between the earnings that Enron was showing on its income statement and the actual cash the business was making. As you know, you need cash to actually run your operations.

Another issue with mark-to-market accounting is that you start each year at zero and you don't have recurring earnings on which to build. That is, you have already booked all the earnings from that contract so you're only going to be able to book the changes in the value of that contract, not any earnings that the contract may produce in any given year. That was a particular challenge, because in the 1990s corporate America—and to a large extent today—rewards companies for booking consistent 15-20 percent growth in earnings. That is how you got a high stock price and Enron wanted above all to have a very high stock price. So over time there were bigger and bigger discrepancies between the results Enron wanted to show Wall Street and the actual results.

The company resorted to more and more tricks in order to create the results it wanted to produce. I think it's one of the things that makes the Enron story so complicated is there is not one moment where you can say that's when the fraud was committed. It's rather that the entire business was about pushing and twisting the rules in order to create the earnings picture they wanted to create. It is important to note that most of the people at Enron didn't think about the ethics of what they were doing. They didn't ask, 'Is this right?' or 'Is this wrong?' They thought they were smarter than other people and that they knew how to use the rules. A former boss of Andy Fastow described him to me as being 'rules-driven', by which he meant Andy was into following the letter of the law while totally violating the spirit.

Enron was a culture of reported profits, not of economic reality. I think this is very much the nature of most white-collar crime today. It's very much the description of how things go wrong. You don't have people sitting in a dark room devising a way to steal money from shareholders. It almost stems from a desperate belief that, 'If I can make it work this quarter, then next quarter my great idea will start kicking into gear. If I can just make it look like its OK I can bridge the gap until it really is OK.' The motivation is rarely greed—it is more that people often have their reputations tied up in the company.

Jeff Skilling once said, 'I am Enron' and he identified himself so closely with the company. I think two anecdotes make this mentality at Enron very clear. One was the Enron Risk Management Guide, which starts with:

> Reported earnings follow the rules and principles of accounting. The results do not always create measures consistent with underlying economics. However, corporate management's performance is generally measured by accounting income, not underlying economics. Therefore, risk management strategies are directed at accounting, rather than economic, performance.

A former Enron executive described Enron's accounting in this way:

> Today, you have a dog, but you need to create a duck in your financial statements. There are specific accounting rules for what constitutes a duck: yellow feet, white covering and an orange beak. So if you take your dog, paint its feet yellow, its fur white and you place a plastic orange beak on its nose, then you say to your accountants, 'This is a duck. Don't you agree that this is a duck?' And the accountants say, 'Yes, according to the rules this is a duck.' Everyone knows that it is a dog and not a duck—you can see it by looking at it—but that doesn't matter because you have met the rules for calling it a duck.

I'm sure you can see how if you follow all the rules for turning a dog into a duck you rationalise to yourself that you haven't really done anything wrong. You followed the rules.

Failing to do the right thing

The obvious question to me has always been: if Enron was a bad business with all this hidden fraud how could people not know? The answer is: people *did* know. Enron wasn't a case of a few bad apples. It wasn't an easily contained thing, where you can point the finger at one person and say, 'Ah, look, this person was unethical. Without this person, the system still works.'

Enron was a case of almost everyone associated with the company failing to do the right thing. That to me is much scarier. Just like nearly all of

Enron's employees did nothing, so the banks, the board, the accountants, the press, the lawyers, all the watchdogs did nothing too. A judge later wrote that the fall of Enron is not about one person or even a few people; it is a story of a host of actors. Asking the jury to look only at Ken Lay, Andy Fastow, Jeff Skilling or Arthur Andersen is like asking someone to only look at the eye of the hurricane while it is surrounding you.

I think you have to start with the accountants Arthur Andersen. They knew as early as 1995 that Enron's practices were incredibly risky. Why did they go along with it? I think it's pretty simple: accounting has become a business not a profession, and as a business accountants want to bring in more and more money each year. Enron paid mammoth fees to Arthur Andersen: basically US$52 million—US$1 million a week—in its last year of life alone, and Arthur Andersen wanted to keep the money coming in the door. They began to think Enron was their client and forgot that Enron *shareholders* were really their client. Enron's board says they were lied to, and they actually were, but there were questions they didn't ask. When the company went bankrupt it had $38 billion in debt, but onlyUS$12 billion showed up on its balance sheet. How is any company that doesn't have any cash flow going to pay back US$38 billion dollars in debt?

