TRANSCRIPTION CENTRE

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Erika: Hello, and welcome back to this unusual episode of Words & Actions, which is a joint venture between ourselves and a podcast that focuses on language mysteries and literary detection and forensic linguistics. We dreamed up this co-production to show not only how business and crime is often intertwined, but also how much the study of language can do in both cases. Welcome to my co-hosts, Bernard and Veronika.

Veronika: Hello.

Bernard: Hi, good morning. So, the structure of this podcast will be slightly different. This is how it will work; we'll have an introduction of, let's say, one of the biggest corporate scandals of our time, and this introduction will be done by en clair. Those familiar with the en clair podcasts will know that the listener is in for a treat.

And then, following Claire's intro, Words & Actions will take over again, and you know that our main focus is on language. And, in this particular case, on communication and how the communication in a way reflects the impending collapse of this particular company. But also, how communication contributed to the creation of illusion, you know, that everything was still okay. So, we'll have that tension in our data analysis.

Veronika: Right. And, as usual, we will analyse, as Bernard just said, a piece of communication. This time, it's an email exchange between two executives at the company, or a former employee and an executive. And we'll also have a brief chat with Dr David Wright, who is a forensic linguist who has worked with a corpus of emails of this company. And he will talk a bit about the details that one can find about corporate life when one has a chance to look at the emails.

So, we'll now hand over the floor to Claire Hardaker from the en clair podcast, who will introduce us to the rise, and then later, to the fall of the company in question. Which, as you may have guessed by now, is Enron.

Claire: We're in Missouri, in Texas. It's 1942, and baby boy Kenneth Lay has just been born to Ruth Rees and Baptist preacher Omer Lay. Lay grows up in poverty with parents whose education stopped at high school, and yet, he will go on to be first the heroic poster boy, and then the villain, of the American Dream.

In 1964, aged 22, Lay earns a BA in Economics from the University of Missouri, and the year after, he follows up with an MA in Economics. Throughout his studies, Lay gains a reputation for being fiercely smart, but his particular talent is for cultivating influential connections… and loyalty.

From 1965 to 1968 Lay works at Humble Oil Company (later named Exxon) whilst taking night classes for a PhD in Economics. By 1970, he's joined the US Navy as a researcher and completed his PhD. By 1971 he's a financial analyst at the Pentagon, and by 1972, he is Deputy Undersecretary of Energy in the Department of the Interior.

And then the energy crisis hits.

The energy crisis – actually a series of crises – involves hostilities and tensions and oil trading embargoes between the Western world and the Middle East. But as this unfolds, it throws into sharp relief an opportunity. Lay realises not only that the natural gas industry is a mess and needs restructuring, but that he has a plan. He leaves politics for the private sector, and over the next decade, he rises rapidly. By 1976, he's president of the Florida Gas pipeline section. By 1979 he's president of Florida Gas as a whole. By 1984, he's tipped to become Transco's next CEO…

But then he meets John Duncan, a prominent board member of a Texas-based pipeline company.

Over breakfast one Saturday morning, John Duncan asks then 42-year-old Lay, would he like to become the CEO and chairman of

Houston Natural Gas (HNG)? Unsurprisingly, Lay snaps up the opportunity. In June 1984, when Lay starts, HNG is, relatively speaking, rather small, and this puts it at risk of hostile takeovers from much larger firms. As a defensive strategy, Lay rapidly acquires Florida Gas and Transwestern Pipeline, effectively doubling the size of HNG.

Meanwhile, in Omaha, Nebraska, InterNorth is one of the biggest pipeline companies in the industry. Under CEO Bill Strauss, InterNorth has been a resounding success. Strauss has been cautious. His firm has next to no debt. But this too makes it very attractive to corporate raiders – that is, investors who try to take over companies by purchasing large numbers of shares, usually to then sell off assets and make enormous profits. In 1980, however, Strauss had retired, making way for new CEO, Samuel F. Segnar. Segnar is well aware of the circling corporate sharks who are already snapping up shares, but, even five years in, he's still inexperienced. And now he's desperate.

