How Enron Failed in Telling Its Financial Story

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Enron's demise is well known and a prime example of what happens when a publicly traded company fails to tell its financial story. According to Stewart Marshall, "Financial Storytelling strengthens the understanding, appeal and value to a business of established and evolving financial tools and methods" (Marshall, 2010). He also states, "Financial Storytelling helps you to discover and communicate the underlying business narrative. It is a very human answer to the question: 'What is going on?'" (Marshall, 2010). In this paper I will detail how Enron failed to keep its investors informed on financial and non-financial matters, going against Marshall's storytelling method and causing the company's downfall.

Enron formed in 1985 when Houston Natural Gas merged with InterNorth ("A chronology of Enron," 2006). In 1989, Enron began trading natural gas commodities and in 1997, it began another partnership (dubbed Chewco) to buy the University of California pension fund's stake in a joint venture called JEDI. This was the first step toward hiding debt and inflating profits that fueled Enron's downfall. The fraud continued in 1999 when CFO Fastow created a partnership called LJM, claiming to "buy" poorly performing Enron assets and hedge risky investments. In reality, the partnerships helped the company hide debt and inflate profits ("A chronology of Enron," 2006).

CEO Kenneth Lay kept this vital financial information from his investor public. In an interview with Inside Investor Relations, Brad Wilks, head of the Chicago office of Ogilvy Public Relations Worldwide, said, "The company also established a pattern of revisionism; it would hold a conference call with investors and then there'd be a subsequent SEC filing that included material not disclosed in the conference call. You have to wonder if this was by design or coincidence" (Lowengard, 2002). Ralph Allen, former VP of IR at Kodak, ITT Corporation said, "Enron exuded an attitude that its business was too complicated for investors to understand. Management insisted that because the company was doing so well they didn't need to explain anything” (Lowengard, 2002).

Enron’s secrecy goes against Marshall’s storytelling method. Enron did not feel the need to answer the human question of “What is going on?” The company was reluctant to share its failures with investors and, instead, painted a lie of success with false information. Lay never bothered to make an emotional connection between the company’s products and its customers, shareholders, employees or critics as suggested by Marshall (2010). In fact, Lay never bothered to make *any* connection with the aforementioned people.

In August of 2000, Enron shares reached a high of $90 per share, raising a red flag for reporter Bethany McLean. After some research, McLean wrote in Fortune magazine’s March 2001 issue, “The company remains largely impenetrable to outsiders. How exactly does Enron make its money? Details are hard to come by because Enron keeps many of the specifics confidential… Analysts don’t seem to have a clue” (Kurt, 2002). In a later interview, the journalist said the story was difficult to write. “You can’t just spout off about derivatives and market-to-market accounts and expect people to get it” (Kurt, 2002).

McLean hit the nail on the head. Marshall says, “The integration of financial and non-financial information is critical to understanding what the numbers are saying” (2010). Had his method of financial storytelling had been taught in 1997, investors would have questioned Enron much sooner. Instead of accepting Enron’s interworking as too complicated to understand, investors would have demanded the information be presented in a way that helped them understand Enron’s failures and achievements – through financial storytelling.

On August 14, 2001, CEO Jeffrey Skillings resigned ("Chronology of a Collapse," n.d., para. 4). On October 16, 2001, Enron announced:

> $638 million in third-quarter losses and a $1.2 billion reduction in shareholder equity stemming from writeoffs related to failed broadband and water trading ventures as well as unwinding of so-called Raptors, or fragile entities backed by falling Enron stock created to hedge inflated asset values and keep hundreds of millions of dollars in debt off the energy company's books (“A chronology of Enron,” 2006).

The company unraveled, beginning with an inquiry into Enron finances from the Securities and Exchange Commission ("Chronology of a Collapse," n.d., para. 7). Enron filed for bankruptcy on December 2, 2001 ("Chronology of a Collapse," n.d., para. 15), numerous executives were sentenced to prison, and thousands of innocent employees lost their savings because the company's 401(k) plan relied so heavily on Enron stock (“Enron Fires Arthur Andersen,” n.d., para. 26).

In conclusion, Enron was a publicly traded company that failed in telling its financial story. Their secrecy and lack of storytelling not only caused the company’s demise and imprisonment of executives, but thousands of innocent employees lost their job and life savings. Enron’s story is proof that accurate and honest financial storytelling is an essential practice for businesses.

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