Exaggerate + Spin + Lie = Enron

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The Enron trial going on in Houston is an indictment of the bullish stock market of the Roaring 1990s. Democratic capitalism had won the Cold War, entrepreneurs were national heroes, the Internet made business connections across the flattening globe easier, and we would all live happily ever after.

Enron stood at the front of the line, brokering natural gas trades to help reduce what President Bush recently referred to as our nation's oil addiction.

What happened? It's easy to paint Ken Lay and Jeff Skilling as villains. But they are a lot like us.

Human nature got in the way. Human beings tend to exaggerate their circumstances, be it the CEO of the 7th largest company in the world with annual sales exceeding $100 billion, a mid-level manager in a medium-sized company, or a stay-at home parent.

Some people put positive spins on bad situations: "It's probably a good thing you didn't get the job you (desperately) wanted." Some people make bad situations sound a lot worse than they really are: "If we don't respond immediately to the (relatively minor) problem the kids will turn into juvenile delinquents!"

Lay and Skilling were of the optimistic variety, selectively choosing information about poor past performance to generate positive future scenarios they hoped would come true.

There are fine lines between wishful thinking, exaggeration, and lying, something philosophers have been debating for several thousand years. One thing all three terms hold in common is that the receiver of the information is intentionally being deceived.

An occasional deception is justifiable in the normal course of affairs -- I wear deodorant, which deceives others about my bodily smells. But deception is not acceptable when the recipients have invested tremendous amounts of money in your company. Without honest and truthful economic disclosures, the capitalist system would collapse. As a result, executives of publicly-held companies have a legal obligation to truthfully convey information to the shareholders they represent.

Many consider Lay the nicest person they ever met and Skilling the brightest person they ever met. Yet both are accused of conspiring with other managers to falsify Enron's financial statements. Skilling is also accused of selling millions of dollars of company stock before the public found out he was lying about the company's economic performance.

According to the indictments, after Skilling resigned in August 2001, subordinates informed Lay that Enron had hidden losses, and these losses had ballooned to $7 billion. Enron's stock price was already depressed due to a recession. Announcing this to shareholders would lead to a massive stock sell-off, which Lay assumed would destroy the company.

If you were Lay, how would you handle the situation?

Lay chose to lie by covering some of it up under the guise of a $1.2 billion accounting mistake and remaining mum about the rest. He also told investors and analysts that everything else was looking great. These two lies didn't help the situation. Six weeks later Enron was bankrupt, more than 25,000 employees lost their jobs, and Lay's living hell was just beginning.

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