In April 1985, Segnar calls Lay and offers to buy HNG. Segnar's theory is that the merger will both consolidate InterNorth's industry dominance *and* make InterNorth less of a target, especially since HNG is around $5bn in debt. In May 1985, the ink dries on the $2.3bn deal, and since InterNorth is around three times bigger than HNG, one might expect Segnar to have greater control. But here, Segnar's inexperience and desperation begins to bear poisonous fruit. HNG have handled the contractual negotiations with extraordinary skill. The business would not become InterNorth-HNG. It would be HNG-InterNorth. Moreover, HNG's senior executives must be in charge of the new company, and Lay must replace Segnar as CEO within 18 months of the merger.

In fact, Segnar barely makes it past six months, abruptly resigning in November of 1985. Lay just as promptly takes over and begins to replace board members with directors of his own choosing. In a silent, devastating coup, the smaller HNG consumes the larger InterNorth from the inside out. But the troubles are not over.

Segnar's botched merger has not only cost him his role as CEO, it hasn't even dealt with the original problem. In the months leading up to the merger, the corporate raiders still managed to accumulate a 16.5% stake in InterNorth. Lay's solution? Ransack the company's pension pot and buy the raiders out at a cost of $350m.

If the HNG-InterNorth merger was born of desperation and inexperience, then the resulting company quickly became a toxic hotbed of savage backstabbing. Lay was struggling to form a coherent executive since his team were continually locking horns. Even the process of selecting the new company's name went ominously wrong. Lay paid New York consultants $10,000 to spend months coming up with hundreds of names. Lay's first choice was *Enteron* and 75,000 annual report covers were printed. Then, the *Wall Street Journal* pointed out that 'enteron' is a medical term for the digestive tract. Not the best choice for a natural gas company, and a timely reminder to have a linguist on your PR team.

The name became an overnight laughing stock and had to be replaced with the runner up. Thus, out of a mess of contractual evisceration, management feuding, and public humiliation, the modern-day Enron was born. Such a start does not augur well, and in its first year of operation, the business reported losses of $14m. By January 1987, credit agencies had given Enron a "junk" rating, and Lay frantically froze senior executive pay and sold assets.

The Enron ship looked ready to sink.

But Lay had a golden goose. In Valhalla, New York City, an InterNorth subsidiary that had been renamed Enron Oil in 1987 was pouring in a tidy profit of about $50m, mainly from its two top traders, Louis Borget and Tom Mastroeni. Enron needed this money, so, when accusations of rogue trading began to reach Lay, he wasn't in a rush to investigate. Evidence emerged of doctored statements, unrecorded bank accounts, massive, suspicious wire-transfers… Lay asked Borget and Mastroeni to explain, and they claimed to be profit-shifting – smoothing out income spikes over the year to make profit increases look more stable and consistent, thereby garnering better credit ratings for bank loans. Shifty? Yes. Bad practice? Absolutely. Illegal at that time? No.

Of course, the reality was something else entirely: duplicate accounting books, money-skimming, huge failed bets, and more. Inevitably, the money springs dried up, and with them went Lay's patience. Within three weeks he had not only discovered the betting and skimming and defrauding. He had also found that Enron Oil was a cool $1bn dollars in debt. Enron itself was already $4bn in debt, so this was devastating.

Lay and his team sprang into action. Through a series of clever bluffs they reduced the $1bn debt down to $140m, and Lay presented himself as the wronged victim. To cement this, he threw Borget and Mastroeni to the wolves. Enron was still investigated by US District Attorney Rudolph Giuliani – yes, *that* Rudy Giuliani – but, despite all the evidence to the contrary, this investigation concluded that Enron senior executives had not known anything about Enron Oil's fraudulent activities.

On an entirely unrelated note, throughout these years and beyond, Lay regularly networked with people from Washington, donated millions of dollars to various political figures, openly supported Republican candidate George W. Bush, and spent plenty of time socialising with George H. W. Bush.

By 1988, the Enron Oil Scandal was old news, but Enron itself still had significant problems. Lay's hiring policy was based heavily on rank nepotism. Mostly, he just hired people he knew and liked, and that turned Enron into a snake pit with everyone fighting to be first in line. To his cast of top characters – and try to remember these names if you can – he added ruthless Harvard MBA Jeffrey Skilling, and Skilling added his 29-year-old protégé, banker Andrew Fastow.

Fastow and Skilling brought with them clever contracts, dubious accounting practices, a proliferating empire of shell companies, a series of acquisitions, and an all-out invasion of emerging international markets. Enron expanded into the UK, Eastern Europe, China, the Middle East, Africa, Central America, South America, and it diversified into electric, coal, steel, paper, water, broadband.

