

# Summary of the film "the smartest guys in the room"



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' Enron: The Smartest Guys In The Room' Frauds and financial scandals in the business world were before an Enron's case and will be after it. That's in human nature. But a chain of events lead to an enormous shock on the Wall Street and went down in history as one of the biggest business scandals. For a long time sequence of events was a basis for articles and books, documental films and analytic researches. Specialties were retold and discussed by analytics. It was real human tragedy.

The film ' Enron: The Smartest Guys In The Room' tries to answer the questions that all people somehow connected with the business world were interested in: How it could happened? What are the reasons and who is responsible for that? The film tries to lift the veil. From the beginning of the film it is clearly stated that the Enron case is exceptional. Working in a field of energy and power, having reputation of ' unsinkable' ship and demonstrating fascinating financial results, Enron dramatically collapsed almost in a day. But the beginning of this story is bright and ambitious.

Enron represents a company of great promise. The first seconds of the film represent an end of it: John Cliff Baxter committed a suicide, being heartbroken with what was happened. And it was a conviction of the fraud that was happened. After this crucial episode, viewers come to the best years of the Enron. It is a seventh largest corporation in America, valued 70 billion \$. It is an innovative business with absolutely new business model. But how it starts? It starts with Ken Lay, who comes to the story of Enron from humble roots. His father is a Baptist minister and their life is rather poor.

Probably, his background plays an integral role in having huge ambitions to make wealth of him. Ken Lay wants to change a market of power and energy. He convinces that government is not a solution but a problem to the business. In other words, he involves in the idea of deregulations. Not only he but other participants of a power and energy business share this outlook. A tendency to deregulations starts to develop in 1985 and in this very moment the Enron is founded. Kay Lay thinks that it would be beneficial for his new company that gas prices float with the currents of the market.

That is the power of deregulations. An important episode of Enron is a contribution to the presidential campaign of George Bush, who lately helps to secure money in government subsidies and to promote Ken Lay with idea of deregulations. Trading in oil market considers as a very risky business. But Enron always wins. Even then an improbable success gives a rise to doubt about legality of Enron's business. Illegal actions start with the president of Enron Louis Borget, who takes about 3 billion \$ of corporate funds in his personal account with the help of a treasurer Mastroeni and his phony books.

When the rumors become too strong, Mastroeni discloses real books and it becomes clear that all reserves of Enron are gambled away. This tremendous news is hidden by the bluffing of the market and that is how Enron stays afloat. But a little later Enron is forced to disclose the information about those manipulations and all guilt is focused on Mastreoni and Borget.

Mastreoni receives a suspended sentence, Borget spends 1 year in a prison.

So who will make money now? The second period of Enron's history is connected with Skilling, who is a person with the biggest ideas of all. He is a great visionary as a Ken Lay.

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It is he who comes up with a new idea: make energy a financial instrument like stocks and bonds. And it is like an explosion in the industry. Enron becomes a genius of the industry. All employees are proud of being working in Enron. It is worth mentioning, that it is a moment when SEC approved an implementation of a mark-to-market accounting approach, which allows estimating assets of the company by a market price and not by a real. It also allows booking potential profit as it is already gained before money comes to Enron. That is the first almost unobservable alarm bell to a room for unethical actions and frauds.

If to speak about work environment, it is clearly seen that Skilling is an unconstrained leader. Interesting fact of his power is that when he stops wearing glasses, everyone in the company does the same. But the culture that is cultivated is aggressive and tough, like in a wild nature with the basic instincts of survival of the fittest. Skilling is convinced that money is the only thing that motivates people. He wants employees to show him great results, great profit. Therefore, traders are encouraged to gamble. Making money no matter what the methods are used.

Skilling also implements a system of evaluation of employees and every employee who does not meet the demand of Skilling's vision is fired. As a result of this system, turnover index is 15% that is really negatively impressive. Skilling's vision of people is based on the theory of ' People with spikes'. Only extraordinary and exceptional people deserve his attention and respect. The list of people consists of Ken Rice who is a salesman of Enron; John Cliff Baxter who is very talented but prone to depression (as viewers of the film know, that will be a fatal point in his future).

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The list continued with Lou Pai – a key skilling lieutenant, working in one of the business units of Enron – Enron Energy Services (EES). His activity is wrapped in a mystery; employees even call him ‘ Invisible CEO’. Lou Pai is highly motivated by money. When he loses interest in his work in Enron, put another way, when he achieves a marginal profit, he leaves or better to say escapes from Enron with 250 million \$ and becomes the 2nd largest landowner in Colorado. The next stage of Enron is connected with its stocks that are being increased significantly day by day.

