

ENRON: The Smartest Guys in the Room

Directed by Alex Gibney, this is the inside story of one of history's greatest business scandals, in which top executives of America's 7th largest company walked away with over one billion dollars while investors and employees lost everything. Based on the best-selling book *The Smartest Guys in the Room* by Fortune reporters Bethany McLean and Peter Elkind and featuring insider accounts and incendiary corporate audio and videotapes, Gibney reveals the almost unimaginable personal excesses of the Enron hierarchy and the utter moral vacuum that posed as corporate philosophy. The film comes to a harrowing dénouement as we hear Enron traders' own voices as they wring hundreds of millions of dollars in profits out of the California energy crisis. As a result, we come to understand how the avarice of Enron's traders and their bosses had a shocking and profound domino effect that may shape the face of our economy for years to come.

Director's Statement

Like most people, I was a distant observer of the Enron scandal. Then I read *The Smartest Guys in the Room*.

Through Bethany and Peter's writing I saw that the story of Enron was more than a corporate scandal. It was a human drama with the emotional power of a Greek tragedy—yet tinged with the blackest humor imaginable. I felt that the film would give me an opportunity to explore some larger themes about American culture, the cruelty of our economic system, and the way it can be too easily rigged for the benefit of the high and mighty.

I became fascinated by the degree to which the executives at Enron were like filmmakers working on a science fiction movie: they just made the stuff up. They were very skilled at making the Enron story seem so convincing that everyone wanted to believe it. Skilling was an expert in managing a public suspension of disbelief. (There was black humor about this as well. At Enron, believing in Skilling's agenda was known as "drinking the kool-aid.")

As Mimi Swartz, co-author of *Power Failure: The Inside Story of the Collapse of Enron*, notes in the film, both Lay and Skilling were talented actors who convincingly performed their corporate roles with great brio. I think of two moments from the film. In one Skilling tells his employees that Bethany's article—the first to be really critical of Enron—was really just Fortune being "different" because Business Week had written a positive piece on the company. In the other, Lay says: "Our stock could always be higher" and you can almost see him leafing through real estate brochures for a new Aspen estate.

I was amazed by the degree to which virtually everyone—journalists, stock analysts, business school professors, even Alan Greenspan—believed the Enron story. Perhaps one of the reasons they were so convinced was that Skilling and Lay wrapped their mission in an ideology that everyone in the American business community wanted to believe: if there are no rules and regulations, everything will work out fine. It was like being guided by the keynote slogans of Gordon Gekko ("Greed is good.") and Alfred E. Neuman ("What, Me Worry?").

Given that so many analysts and reporters missed the fraud at Enron, I was curious about the few people who did see the collapse coming. In dramatic terms, they (particularly short-seller Jim Chanos and Fortune reporter Bethany McLean) were like private eyes, truth seekers who saw through the phony cover story.

"Ask Why"

There is bitter irony, humor and unconscious honesty in Enron's advertising slogan: "Ask Why."

In the context of its surreal commercials, the slogan becomes a boast about Enron's ability to question conventional wisdom. But given what we now know about Enron, "Ask Why" is almost an unconscious dare to outside observers: ask why Enron is so successful. It reminds me of the way that master criminals always leave clues for detectives, as if the discovery of the crime is a kind of cat-and-mouse game.

On a larger thematic level, "Ask Why" is the lesson of the film: don't take anything for granted; be cynical, question authority. I almost called the film, *Enron: Ask Why*. For people who see the film it's a resonant title. But it seemed too preachy for anyone who hadn't.

The Smartest Guys in the Room works because it is both straightforward and bitterly ironic. It speaks to the sense that these guys thought they were so smart they could find ways around all rules and regulations. Once you come to believe that all rules and regulations are an "affront" to "free markets" then running a fraud like Enron becomes like "tax avoidance," a "rules based" approach to gaming the system. So long as Enron's highly paid advisers signed off on what they were doing, then Enron was in technical compliance, even if, to any reasonable outside observer, Enron's execs had stage-managed a spectacular fraud.