Enron's rise became meteoric and profits soared: in 1993? $453m. In 1995? $520m, and stock prices tripled. In 1998, Enron launched its water industry spin-off, Azurix. In 1999, it launched Enron Online. This grew at lightning speed, and Enron's stock increased by 56%. In 2000, stock increased by 87%. As just one example, on the first day of 2000, Enron shares cost around $40 each, and on the last, they were nearly $90 each.

So, in February of 2001, just as Enron is valued at $66bn, as it sits in seventh place in the Fortune 500 and as it enjoys $100bn in revenues, why would Kenneth Lay suddenly hand over the title of CEO and Enron president to Jeffrey Skilling?

Lay's unexpected departure was, of course, just one of the lightning cracks of failure spreading across the Enron veneer. As it turned out, under the glowing surface of success, employees would later describe Enron as competitive, stressful, chaotic, unstable, demoralising, ruthless, crooked, dysfunctional, and toxic.

Erika: Good. So, we've heard now how Kenneth Lay created Enron, how the company survived a first accounting scandal already in the 1980s, but how it was this remarkable success story, seemingly, all through the 1990s then. But we also learnt that this outward success was built on very shaky ground. So, on what's sometimes known as creative accounting, it was built on nepotism, and it was also built on a very toxic corporate culture.

So, is it possible that no one noticed, inside and outside, and how is that possible?

Bernard: I think it was possible for some time, and I would actually like to refer back to a case that we had in Belgium which was very similar. So, in a way, it's a painful trip down memory lane, because lots of people, even my parents, invested in this company. So, what happened is, this is Lernout & Hauspie; they had this company on speech recognition technology, and it was very, very high-tech.

They actually went on NASDAQ and, in their peak time, they had a market capitalisation of about $10bn, so that was a success story.

Veronika: When was that, Bernard? Whenabouts was that?

Bernard: That was the late '90s, and the bankruptcy was 2001. Actually, official records say that the Lernout & Hauspie case is the biggest corporate scandal prior to Enron.

Veronika: But same year, so just prior to? Okay, yeah.

Bernard: Yeah, just prior to. And the thing is, that what they did was very similar, and we'll hear more about that later in this podcast, to what Enron did. So, this is, you know, kind of history repeating itself with Enron. And what you could see then is that people wanted to believe this story, because this was Flanders's pride; we actually referred to the site where the company was located as Flanders Language Valley, you know, similar to the Silicon Valley?

Veronika: Oh right, yeah.

Bernard: Yeah. So, I think, in a way, people want to believe this story, because their own dreams are tied to this story, because they have invested in it. So, in a way, I think, yes, how is it possible? Well, because people want to believe it. But, of course, after some time, it is indeed too good to be true, and then you can see the cracks appearing as Claire was also mentioning.

Erika: Yes, and, you know, this kind of deception happens at several levels. So, we know from Enron's case, they were trying to persuade analysts and investors about the financial health of the company. That said, closer to 2001, more and more people became suspicious.

Bernard: Mm-hmm.

Erika: Analysts didn't believe the numbers. So, we can see this duality in communication. That, on the one hand, you see these shiny, embellished messages coming from the company and many people go along with it, and then there are those other people and those other messages that come from under the surface, under the radar, which kind of show how these cracks start to appear in the structure.

Bernard: Just to pick up on that, Erika, in the Belgian story, the Lernout & Hauspie story, what is ironic is that the scrutiny came from the United States (Laughter).

Erika: Right.

Bernard: So, they were very suspicious about this very successful Belgian company, and they started analysing it. And then, they also noticed, "Okay, someone has been cooking the books here," and the very same thing was actually happening at the same time in the US.

Veronika: Yeah, at Enron, yeah.

Bernard: Yeah.

Veronika: And also, I mean, I don't know if it was the case for that Flemish company, but at Enron, there were also clearly signs of a very toxic internal culture, no matter the shiny outward success. Internally, culture had become very aggressive, bullying, even abusive; very toxic.