Everyone wants to play in the market because prices go up and up; there is an illusion that it will never end. The heading of this time is ‘ A new day a new record’. By all means, these records have a direct impact on a profit of Enron, which gets higher and higher. But how they get these numbers? It is a questionable issue. In the books everything goes perfect but in reality it was quite the opposite. At this time Enron invests in India that is unreasonably risky. And they fails because India could not afford to pay for the power which Enron offers. As it is said in the fim ‘ Failure was not an option’. Hence, Enron hides nsuccessful results in India, continuing show artificial bright results. Later, a merger with electrical company makes it possible for Enron to come into a new deregulated market of California. The company shows unrealistic results: stock price are soared by 34% in 2 days. Analysts were blinded to the doubtful information that is already occurred. It is not an unfortunate occurrence, but it will be disclosed only later. Enron diversifies its activities; in particular, it covers a new market of broadband. But it does not work. It is a mark-to-market accounting that helps Enron to book revenues as it is wanted to be.

In reality there are not any revenues. And that is the moment when executives of Enron begin to understand a certainty of collapse; they start to sell their stocks. In other words, they leave a sinking ship. The end is coming. In 2001 dotcom companies undergo massive difficulties whereas Enron is a shining star of an American economy. It is named as the "most admired" corporation by Fortune magazine. But Enron is a black box. Nobody knows how exactly money is made. Suspicions of falsification of financial statements begin to occur. The next key figure in the Enron's case is Andy Fastow who is a financial officer.

He is motivated by a future career. He tries to please Skilling and therefore he hides debts in artificial companies and handles finance so that stock prices continue to go up. Moreover, he encourages 96 individual banks to put their money in LJM (Andy's artificial company) to somehow change Enron's situation. Why do respectable banks do not suspect illegality? Analysts suppose that they do suspect, but agree to give money because Andy Fastow plays on their greed. They are 'useful idiots'. Actions cross the line when Skilling responds unethically to one reporter.

It is already seeable that Skilling starts to lose his countenance. He does not know how to keep stock prices high. Meanwhile, one more illegal chance to keep Enron's stock prices takes place. It is called 'California'. Enron produces an energy crisis. Blackouts take place; as a result a demand on electricity is soared and so do the prices. Consequently, Enron gets money. These manipulations lead to a lot of domestic problems of citizens of California but nothing changes. During this part, there is a comparison of

Enron's activity in California with Milgram's experiment which is quite remarkable.

Both 'experiments' are about how people can be convinced to do something morally wrong if a person in authority tells them it is his responsibility and he will not be blamed. As in the Milgram's experiment Enron continues to manipulate with electricity and things become worse and worse. People understand that nothing is left to accident, they blame Enron in this; desperate protests take place. In this time George Bush becomes a president of the USA and therefore with the old beneficial relations Enron does have an easy access to the administration.

As a consequence, government does not interfere in the Californian difficulties. People stop believe in Enron and its stocks begin to fall. In this moment Skilling suddenly announces that he resigns from Enron. Employees take this is as a betrayal. One of the employees - Sherron Watkins becomes aware of the fraud that takes place at Enron. She tries to speak with Ken Lay but he does nothing. Meanwhile Securities and Exchange Commission (SEC) starts an investigation and discovers that in reality millions of assets are millions of debts. And it is Andy Fostow who is blamed by all Enrons' executives for falsifications.

It is interesting to note that the same situation was with Borget and Mastreoni in the early 1990s. The end comes in 2001 when Enron declares a bankruptcy. Employees feel that they are on the sinking whip without lifeboats. They lose everything. Cliff Baxter commits a suicide 7 months later. Concerning tragic specialities, \$ 1, 2 billion in retirement funds and \$2

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billion in pension funds are disappeared in a matter of weeks. 20, 000 employees lose their jobs. Ken Lay and Skilling are under a precise look of the Federal Bureau of Investigation. The congressional committees launch court proceedings.

It is the end of the film ' Enron: The Smartest Guys In The Room'. Enron's tragedy is often compared with Titanic. And that is not just empty words. In both cases there were a lot of warnings of possible danger but ' ships' continue a full-speed running. In both cases there were great opportunities but then a combination of human errors and hubris lead to a fatal meltdown. The fall of Enron is a story not only about people but about whole system, consisting of government, financial and business institutions, conditions and relations. All participants in fraudulent actions have their share of a pie.

That is why this story is called ' a story of synergetic corruption'. I am absolutely fascinated by this film, to be precise, by a scale of greed and addiction to money and power. Understanding that characters of this film are the real people and all actions that were showed really took place makes me fascinated even more. To my mind, Enron case is not an aberration; it is a consequence of way of living. It is a ' dark shadow of the American dream' as it is said in the film. Therefore, it can be repeated. And it can be us who would be affected by manipulations. That really boggles the mind.