It's my belief (and Bethany and Peter's) that Enron didn't set out to become fraudulent. It was an incremental process; and that's why it was so insidious. And that's why Skilling is still able to believe that he didn't do anything wrong.

The business culture that Skilling created at Enron was based on a misreading of Richard Dawkins' 1976 book about evolution, *The Selfish Gene*. Skilling seemed to believe that if everyone was as rapaciously greedy as possible, everything would work out fine. It was a value system without values that reached its apotheosis in California, where Enron's traders gamed the system with ideological zeal. According to the rules of the free market ideologue, if Enron's traders gamed the California system then California's "flawed" deregulatory system would be forced to correct itself. In their view, the traders could almost convince themselves that they were, in the words of Jeff Skilling, "on the side of the angels." In the long run, screwing California would be good for the state! No pain no gain! So they performed an "experiment" on the people of California, who suffered enormous economic hardship while the traders made millions in the process.

Access to People, Footage and Audiotapes

Bethany McLean and Peter Elkind have written a wonderful book. From the start they appreciated that the film would be different. But they were always very helpful with sources, contacts, tips, suggestions and gentle, constructive criticism. Even better, they were great storytellers on camera. And they were an invaluable help with the toughest part of this story—getting people to talk.

Getting people to talk to me was hard enough. With Peter and Bethany's help, I was able to have conversations with people at high levels of the company who wanted to talk about what happened at Enron. I spoke for hours and hours with people who were at the center of the action. But the really hard, almost impossible part, was getting people to talk on camera. For a long time, I was stymied by the legal battles. Most former employees—innocent or not—were afraid of the Department of Justice. (The DOJ was never any help to us.) But in addition, there were those who were afraid that an appearance on camera would provoke lawyers to depose them for one of the civil cases. One deposition can cost up to \$50,000 dollars. That's a number that's tough to counter.

The practical consequences of the legal process revealed an irony that should have been evident to me: the quest for justice and the search for a nuanced truth are not always the same thing. The people who did talk—and I was very impressed by the courage of those who did—felt that there were moral issues at stake that needed to be addressed. Except for the investigators (journalists, lawyers, and one short-seller) it was a risk for almost anyone to talk to us. Some did because they felt it was very important for the historical record to talk. At the end of the day, this story is about choices that everyone—at one level or another—must make.

Perhaps the most courageous staff members we interviewed were former Enron executive Amanda Martin Brock and Colin Whitehead, an Enron trader from Portland who talked about what the company did to California. They both had the most to lose by coming forward, but both felt strongly that it was important to

be honest about what happened. They helped put a human face on the story. Former Enron executive and veteran trader Mike Muckleroy—came forward because he was so furious at some of the things Ken Lay said in his appearance on the Larry King Show not long after being indicted. Anger and betrayal are useful emotions for filmmakers and journalists.

It's too easy to demonize everyone at Enron. Most employees had nothing to do with the fraud. Further, the story has to be seen within the context of the times. The fact was that, within the context of the bull market, many people were tempted to behave in much the same way those at Enron did. And many other people—in companies all over the country—did succumb to those temptations.

I tried hard to get to Skilling for the film: I wrote to him and left him many voice-mail messages to no avail. I was told that he wanted to talk but that his lawyers wouldn't let him. By all accounts, he loves to talk about the glory of Enron and how "they"—the mysterious "they" of the media—destroyed the company. I couldn't help but imagine him as a modern-day Odysseus, lured by the sirens' song of the microphone and the camera, but lashed to his desk by his lawyers.

I really wanted to talk to him because Skilling was truly the brains behind the vision of Enron that captured the imagination of corporate America in the late 90s. I believe in the portrait of him sketched by Bethany and Peter: a man torn between the grandiose image of Enron he created and the shabby reality that, by the end, it had become. He's a true American—like Jay Gatsby in *The Great Gatsby*—because of the way he reinvented himself. He willed himself to undergo a physical and psychological transformation from a nerdy consultant into a macho leader of a company who took his gang of male execs on dangerous motocross trips as if to prove, like the heroes of *Bonfire of the Vanities*, they really were the "big swinging dicks" of the boardroom. He was the one with the balls (or the fertile "imagination") to dub Enron "The World's Leading Company." (And he was convincing. Corporate observers believed his act. At one lecture, his host introduced Skilling as "America's best CEO")

I also tried to talk to Ken Lay, particularly when he "came out" and started to talk publicly with people like Larry King, and Kurt Eichenwald of the *New York Times*, whom Lay thought would be sympathetic to his position. But Lay's representatives would not allow him to meet with me. They even went so far as to attempt to bar me from the press conference he held after his indictment. (They called security guards to have me removed). I made a scene, which I filmed, and Lay's attorney, Mike Ramsey, relented and let me in.

