

ENGLISH LEARNING FOR CURIOUS MINDS



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Episode #165

The Enron Scandal

8th Jun, 2021

[00:00:00] Hello, hello hello, and welcome to English Learning for Curious Minds, by Leonardo English.

[00:00:12] The show where you can listen to fascinating stories, and learn weird and wonderful things about the world at the same time as improving your English.

[00:00:22] I'm Alastair Budge and today is the start of another three-part mini-series, this time on great American business [frauds](#)¹.

[00:00:33] In this mini-series we are going to look at times when companies, or individuals within companies, committed huge [frauds](#), [tricking](#)² investors, employees, journalists, while becoming fabulously wealthy in the process.

¹ crimes of gaining money by using tricks or lies

² cheating, deceiving



The Enron Scandal

[00:00:50] In today's episode, the first episode, we are going to talk about Enron, the mysterious energy trading company that was once the **poster child**³ of American success, the company that couldn't stop making money, but eventually came crashing down, resulting in lengthy prison sentences, billions of dollars **wiped out**⁴, thousands of jobs lost, and even a **suicide**⁵.

[00:01:18] Then, in part two, which is going to come out on Friday, we are going to look at Theranos, the company that promised to revolutionise the world of blood testing, and save millions of lives by making it easier to **detect**⁶ diseases.

[00:01:35] A **noble**⁷ mission, of course, but it was a **fraud**⁸, it was one great lie.

[00:01:41] And in part three, our final part, which will come out next Tuesday, we will end with perhaps the biggest **fraudster**⁹ in history, Bernie Madoff.

³ something that represents the characteristic qualities of something

⁴ lost

⁵ the act of killing yourself intentionally

⁶ identify the presence of

⁷ brave and serving a good cause

⁸ a crime of gaining money by using tricks or lies

⁹ someone who gains money by using tricks or lies



The Enron Scandal

[00:01:52] He was the **darling**¹⁰ of Wall Street, a man who made his clients, and himself, hundreds of millions of dollars.

[00:02:00] But it turned out that he wasn't so special at all, he was **merely**¹¹ the **mastermind**¹² behind the biggest **Ponzi scheme**¹³ in American history.

[00:02:10] So, that is what you have coming up in the next three episodes.

[00:02:15] Let's not waste a minute then, and start with the story of Enron.

[00:02:21] Our story starts with a man named Kenneth Lay.

[00:02:25] He was born in Missouri, in the American midwest, in 1942, the son of a baptist minister.

[00:02:34] He grew up in poverty, there was never much money around when he was a child.

[00:02:40] On graduating from university, he took a job at an oil company, before working inside The Pentagon, the heart of the American Defense Department.

¹⁰ someone who is loved or very much liked

¹¹ simply, just

¹² the person who has planned a difficult crime

¹³ a way of deceiving investors by using their money for other purposes



The Enron Scandal

[00:02:51] After a couple of years working for the state, he returned to the private sector, taking jobs with a variety of different energy companies, and working his way up the [corporate ladder](#)¹⁴.

[00:03:04] By 1985 he was in control of a company called Houston Natural Gas, which later changed its name to Enron when it was bought by a competitor.

[00:03:16] The 1980s had seen the energy [sector](#)¹⁵ in the US opening up, it had seen [deregulation](#)¹⁶.

[00:03:24] What this meant in practical terms was that there was more competition and more room for private companies to step in and make money.

[00:03:33] Kenneth Lay, and his company Enron, were perfectly [poised](#)¹⁷ to benefit from this.

[00:03:40] What Enron did, or at least what it started out by doing, was by transporting and selling oil and natural gas.

¹⁴ ranks or positions within a company's structure

¹⁵ an economic activity area

¹⁶ the removal of rules and restrictions from a business

¹⁷ ready



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[00:03:48] It owned around 60,000 kilometres of [pipeline](#)¹⁸, which would be used to transport natural gas around the country, from where it was produced to where it was going to be used.

[00:04:00] All simple so far.

[00:04:02] But this business wasn't actually very profitable. Enron had been struggling to compete, and was at risk of going [bankrupt](#)¹⁹.

[00:04:12] It was kept [afloat](#)²⁰, it was kept alive, partly by a new activity, by a new business division.