We have one email here from a former employee who then worked for another energy company, and who was writing to Kenneth Lay, and after Jeff Skilling has resigned very suddenly as CEO. And she sort of rings a warning bell, if that's a metaphor, okay? So, if I read out part of this email, okay, and she says the following, "Mr Lay, I'm not writing this in malice, but in hopes that it helps Enron get back to the way it used to treat their employees and make it the number one employer or choice again."

So, clearly, first of all, things are not as they used to be, right?

"I am now working for a competitor," she continues, "And since I work in HR, I continually run into former Enron workers who have also left. Most of their reasons are the same; it is not that they have lost faith in Enron as a company, but because of the way they were treated by their managers."

"During the last five years I was there, I noticed a change of direction in the way employees were treated by upper management. I have heard stories of lower-level employees being screamed at. Believe me, the way employees are treated at Enron is being talked about on the streets of Houston, on the different college campuses. Good luck on bringing Enron back to the way it was."

Erika: Okay. Well, listeners may wonder how on earth we have access to this email. And this is exactly what we're going to be chatting about with our guest, David Wright, who did some research on Enron emails.

(Music)

So, welcome, David, on our podcast.

David: Thank you.

Erika: David Wright is a lecturer at Nottingham Trent University, and in his bio, he says that he and his research explores the application of language analysis to help improve delivery of justice. Hi, David.

Veronika: Hello, David.

David: Hello.

Bernard: Hi, David.

David: Hi, thanks for having me.

Erika: So, we've been chatting about an email at Enron, and we wonder whether you can fill us in on the story behind the release of this email, or other emails.

David: Sure, yeah. So, it's quite unique in its size and scope as a sort of one corporation email set, and it was released after the bankruptcy of Enron.

There was an investigation conducted by the Federal Energy Regulatory Commission in the United States and, as part of that investigation, they seized huge numbers of documents from Enron, trying to get as much evidence as they could about what happened.

And that included an email set. The original email set that was collected and eventually released into the public domain by the court, or by the Federal Energy Regulatory Commission, contained some 1.6m documents.

Veronika: Wow, that's a lot of stuff.

David: It's a lot of emails. But, and often, it's often quoted where you read that there were emails of 150 employees. Once you dig down into the folders, there are actually 174 employees. The reason for that is because, in the release, some of them were subsumed together, you've got people writing on behalf of other people.

So, there are more employees than has often been announced, but still, Enron employed almost 30,000 people, so 150 of them in the Enron corpus. The email corpus is a fraction of that. But yeah, it was essentially released by the courts for public consumption, basically.

Erika: Right. So, when you say these 150 or so employees were the employees from all different parts of the company and all management levels? Or was there a particular subset?

David: They were a cross-section across different types of jobs and, importantly, different hierarchies within Enron, different levels of the hierarchy within Enron. So, you had, you know, your traders who were doing the day-to-day business, but you also had high-level management, senior management, who were running the company.

Bernard: Now, when you have a look at the external communication by Enron, you can actually see that lots of it is smoke and mirrors. But you have this huge corpus that you can look into. Well, my first question would be, how do you start? Where do you begin?

David: (Laughs).

Bernard: One of my first questions. And, secondly, what are you basically looking for? And was there anything that you could spot in the email corpus, early signs of things starting to go wrong or fall apart?

David: Well, that's a good question about where do you start, particularly given that I was using the corpus for a very particular reason, which was to run methods and experiments on authorship analysis. But the first thing that I looked for was to see how many of the key players were in there, how many of the big names, and the answer is a few of them.

Some of them, for instance, Ken Lay's in there, Jeff Skilling's in there, but they have far fewer emails, some employees have several thousand emails in there, and Ken Lay has about nine. So, that was the first thing I looked for; to see who the big names were in there and which were, essentially, the best authors or the best employees for my purposes, which was normally the ones who had the most.

Veronika: Right. And any early warning signs? Any emails that stuck out where you say, "Oh, things are starting to fall apart here"?

David: Well, as has just been pointed out, it was a lot of smoke and mirrors. And it was quite, quite common in the Enron corpus that they would often direct each other to offline modes of communication; so, "Give me a call," face-to-face meetings, that sort of thing. So, even if there were any subtle hints that something was going wrong, far be it from me to be able to identify that.