I think they (Skilling and Lay) might have helped their cause if they had agreed to interviews. But even without interviews, both Lay and Skilling are very present—and their skill as corporate pitchmen is evident—through their appearances in the Enron company meetings and the extensive footage of Skilling's testimony at public hearings in the House and the Senate. I give Skilling a lot of credit for appearing in those hearings. I'm sure his lawyers were furious.

The key to the film was finding unofficial archival materials. Enron has a mother lode of materials that I was not able to access. The Justice Department has copies of those tapes but Enron refused to give them to us. Perhaps when all the trials are finished, they will be released.

Regarding the Enron corporate footage from the shareholder meetings, and the audiotapes from the traders—I can't be too specific about where these came from except to say that almost everyone we approached for footage ran in the opposite direction. Our team did succeed in finding extraordinary materials by mining unofficial sources which are almost always the best ones.

It's interesting to note that, while the California energy crisis was underway, Enron mocked those who accused their traders of gaming the market. Enron's PR team called their critics hysterical and "communistic." Thanks to Snohomish Public Utility (which sought out hundreds of hours of those tapes as part of a lawsuit with Enron), and the famous Yoder-Hall memo, we now know what really happened. Again, it pays to "ask why."

In one interesting side note, I discovered a woman who, according to my sources, has been hired by Skilling to do a film about his version of events. She was the woman responsible for filming many of the company meetings and she allegedly has some "secret" materials that she has buried in her back yard. I still don't know if that story is true. We approached her for the footage but she would not cooperate with us. If Skilling is making a film, I'm sure it will be well scripted, with great production values, and convincing as hell. He could have run a film studio. (Some might say that, at Enron, he did.)

One other important note: the production of "managed news" is at once the reason for the recent success of independent documentaries (because they offer a fresh, unpackaged perspective) and the greatest impediment to producing them. At one time, the network news archives treated their footage as a historical resource available to all. Now, they apply entertainment standards to the material. Want footage of Brian Williams discussing the stock market bubble? Special permission and extra fees are now required, because he is expensive "talent" to whom the network wants exclusive access. But no one should have an "exclusive" on history. The need for these special permissions also provide the networks an excuse to deny access to productions they do not approve of. For *Enron*—and for many other documentaries—these new policies can have a chilling effect. They're simultaneously ironic because the major networks all share footage freely—at no cost to each other—via the doctrine of "fair use."

On Big Business & Politics

There has been much talk about the relationship between the Bush family and "Kenny Boy" Lay. We tried very hard to find a smoking gun and only really found it during the California energy crisis, when Bush aggressively did "nothing" as California was being ravaged by Enron and the other energy companies. Bush had an ideological rationale—"trust in the force: the magic of the marketplace." His inaction had wide-ranging consequences for California's economy and, ultimately, for its political landscape.

The relationship between big business and politics will be intimate as long as politicians need increasingly large sums of money to run for office. But *Enron* doesn't focus on the relationship between business and politics. Rather, it takes an inside look at how big money capitalism works. The film examines how different real-world capitalism is from our textbook explanations of supply-and-demand. The world of investment banking and big business is a world unto itself in which a few powerful people wheel and deal out of the public eye and, particularly in the case of vital markets like energy, exert "market power" that has nothing to do with competition among equals, or open relationships between consumers and producers. Enron and other energy companies all got together to game the California market.

Enron is important because it takes the predatory nature of "business as usual" to its logical extension. Enron is not an exception to the rule; it's an exaggeration of the way things too often work.

- Alex Gibney, Director