[00:04:20] Oil and gas trading, [speculating](#)²¹ on whether the price of oil or gas would rise or fall.

[00:04:27] This was where the real money seemed to lie, and Enron started making [vast](#)²² amounts of cash.

¹⁸ a very long, large and underground tube used to carry gas

¹⁹ declared in law as unable to pay debts

²⁰ out of debt, alive

²¹ betting, making a guess

²² extremely big



The Enron Scandal

[00:04:35] Oil trading is normally a risky business, because there are all sorts of **factors**²³ that can influence the price, and the price goes up and down a lot.

[00:04:45] In the 1970s and 1980s there were huge **swings**²⁴, huge variations in the oil price.

[00:04:53] But Enron always seemed to be on the right side, it always seemed to make money.

[00:04:59] This seemed a little suspicious.

[00:05:02] Early warning signs about bad behaviour in the company came in 1987, when it was discovered that a group of Enron traders had been betting **vast** amounts of money, much more than they should have, on the price of oil, and taking money from the company and putting it into their own hidden bank accounts.

[00:05:24] There were internal investigations and exactly what these traders had been doing was discovered.

[00:05:31] Not only had they been taking this money and putting it into hidden accounts, but they had been destroying documents, destroying evidence.

²³ situations that influence the result of something

²⁴ changes, variations



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[00:05:41] It all seemed to be a joke to them, with one trader even sending money to a fake account named M Yass, a joke name, which if you move the position of the y to behind the m becomes “my ass”.

[00:05:58] Yet Ken Lay, the boss of the company, didn't seem to care.

[00:06:04] The traders weren't [fired](#)²⁵, or even [disciplined](#)²⁶.

[00:06:08] Even though they had been taking money from the company, and behaving in a dishonest way, they were making so much money for Enron that Lay couldn't [bear](#)²⁷ the idea of losing them.

[00:06:21] If they were [sacked](#)²⁸, Enron would be in trouble.

[00:06:25] Indeed, the company didn't [fire](#)²⁹ them, but sent the head trader a letter saying “Please keep making us millions”.

²⁵ dismissed from employment

²⁶ punished

²⁷ be able to accept, manage a difficulty

²⁸ dismissed from employment

²⁹ dismiss from employment



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[00:06:34] The traders were allowed to continue working for Enron, and were **encouraged**³⁰ to take greater and greater risks, with a view to making larger and larger profits for the company.

[00:06:46] But, as we now know, oil trading was a very risky business, and two months later, after a few risky bets the same trading division that had previously made Enron millions, lost \$90 million over the course of five days.

[00:07:04] Even though Enron might have accepted these traders' excuses, the US government didn't, and when their actions were discovered also by the SEC, the Securities and Exchange Commission, they were sentenced to jail.

[00:07:21] Enron was suddenly without its top money-makers.

[00:07:25] Ken Lay and Enron corporation needed a new plan.

[00:07:29] And when an American corporation needs a new plan, a new strategy, the **tried and tested**³¹ idea is to fly in management consultants to fix things.

[00:07:41] And the most **prestigious**³² management consultancy, where the advice of a single person can run into the tens of thousands of dollars a day, is called McKinsey & Company, normally just shortened to McKinsey.

³⁰ given support, persuaded to do (something)

³¹ found to be reliable and successful

³² respected and recognised as successful



The Enron Scandal

[00:07:55] McKinsey was hired by Enron after the 1987 trading [scandal](#)³³ to advise on new ways of making money.

[00:08:05] One McKinsey consultant in particular impressed Enron.

[00:08:09] His name was Jeffrey Skilling, and he will have a [pivotal](#)³⁴ role in our story.

[00:08:16] Skilling proposed that Enron become a sort of energy trading house, more like a financial company than an energy company.

[00:08:26] Instead of dealing with the [messy](#)³⁵ work of transporting oil and gas, what if Enron created a sort of [stock exchange](#)³⁶ for energy, a place where buyers and sellers could meet, and Enron would of course take a [slice](#)³⁷ of every transaction.

[00:08:45] Ken Lay, the boss of Enron, knew how profitable the trading business had been for the company, Skilling's idea came at the right time, and Jeffrey Skilling was hired to start something called Enron bank.