However, one thing that did come to my consciousness, which was an email by, in fact several emails, by Greg Whalley, who was a president and chief operating officer at Enron. And I don't know whether this counts as early warning signs, or damage limitation once the cat was out of the bag, but in terms of October/November time in 2001, there's one email in particular in October of that month, which is a week before Enron announced huge losses and sort of $1bn wiped off shareholder equity.

Which was an email to say, "On the basis of what we're going to announce next week, is there any way where we can secure some sort of down payment on bonuses for a small number of employees?"

Veronika: Oh, so trying to save what was there for them to save, really?

David: Yeah, basically. And there were a couple of emails from Greg as well, that were responses to other employees who'd obviously emailed with some sort of concern. Whether that was about Fastow, who was the guy whose head was on the chopping block, so to speak.

Veronika: The chief financial officer, yeah?

David: Yeah. And others, you know, people concerned about their jobs and that sort of thing. So, not so much early warning signs, but certainly trying to fight some fires once the word was out.

Veronika: Wow. Thank you, David. That was a fascinating insight really, you know, into a very large corpus.

David: Sure.

Veronika: And, on our blog, we will reference some of your work, obviously.

David: Oh, great. Thank you.

Veronika: So, people can have a bit more of a dig into that. But, for now, thank you very much for joining us.

David: Thank you. Thanks, everyone.

Erika: Bye.

Bernard: Cheers.

(Music)

Veronika: Good. So, we've had some insights into this huge number of emails from within Enron. But let's now focus on the email that tried to expose problematic behaviour in the business. And let's look at a concept that

Spicer calls, and I apologise for the language here, business bullshit, okay?

And he says that BS, as we shall call it, "is not the same thing as a lie, because people who engage in BS do not try to cover up the gap between what they're saying and what the reality is. But, rather, they are actually indifferent to how things really are. They don't care about whether their complaints conflict with reality, and they don't care whether grand pronouncements are illogical, unintelligible or downright baffling, because all they care about is whether people will actually listen."

Erika: Fortunately, or unfortunately, hard to decide, we are laden with examples from current politics to illustrate business BS. One recent example from the Prime Minister, current Prime Minister in the UK, Boris Johnson, when he was giving a talk in September 2019 about Brexit, and he coined the then much quoted phrase, "I'd rather be dead in a ditch than delay Brexit."

And, of course, Brexit was delayed after that, but the phrase nonetheless lives on. And, if you really think about it, what it means and what it does, it's very, very hard to put your finger on its true meaning.

Veronika: I mean, it's a rhetorical device; it's clearly a scripted phrase, isn't it? So, he was, at the time, talking at a police training centre in Yorkshire who, in the event, were not too happy about being used for that, but that's a different story. But this phrase, "I'd rather be dead in a ditch," it's an alliteration, of course. It's also hyperbole; it's completely exaggerated.

But, in terms of speech acts, there is actually no intention behind it, yeah? It's what we might call a false speech act because, only weeks later, he delayed Brexit. So, the point was never to make a promise or anything, it was just to get the attention, come up with a rhetorical phrase that would look good the next morning in the media, I suppose.

Erika: Yes. And this idea of getting people listening works really well, so that's why we think that this concept of business BS that Andre Spicer writes about, is so good.

Veronika: Yeah.

Bernard: Yes.

Erika: Because it explains this emptiness.

Bernard: I'm not sure whether you noticed, Veronika, but I liked the way Erika lowered her voice when she impersonated our dear friend, Boris Johnson.

Veronika: Oh no, I didn't.

Bernard: Did you hear that, "I'd rather be dead in a ditch"?

Veronika: No, I didn't, no (Laughs).

Bernard: Yes, which increased the hyperbole a bit, I thought (Laughter).

Veronika: True.

Bernard: Now, talking about hyperbole and rhetoric, maybe we can go back to Pam Allison, who we looked at before.

Veronika: So, her warning email to Ken Lay, yeah?

Bernard: Yes, the email to Ken Lay, and see what his reply was. So, here we go, I will just read it out for you. I won't lower my voice, or just, you know…

Veronika: It's low enough as it is, Bernard, you're all right (Laughter).

Bernard: Well, thank you, Veronika. I was fishing for a compliment, and there we have it.

Veronika: (Laughs).

Bernard: Here we go; "Dear Pam, thank you for your email of August 15th. It is always a pleasure to hear from former employees. Thank you also for calling attention to instances which, on the surface, do not appear to be representative of our expectations of Enron leadership. Part of our continuous improvement involves an ongoing review of our management and the diversity of styles therein.

