GE, the Enron Train Wreck in Slo-Mo

Sometimes, the smartest guys in the room ain't.

Enron and GE – similarities

- Both highly admired by business press
  - Enron – America's Most innovative Company – Fortune 6 years: 1996 – 2001
  - GE – World's Most Admired Company – Fortune 4 years: 1998 – 2002
- Both delivered phenomenal financial performance
- Both used complex, hard-to-understand, financial products
- Both were cheating on their accounting
- Both fell precipitously
  - Enron – SEC investigation and bankruptcy in 2001
  - GE – market cap declined from $400B (2001) to $90B (2022)

Enron's demise – Cheating that failed quickly

- Hid liabilities and inflated revenue with off-balance sheet entities
- The CFO and other insiders formed separate legal entities and sold poorly performing Enron assets to those companies
- Whistleblower, Sherron Watkins, warned "The company will implode in a wave of accounting scandals." The CEO (Ken Lay) immediately called his lawyers (Vinson & Elkins) to fire her.
- Worlds most admired accounting firm, Anderson – dissolved
- Led to:
  - SOx – Sarbanes Oxley Laws – new controls and attestations
  - New accounting rules
- My experience
  - Sale of Enron wind – "deconsolidated" subsidiary offered

Takeaway: A lot of smart people were "in on it." Only one talked – by then it was too late.

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GE's demise – cheating that failed slowly

- Used multiple "black box" accounting methods

- Shoot the messenger – "no excuses" - management style

- My experience
  - FGIC mark-to-market manipulation
  - Derivatives were intended to decrease risk, but they were also used to manage earnings

Takeaway: A lot of smart people were "in on it." No one talked.

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Walmart's success - Cheating that worked slowly

- Paid bribes in Mexico, India, Brazil – in violation of local and US law
- Whistleblower warned parent company
- Walmart and 30 officers kept info from SEC from 2016 to 2012
  - SEC settled in 2019 for $250M
  - Walmart paid $800M in legal fees
- Crime paid
  - Walmart grew in Mexico
  - Architect of bribery promoted from CEO Walmex to CEO Walmart US, left company with $10M.
  - Officers hired by other companies, Wan Ling Martello, now on board of Alibaba and Uber (read Whistleblower v Anti-Whistleblower).

Takeaway: Executives will make rational decisions in their best interest as they perceive it.

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