[00:09:01] Skilling's other major suggestion to Enron was to switch the way it did its accounting.

³³ an action that is considered wrong and causes public disapproval

³⁴ central and important

³⁵ difficult to deal with

³⁶ a place where shares in companies are traded

³⁷ a part



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[00:09:08] Enron had previously used a straightforward, simple way of accounting.

[00:09:14] If it bought or sold oil or gas, or was paid for transporting it, these numbers would be added to its accounts.

[00:09:22] Easy.

[00:09:23] But Skilling proposed that Enron **adopt**³⁸ something called market-to-market accounting.

[00:09:30] To put it simply, this meant that Enron could say that it had made money even if it hadn't actually yet made it.

[00:09:39] It allowed the company to look at deals it had done, value them itself, and book the profits, to account for these profits in its accounts.

[00:09:51] The result of this was that, from an accounting point of view, Enron seemed to be making more and more money, it seemed to be a business that was printing money **left right and centre**³⁹.

[00:10:04] Yet these profits weren't actually **realised**⁴⁰ profits, they were just **estimates**⁴¹ of the profits that the business said it would make in the future.

³⁸ choose to use

³⁹ on all sides

⁴⁰ given actual form

⁴¹ calculations



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[00:10:14] Why would a company do this, you might ask?

[00:10:18] Well, Enron was a [publicly traded](#)⁴² company.

[00:10:21] The more money that [outsiders](#)⁴³ thought it was making, the more [desirable](#)⁴⁴ it would be, and the higher the share price would go.

[00:10:30] Enron executives were normally given large amounts of shares, and so the higher the share price, the more money they made individually.

[00:10:40] In the case of senior executives, these [sums](#)⁴⁵ were [astronomical](#)⁴⁶.

[00:10:46] Kenneth Lay, the boss of Enron, made \$220 million in cash and shares in only 3 years, and traders were [routinely](#)⁴⁷ making tens of millions of dollars a year.

[00:11:00] The other thing that Skilling did was to change the character of the company.

[00:11:06] He was a deeply competitive person, and believed that humans [thrive](#)⁴⁸ on competition.

⁴² organised to work by using shares that can be freely traded

⁴³ people who don't belong to the company

⁴⁴ wanted by most people and worth having

⁴⁵ amounts of money

⁴⁶ extremely high

⁴⁷ regularly

⁴⁸ gain in wealth, prosper



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[00:11:13] At Enron he **fostered**⁴⁹ a culture of **dog-eat-dog**⁵⁰, of people competing to be number one, to make the most money for the company.

[00:11:22] There were frequent performance reviews at the company where every employee was given a score of 1 to 5.

[00:11:31] 1 was excellent, and meant you were **in line for**⁵¹ promotion, and more money.

[00:11:35] 5 was the worst, and if you got a 5 you would be fired.

[00:11:41] 10% of employees had to be given a 5, meaning there was a **ruthless**⁵² culture of employees working all hours of the day to try to make the company as much money as possible, and be **ranked**⁵³ higher than their colleagues.

[00:11:57] As all of this was happening, the energy sector was **deregulating**⁵⁴ further.

⁴⁹ promoted the development of

⁵⁰ intense, extreme competition in order to gain more

⁵¹ likely to receive

⁵² showing no pity or compassion

⁵³ positioned

⁵⁴ changing to have less rules and restrictions



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[00:12:02] Enron's traders used all sorts of tricks to **drive up**⁵⁵ the price of the energy it was selling, even doing things like moving energy from one state to another, cutting off the power, and then selling it back to states at a higher price when they needed it most.

[00:12:22] It's estimated that in the state of California alone this kind of **unethical**⁵⁶ behaviour cost the state government \$30 billion dollars.

[00:12:33] The late 1990s also saw **the dotcom boom**⁵⁷, with technology companies going public at huge **valuations**⁵⁸, and making people **vast** fortunes in the process.

[00:12:45] Enron wanted to get in on this and it **teamed up**⁵⁹ with Blockbuster, the video rental company, to build a **broadband**⁶⁰ network, and created its own **broadband** unit.