The press is a complicated question. It's more complicated than simply pointing the finger at the press saying, 'You didn't do your job.' People are very hypocritical with what they want from the press. You see that in New Zealand at the moment with the finance companies. If the press had reported the finance companies' problems, people would be blaming the press, saying that the press had sparked the loss of confidence, sparked the run on the bank. In the US housing market the press was pretty sceptical in the run-up to the crisis, but would be attacked if it dared to publish a sceptical story. Now people blame the press for feeding the housing crisis by reporting that things are bad and might be getting worse. People never want to hear it. But the only thing you as a journalist can do is to take the facts as you have them and print the truth. I wrestle with that a lot, but I think our job is to convey what we know—to the best of our ability—and speak the truth.

Wall Street analysts' job is to analyse. They are meant to look at a company and figure out its financial statements. So what went wrong? I think there is a really good human lesson here. In part what went wrong with the Wall Street analysts was down to Enron. Jeff Skilling and the people at Enron were very good at what I like to call intellectual intimidation. Jeff's highest form of praise was to say of someone, 'They got it', and his highest form of criticism was to say a person 'Just didn't get it'.

If someone asked too many questions Skilling would just say, 'They don't get it'. We all want other people to think that we are smart. The older you get the more you want people to think you are smart and the more afraid you are of being the person in the room who doesn't get it. It's not only the older you get, but the higher you rise in a profession and the more you're paid the more afraid you are of looking like you don't get it. I think the Wall Street analysts fell victim to this and didn't want to be the person in the room saying, 'I don't understand; I don't get this.'

I think there is an uglier reason that I alluded to earlier in my talk. It was very clear with Enron that if you wanted some of its investment banking business your analysts had to be telling people to buy its stock. That was a conflict of interest prevalent on Wall Street in the late 1990s. Enron was the top fee payer in corporate America and every Wall Street firm wanted some of Enron's business.

That brings us to the Wall Street banks, which my co-author and I called Enron's partners in crime. They were the providers for Enron of all the cash they needed to keep its business running. Citigroup and JP Morgan alone provided Enron with US$8 billion as cash, which were really loans that should have shown as debt on Enron's balance sheets. Thanks to the company's bag of tricks Enron was able to book the debt as cash flow, thus making Enron's business look much healthier than it actually was. The banks knew full well what they were doing: they referred to these deals as smoke and mirrors. A JP Morgan Chase banker wrote the loans were understood to be disguised loans and were approved as such. A Citigroup email said the accounting was aggressive and the franchise was a risk if there was ever any publicity.

This brings us to a key question that came up at Enron's trial: if all these people understood, then how could this be a conspiracy? If all these people knew something was wrong wouldn't one person have spoken up and said, 'There's something wrong here'? I've always thought one of the scariest things about Enron is that no one did. When a filmmaker made a movie out of our book, he made a lot of Enron's motto: 'Ask why'. It's really ironic that the key lesson to take away from Enron, for anyone in the press or elsewhere, is: ask why. It's so obvious but often the hardest thing to do.

The trials

The process towards criminal convictions was very slow at Enron. Partly that was because there were so many people to blame, all of whom denied responsibility. It's one of the striking things about Enron that almost everyone involved in the collapse—the accountants, the board, the lawyers, analysts, bankers—all said it was someone else's fault. I think that requires defining the truth in the same way Enron defined truth: ethical behaviour requires nothing more than avoiding the explicitly illegal, refusing to see the bad things right in front of you makes you innocent, and telling the truth is the same as ensuring no one can prove you lied.

Ethical failures are not the same as criminal responsibility. I've always thought that in common sense terms Enron was a fraud, a company whose financial statements bore no relationship to economic reality. But the old saying that the devil is in the detail is particularly true with Enron because when you zero in on the specific transactions, many of the most egregious - the ones that most of us in common-sense terms would say, 'There's something wrong here'—actually met the letter of the law. The accountants and the board of directors signed off on them. It was Enron's culture of pushing and twisting the rules that left few smoking guns, which means they didn't leave much of a road map for criminal prosecution.