"True, not everyone is agreeable to Enron's culture or the many different management styles at Enron. We do, however, expect all of our employees, not just management, to adhere to our core values of respect, integrity, communication and excellence. These values become even more significant as we continue to grow and expand our scope of business. And more critical as we become a more culturally diverse workforce.

"We enjoy our status as one of the best places in America to work, according to Fortune and other sources, thanks in part to our willingness to examine our organisation and make needed change. Our employee surveys believe in open communication, and exit interview process for employees choosing to leave Enron are examples of our efforts to seek out feedback and scrutinise the way we do business. Your feedback will help play a role in that process. Sincerely, Ken Lay."

Erika: Right (Laughs).

Veronika: Wow. Yeah, there's a lot going on there.

Bernard: What do you make of that?

Veronika: Well, I mean, the first thing is, so he tries to appease, I guess. You know, so he starts with some politeness. We looked at politeness in our episode on talking to customers. So, he starts with, "It's always a pleasure to hear from former employees," and ends on, "Your feedback will help play a role in that process," so there's some, sort of, mollifying going on, I suppose.

Bernard: That's true, yes. But I look at this reply as a reply to, what I would call, a complaint from a former employee. Now, if you take, or have a look at literature or research on complaints management, he's doing a fair number of things wrong, from my perspective. First of all, what he doesn't do is apologise. And what we see in the literature, the first thing you have to do, in a way, is apologise. Even when the complaint is not granted or untrue.

In this case, it is actually true, but he doesn't apologise for it. And, secondly, what he doesn't do is personalise his message. So, "It's always a pleasure to hear from former employees," you know, he could have said, "It's a pleasure to hear from you," right?

Veronika: Yeah. It's very distanced, isn't it?

Bernard: Yeah.

Veronika: Then, he goes into a lot of mitigation, you know? So, he says, 'Calling attention', so I mean, she's warning him, really, you know?

Bernard: Yeah.

Veronika: But, "Calling attention to instances which on the surface do not appear to be representative," okay?

Bernard: Yeah.

Veronika: So, it's a lot of mitigation. So, trying to wriggle out of it, to use a technical term. And what he also does is he then deflects attention away from management, or managers, really. Because she was very concrete. He says, "Staff talk about being yelled at by senior managers," and he turns 'senior managers' into 'leadership', which is very abstract, isn't it?

And then, he also deflects attention further away. He says, "We expect all of our employees, not just management," so we have the abstract 'management' again, rather than 'managers', and this is widened to 'all employees'. So, he sort of takes managers out of the firing line, as it were.

Bernard: True. This is a bit of a weird shift. Because the problem is, or was, management. And Pam actually refers to a couple of people and she mentions their names, and here, he is just widening the scope, involving all employees. But there doesn't seem to be a problem with the employees, but he seems to be implying that there is now.

Veronika: Indeed, yes. So, he goes onto these values, you know?

Erika: Yes, and talking about obstruction, look at those values. I mean, these values come from the 1998 annual report where they say, "Our values are respect, integrity, communication and excellence," and they're also defined in this written piece of communication.

This leads back to the idea of business BS, because this is a kind of sense-giving where a company tries to define certain terms and then passes these definitions on to employees, or at least tries to, in the hope that it will then create a true representation of reality. But, you know, talk about integrity and excellence, we will hear in Claire's part how that was not the case.

Bernard: Yeah.

Veronika: It certainly wasn't the case in the culture at the time. And it's interesting how he then… You know, we saw how he moves attention away from managers and widens the scope to all employees. And then he almost seems to shift the blame; he says, "Not everyone is agreeable to Enron's culture."

Erika: Yeah.

Veronika: So, "If you don't like it here, tough, basically. It's your problem." Right, that's what he's saying, in effect.

Bernard: Yeah.

Veronika: So, it's not the fault of managers behaving in an abusive manner, it's you just not being suitable to our culture.

Bernard: It's true. It's as if he's saying, "If you want to play with the big guys, adjust," right?

Veronika: Yeah.

Bernard: "This is a culturally diverse working situation," and he's using that almost as an excuse to account for the different management styles. But, in a way, I think he's disregarding the reality that is created in Pam's email, which is very specific, very concrete, and he goes back to the abstract notions of respect, integrity, communication and excellence.