[00:12:58] As soon as the deal was signed, Enron recorded **bumper**⁶¹ profits, saying that this **broadband** unit would be worth \$35 billion.

[00:13:10] Yet nobody actually knew what it was worth.

⁵⁵ raise

⁵⁶ not correct according to moral values

⁵⁷ a fast rise and interest in internet-based companies

⁵⁸ calculations about how much money something is worth

⁵⁹ worked together as a group

⁶⁰ a system that makes it possible for large amounts of information to be sent very quickly through the internet

⁶¹ very large



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[00:13:13] It certainly seemed unlikely that it was worth anywhere near \$35 billion, but this new system of market-to-market accounting meant that Enron was free to claim this as a profit, yet again **boosting**⁶² its share price.

[00:13:30] Enron seemed to be able to do no wrong.

[00:13:34] Its employees were making vast amounts of money, its shareholders were getting rich, and it seemed to be a great success story of the merits of **deregulation**.

[00:13:46] Ken Lay was a great storyteller, a **charismatic**⁶³ man, and he sold the story that Enron was **enabling**⁶⁴ the future.

[00:13:54] Almost everyone bought it, but some didn't.

[00:13:59] One journalist, a lady named Bethany McLean, even asked an Enron executive “How exactly does Enron make its money?”, to which the answer was—and I'm **paraphrasing**⁶⁵ here— “it's complicated and I don't want to tell you”.

⁶² increasing

⁶³ exciting and attractive

⁶⁴ making something happen

⁶⁵ repeating something spoken using different words



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[00:14:14] As more people started to look more closely at the inner⁶⁶ workings of Enron, they started scratching their heads⁶⁷.

[00:14:22] A lot of it didn't make a huge amount of sense.

[00:14:26] Then, abruptly⁶⁸ in August 2001, Jeff Skilling resigned⁶⁹, citing⁷⁰ personal reasons, saying he was leaving for reasons unrelated⁷¹ to the job.

[00:14:38] He had taken over as CEO of Enron 6 months before, and analysts saw that he had sold \$33 million worth of shares just before resigning⁷².

[00:14:50] These didn't seem to be the actions of a man who was really leaving for personal reasons.

[00:14:57] A day later an executive wrote an anonymous letter to Kenneth Lay, saying that the company was about to implode⁷³.

⁶⁶ inside

⁶⁷ feeling confused

⁶⁸ suddenly and unexpectedly

⁶⁹ left the job

⁷⁰ giving

⁷¹ having no connection

⁷² leaving the job

⁷³ end suddenly



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[00:15:05] It was the start of the end for Enron.

[00:15:08] In September the New York Times published an article saying “Something is wrong with the state of Enron”.

[00:15:15] The share price [crashed](#)⁷⁴, and Enron [admitted](#)⁷⁵ that various divisions were worth billions of dollars less than it had previously said they were.

[00:15:27] As the curtains were raised on the [inner dealings](#)⁷⁶ of the company, it was revealed that it had used all sorts of complex structures to pretend that it was making huge amounts of money, and hide how much money it was actually losing.

[00:15:43] Its high-flying CFO, the finance boss, who was described as a man with no [moral compass](#)⁷⁷, had created these complex structures which allowed Enron to show its profits and hide its losses, making it look like a [flourishing](#)⁷⁸ business when in fact it was completely the opposite.

⁷⁴ dropped in value

⁷⁵ confessed to be true

⁷⁶ business activities

⁷⁷ a natural feeling or sense that makes people know what is right and what is wrong

⁷⁸ growing



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[00:16:03] At the same time, he had paid himself tens of millions of dollars personally to manage these **dubious**⁷⁹ structures on top of the huge salary he was getting from Enron.

[00:16:17] By the end of November, Enron was **on its last legs**⁸⁰.

[00:16:21] Its share price had **tumbled**⁸¹ from over \$90 in August of 2000 to being worth 61 cents in November a year later, a loss of over 99%.

[00:16:34] And on December 1st the business was officially declared **bankrupt**.

[00:16:40] Tens of thousands of employees lost their jobs, as well as losing all of their **pension**⁸² money that they had invested in the company.