I've always thought that although Ken Lay was the founder of Enron it's really Jeff Skilling that created the modern Enron. He is the contradictory character at the heart of the Enron story. He's both the arrogant, charismatic guy—the only Enron executive to testify in front of Congress after the company collapsed—and he's the desperate, delusional guy, who was once picked up after a drinking binge during which he began accosting people and accused them of being federal agents. In some ways he is the one who started the delusion at Enron. He defended everything about the company and he doesn't seem to have any remorse about his own actions. He never said he hired the wrong people, or got involved with the wrong businesses or emphasised the wrong values. The fault in his mind just lies with a world that did not appreciate the sheer newness of what Enron was trying to do.

He said the investigation of him was a witch hunt and that until the day he dies he's going to fight this thing. Jeff Skilling has never thought that he should bear responsibility for Enron's collapse. What he believes about the company and what happened to it has never changed. He still tells people they killed a great company. In the end Jeff Skilling and Ken Lay were convicted of fraud and conspiracy in the Houston court in the spring of 2006. Skilling is now serving a 24-year sentence, although he has filed for an appeal.

The old adage that truth is stranger than fiction, which is the great thing about journalism, is apt here. You could not make up the Enron story - people would say this is too crazy. That was proven with Ken Lay's death in July 2006, right after his conviction. You just could not have written that ending.

One thing that shocked me was the outpouring of rage that I received when Ken Lay died. I got hundreds of phone calls and emails from people who somehow felt cheated that Ken Lay wasn't going to be serving his sentence in jail. This self-righteous rage is exactly the wrong reaction to the Enron story. It shows that people didn't learn anything. This is a story of people, a story of human error, and it's a story any one of us could have found ourselves characters in. In the end Ken Lay lost his fortune, his reputation and his life. What more is there to lose?

Nothing's changed

The obvious question I get asked in the wake of all this is: how have things changed? I would argue that at least in corporate America they haven't. In the *Narnia Chronicles* there is a great line where the empress Jadis, who is an evil character who destroys her world, says the rules that apply to ordinary people shouldn't apply to grand people such as her. I think that is the attitude of a lot of corporate executives—the rules that apply to ordinary people shouldn't apply to them, they know better. Just look at the stock-options backdating scandal in the US where companies were found to have adjusted the rules in order to make sure their stock options were worth more. What is that, other than saying that the rules that apply to others shouldn't apply to them?

If you turn to the news at the moment of the subprime crisis it's hard to see how things have changed. Citigroup is America's largest bank and is now in an enormous amount of trouble because, in part, it had off-balance sheet vehicles that no one knew existed until they started causing problems. Weren't we supposed to have learnt our lesson about secret off-balance sheet vehicles? Criminal prosecutors are looking into all sorts of fraud in the housing market, from companies inflating the appraisal values of houses to lying to people about their mortgages. How is that any different to Andy Fastow's behaviour?

In a larger sense the entire subprime crisis in the US is about the dodging of responsibility. In the old days a company originated a mortgage, held the mortgage, and had every incentive only to lend money to people who could afford to pay it back. The financial system has now taken to what it likes to call 'spreading out risk', but it actually means it's very difficult to tell who's holding the bag. The mortgage is originated, it is sold to a Wall Street firm, who then packages it up and sells it to investors all over the world. So the person who originally makes the mortgage only has an incentive to lend the money and then they can sell it. Once again, Wall Street was at the centre of the problem. It's why I said at the beginning that Enron was relevant for non-obvious ways. Things haven't really changed. That makes Enron not a relic of times past but a symbol of what is still wrong.

I was in India recently and US Secretary of the Treasury Henry Paulson, was asked if there is a problem when innovation gets ahead of regulation. He defended it as a good thing. He said it made all sorts of creativity possible and that, although there are problems, it's worth the cost. I can see his point in some ways and it is true that this is the way US capital markets have always functioned, but it is also true that ordinary people seem to end up paying a heavy price while those responsible seem to walk away with millions of dollars.

I was on a small plane recently and somebody asked where I was going. I replied I was off to give a talk on corporate ethics and the guy cracked up and said: 'That should be a real short talk!' Everybody else laughed and I laughed too. It is funny on one level but on another level it isn't, because our markets function on the presumption of trust. If that trust breaks down it leaves a very large problem.

Bethany McLean is editor-at-large at Fortune *magazine in New York. Enron's collapse was one of the great financial scandals, and Bethany's 2001* Fortune *article 'Is Enron overpriced?' is generally regarded as the first in a national magazine to express doubts about the company. She later co-wrote the definitive history of Enron,* The Smartest Guys in the Room*, subsequently made into an Academy Award-nominated documentary.*