And I think that, in a way, that's a very ballsy statement, let's say. Because he doesn't seem to care at all. This reply could have been written to anyone with any type of complaint whatsoever.

Veronika: Yes. It's very boilerplate, isn't it?

Bernard: Yeah.

Veronika: And he also then goes on, in the second part, about talking up the company. And he did a lot of that, and the more the company was threatening to go under, the more hyperbolic the communications became, really, yeah.

Bernard: He's also referring to the open communication. "Exit interview process for employees choosing to leave Enron," and that is interesting as well, "Choosing to leave Enron," right?

Veronika: Yeah.

Bernard: As if it is their own decision. But, when you look at Pam's email, you could actually see… You didn't read all parts of it, but in the entire email, you could see that people didn't really want to leave.

Veronika: No, they were bullied out of their jobs.

Bernard: They were bullied out of their jobs, exactly. And, in this particular case, he's just referring to, "People choosing to leave Enron," right?

Erika: Yeah. So, what we can see here is this sense-giving in action. This leader is trying to frame reality in a certain way to those who will read this response, or this person, and frames reality in a way that portrays reality his way, and the way that suits his intentions.

Veronika: Yeah. One reframing that he does is that the accusation, or warning, was about an abusive, toxic culture, perhaps also about the company becoming too big, and he reframes that as, "continuous improvement."

So, the email is full of phrases like 'continue', 'continuous', 'ongoing, 'become', etc.

So, a classic case of how language constructs social reality, which we talked about in an earlier episode. But let's look a bit more at that framing. Erika, you know a bit about framing, don't you?

Erika: Yeah. I mean, framing is a big concept, especially in communication, communication theory, crisis management, and very topical these days with coronavirus and all of us following the news. Because the idea of framing is about choosing certain aspects of perceived reality and making them more salient in communication. And this salience will then affect how people react, how people respond, how they perceive reality.

And the kind of framing that we talked about related to the email was what we call semantic framing. So, this is about choosing certain words in a way to select certain aspects of reality. So, for example, talking about 'toxic culture' but framing it as 'improvement' or 'continuous improvement'.

Bernard: Oh, yes.

Veronika: Or talking about employees 'choosing to leave', you know?

Erika: Yes.

Veronika: Right. And I think you can also see that in annual reports. Just to refer to another type of business communication. Where people don't talk about problems for the company in the future, but challenges that they will be facing. And that's a completely different type of phrasing, kind of framing as well, I suppose.

Veronika: Right. So, we now know that there were definitely warning signs at Enron, not least in emails from and to Enron executives and also in the communications among traders. But we also saw how warning signs were rebuffed. Rebuffed at the highest level. And we now go back to en clair, and Claire will tell us about how Enron fell from grace.

Claire: The first cracks to race across the Enron façade are narrow, but they run to the very soul of the business. So some acquisitions went wrong. Well, that happens. But the underlying fissure is Enron's rapid expansion into "markets in which it had little expertise".

So the CEO stepped down. Again, that happens. CEOs retire. But the recent blunders had tarnished Enron's reputation, and only weeks later, an article appears in *Fortune* magazine entitled 'Is Enron overpriced?' Journalist Bethany McLean wants to know, why is the stock price 55 times the company's annual earnings? And how is Enron making so much money?

April 2001. The faintest hints of smoke rise as Enron releases its first quarter financial results, glowing with a 280% increase in income. But figures submitted to the Securities and Exchange Commission (the SEC) show that Enron's profits aren't real money. Enron stock prices slide from $80 to $60 per share. Then, when another company's director asks new CEO Skilling for a balance sheet during a conference call, Skilling gets ornery, and then calls the other guy an asshole. Skilling later sends the SEC the numbers. Income: $425m. Outgoings: $464m. A net loss. Hand in hand, reputation and share prices slide further.

July 2001. The smoke is getting thicker and the first flames appear. It's now the second quarter and Skilling again won't provide balance sheets to analysts, only submitting them to the SEC because he must. The numbers are breathtaking. Income: $823m. Great! Losses: $1.3bn. Share prices slide to $50 each.