[00:16:48] Enron executives had persuaded employees to invest their life savings, as well as their **pensions**⁸³, in Enron shares, while knowing **full well**⁸⁴ that it was a huge **fraud**, that the company had been **inflating**⁸⁵ its profits.

⁷⁹ morally questionable or not able to be trusted

⁸⁰ in a very bad condition

⁸¹ fallen suddenly

⁸² the amount of money paid to a person who has retired

⁸³ the amounts of money paid to people who have retired

⁸⁴ without a doubt, very well

⁸⁵ presenting them as bigger than they were



The Enron Scandal

[00:17:05] In the [aftermath](#)⁸⁶ of the [collapse](#)⁸⁷, senior executives including Lay and Skilling were tried in court.

[00:17:13] Lay was charged with 11 counts of [fraud](#), but died of a heart attack before ever spending a night in prison.

[00:17:21] Jeffrey Skilling, on the other hand, was sentenced to 24 years in prison.

[00:17:27] He served 13 years, and was released in 2019.

[00:17:32] Another executive, J. Clifford Baxter, shot himself in the head before he could [stand trial](#)⁸⁸.

[00:17:39] The [scandal](#) also saw the [downfall](#)⁸⁹ of one of America's oldest accounting firms, Arthur Andersen.

[00:17:47] The firm was in charge of Enron's accounts, so should have seen what was going on.

[00:17:53] Yet Enron was too big, too profitable, and Arthur Anderson didn't want to lose its [golden goose](#)⁹⁰.

⁸⁶ the period after an unpleasant event

⁸⁷ sudden failure

⁸⁸ be brought to a court of law to be judged

⁸⁹ the loss of power and status

⁹⁰ something that continuously makes money



The Enron Scandal

[00:18:01] Arthur Anderson wasn't just guilty of doing nothing, he was actively [complicit](#)⁹¹, and helped Enron [shred](#)⁹² over a tonne of [incriminating](#)⁹³ evidence, hiding it from investigators.

[00:18:14] And it too [collapsed](#)⁹⁴ with Enron.

[00:18:17] Since the fall of Enron, there have been numerous new laws implemented to try to avoid a similar situation happening again.

[00:18:27] This might certainly help, but almost all of the individuals responsible for the crimes at Enron are now walking free.

[00:18:36] Indeed, one of the first things that Jeffrey Skilling did, on his release from prison, was start up a new energy trading business.

[00:18:45] He was banned by the government from serving as an officer in a public company, but there is nothing to stop him from working for a private company.

[00:18:54] One has to only hope that his 13 years in prison will have taught him to behave a little bit better this time round.

⁹¹ involved

⁹² destroy by cutting into thin pieces

⁹³ making someone appear guilty of a crime

⁹⁴ failed suddenly



The Enron Scandal

[00:19:03] Ok then, that is the story of The Enron [Scandal](#), a story of [unadulterated](#)⁹⁵ [greed](#)⁹⁶, a story of financial engineering gone wrong, a story of what can happen when executives become addicted to quarterly earnings reports, and of when profits need to be bigger and bigger every three months.

[00:19:25] It is a fascinating story, and shows the lengths that people will go to to make money, and then try to [cover their tracks](#)⁹⁷ afterwards.

[00:19:35] As always, I would love to know what you thought of this episode.

[00:19:39] Have there been similar [scandals](#)⁹⁸, or [frauds](#) in your country? Do you remember the Enron scandal? What do you think it tells us, if anything, about human nature?

[00:19:50] I would love to know.

[00:19:51] You can head right into our community forum, which is at community.leonardoenglish.com and get chatting away to other curious minds.

⁹⁵ pure and absolute

⁹⁶ a very strong will to continuously have more money

⁹⁷ conceal evidence of their activities

⁹⁸ actions that are considered wrong and cause public disapproval



The Enron Scandal

[00:20:01] And as a reminder, this is part 1 of our 3-part series. Next up we will have Theranos, the blood testing startup, and the lady who went from being the world's youngest female [self-made⁹⁹](#) billionaire to being exposed as a huge [fraud](#).

[00:20:18] And part three will be on the most [prolific¹⁰⁰](#) [fraudster](#) of them all, the man who stole \$65 billion, Bernie Madoff.

[00:20:28] You've been listening to English Learning for Curious Minds, by Leonardo English.

[00:20:33] I'm Alastair Budge, you stay safe, and I'll catch you in the next episode.

[END OF EPISODE]

⁹⁹ having become rich only by her own efforts

¹⁰⁰ producing a great number of something



Key vocabulary

Word	Definition
Frauds	crimes of gaining money by using tricks or lies
Tricking	cheating, deceiving
Poster child	something that represents the characteristic qualities of something
Wiped out	lost
Suicide	the act of killing yourself intentionally
Detect	identify the presence of
Noble	brave and serving a good cause
Fraud	a crime of gaining money by using tricks or lies
Fraudster	someone who gains money by using tricks or lies
Darling	someone who is loved or very much liked
Merely	simply, just
Mastermind	the person who has planned a difficult crime



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Ponzi scheme	a way of deceiving investors by using their money for other purposes
Corporate ladder	ranks or positions within a company's structure
Sector	an economic activity area
Deregulation	the removal of rules and restrictions from a business
Poised	ready
Pipeline	a very long, large and underground tube used to carry gas
Bankrupt	declared in law as unable to pay debts
Afloat	out of debt, alive
Speculating	betting, making a guess
Vast	extremely big
Factors	situations that influence the result of something
Swings	changes, variations
Fired	dismissed from employment
Disciplined	punished
Bear	be able to accept, manage a difficulty



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Sacked	dismissed from employment
Fire	dismiss from employment
Encouraged	given support, persuaded to do (something)
Tried and tested	found to be reliable and successful
Prestigious	respected and recognised as successful
Scandal	an action that is considered wrong and causes public disapproval
Pivotal	central and important
Messy	difficult to deal with
Stock exchange	a place where shares in companies are traded
Slice	a part
Adopt	choose to use
Left right and centre	on all sides
Realised	given actual form
Estimates	calculations
Publicly traded	organised to work by using shares that can be freely traded



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Outsiders	people who don't belong to the company
Desirable	wanted by most people and worth having
Sums	amounts of money
Astronomical	extremely high
Routinely	regularly
Thrive	gain in wealth, prosper
Fostered	promoted the development of
Dog-eat-dog	intense, extreme competition in order to gain more
In line for	likely to receive
Ruthless	showing no pity or compassion
Ranked	positioned
Deregulating	changing to have less rules and restrictions
Drive up	raise
Unethical	not correct according to moral values
The dotcom boom	a fast rise and interest in internet-based companies



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Valuations	calculations about how much money something is worth
Teamed up	worked together as a group
Broadband	a system that makes it possible for large amounts of information to be sent very quickly through the internet
Bumper	very large
Boosting	increasing
Charismatic	exciting and attractive
Enabling	making something happen
Paraphrasing	repeating something spoken using different words
Inner	inside
Scratching their heads	feeling confused
Abruptly	suddenly and unexpectedly
Resigned	left the job
Citing	giving
Unrelated	having no connection



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Resigning	leaving the job
Implode	end suddenly
Crashed	dropped in value
Admitted	confessed to be true
Dealings	business activities
Moral compass	a natural feeling or sense that makes people know what is right and what is wrong
Flourishing	growing
Dubious	morally questionable or not able to be trusted
On its last legs	in a very bad condition
Tumbled	fallen suddenly
Pension	the amount of money paid to a person who has retired
Pensions	the amounts of money paid to people who have retired
Full well	without a doubt, very well
Inflating	presenting them as bigger than they were
Aftermath	the period after an unpleasant event



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Collapse	sudden failure
Stand trial	be brought to a court of law to be judged
Downfall	the loss of power and status
Golden goose	something that continuously makes money
Complicit	involved
Shred	destroy by cutting into thin pieces
Incriminating	making someone appear guilty of a crime
Collapsed	failed suddenly
Unadulterated	pure and absolute
Greed	a very strong will to continuously have more money
Cover their tracks	conceal evidence of their activities
Scandals	actions that are considered wrong and cause public disapproval
Self-made	having become rich only by her own efforts
Prolific	producing a great number of something

We'd love to get your feedback on this episode.



What did you like? What could we do better?

What did you struggle to understand?

Let us know in the forum community.leonardoenglish.com