August 2001. More fires. Sherron Watkins, who has just been appointed vice president, promptly uncovers accounting fraud. She is about to confront Skilling when he abruptly calls a press conference and announces:

"I am resigning for personal reasons. I want to thank Ken Lay for his understanding of this purely personal decision, and I want to thank the board and all of my colleagues at Enron."

He's been CEO for less than six months.

Lay steps back into the role, and Watkins writes him an anonymous memo. Later, acknowledging her authorship, she confronts him with more evidence, pointing out that many employees have guessed at the dishonest accounting. She pushes Lay into an internal investigation, but Lay engineers it to be as limited as possible.

September 2001. Yet more fires. Bonfires. Rivers of fire. A letter arrives from two *Wall Street Journal* reporters. They have troublesome questions, and worse, access to damning leaked documents. Lay simply refuses to meet them. Instead, he continues to send peppy emails to employees, and encourages them to invest more in Enron stock, even whilst he himself is selling it off. He plans a lavish Christmas party, visits Washington, and donates $1m to relief causes following 9/11.

October 2001. The flames are now a roaring funeral pyre. Enron releases its third quarter results: a $618m loss. In typical Enron style, their statement cites "asset impairments", "restructuring costs", and "losses associated with certain investments", but the SEC is no longer satisfied. They launch an investigation, and stock prices plummet to $20 per share. Perhaps realising that even the *this is fine* dog's coffee is now on fire, Lay acts. He fires Fastow and begins discussions with rival energy company, Dynegy Inc., about being acquired to avoid bankruptcy.

November 2001. Implosion. In the middle of the Dynegy discussions, Enron releases corrected financial statements for the prior 4.5 years, showing for the first time in black and white that the company is drowning in debt. Despite this, the following day, Dynegy agrees to purchase Enron for $8.9bn. However, Dynegy soon realise that even these "corrected" statements still aren't accurate, and they withdraw from the deal. With the buyout off the table, Enron is instantly downgraded to junk status. Lay turns to his White House connections for help, but the Bush presidency has no desire to be accused of corruption, and as soon as it becomes clear that a bailout isn't happening, stock prices plummet to $0.26 per share.

Finally, on the 2nd of December 2001 Enron officially declares bankruptcy – the largest in US history at that time. Thrilling to know that at least five other corporations have managed to out-bankrupt Enron since then! Anyway, around 5,000 employees are sacked on the spot, receiving severance packages of $13,500. But just before the bankruptcy, senior executives are handed bonuses worth $50m, presumably to encourage them to hang around for Enron's eventual rebirth. And in its death throes, Enron sues Dynegy for backing out of the previous month's deal. Dynegy will later settle this lawsuit for $88m.

But Enron was never going to die quietly.

In 2002, the US Justice Department launches criminal investigations. The scope and extent of the ties between Enron and Washington soon emerge when large numbers of White House employees have to recuse themselves. And no sooner is the investigation announced than Enron's implosion turns apocalyptic.

Sherron Watkins's anonymous memo appears in the press.

A senior accounting figure is found to have ordered the shredding of Enron accounting documents.

A former vice chairman who had agreed to testify against Enron is found dead in his car from gunshot wounds. His death is officially recorded as a suicide but many find the timing extremely suspicious.

In the end, over thirty former employees are charged with Enron-related crimes. Twenty are high-ranking executives, including Fastow, Skilling, and Lay.

In January 2004, Andrew Fastow is convicted of wire and securities fraud, and in return for becoming an informant, his ten-year prison sentence is reduced to six years. Fastow is released in 2011, and he now gives speeches around the globe about "business ethics".

I'm not even kidding.

Two years later, in May of 2006, Kenneth Lay is found guilty of ten counts of fraud, but at 1:41am on 5th July 2006, three months before sentencing, Lay collapses at his vacation house in Snowmass, Colorado. He is later pronounced dead – the result of a heart attack. Given the timing, conspiracy theories abound that he is in fact still alive and in hiding.

In the same May 2006 trial, Jeffrey Skilling is also found guilty of conspiracy, insider trading, and securities fraud. He's fined $45m and sentenced to nearly twenty-five years in prison. He was released in February 2019.

And last of all, what about Sherron Watkins, the employee who confronted Lay and whose memo was leaked to the press? Well, she went on to write a book with Mimi Swartz entitled, *The Power Failure: The Inside Story of the Collapse of Enron*.

END OF AUDIO