



Working in Enron's mergers and acquisitions department in the late 1990s gave Mark Robson an insight into the company's workings. But even he didn't foresee the impending scandal.

I must be one of the few people who can claim to have observed from the inside the rot that caused the highest-profile bankruptcy in corporate history – and to have called the situation well by leaving almost two years ahead of the collapse.

Except I didn't really call anything. I was just lucky to leave when I did. All I can claim is a fair dose of perplexity as I watched the dissection of Enron. If Enron shareholders have been victims of perhaps the biggest fraud the world has seen, why hadn't I seen it coming? And, even if I hadn't been equipped to see it coming, why hadn't all the investment banking analysts, rating agencies, accountants and lawyers with deep knowledge of Enron and its deals anticipated the collapse?

Well, let me reflect on what I did see at Enron – things that struck me as novel at the time.

OFF-BALANCE-SHEET FINANCING

I observed structures that involved a fair bit of leverage. For example, power and other infrastructure projects with debts remaining off Enron's balance sheet. But what's unusual in that? Every major power and infrastructure project in the country is probably structured similarly.

MARK-TO-MARKET ACCOUNTING

What about mark-to-market accounting and the revaluing of contracts to current prices? Surely that was one of Enron's chestnuts? Yet, every day in asset-owning institutions around the world, accountants in product control departments use market data to re-price financial assets and liabilities. Enron was doing the same, with approval from one of the world's biggest auditors.

THE DRIVE FOR QUARTERLY EARNINGS

I certainly saw a lot of scurrying about to meet quarterly targets. Revaluing and re-pricing deals, selling down stakes in power projects to passive equity investors, leveraging up those projects and booking gains. But again, what's unusual? Today, anyone with a mature project developed under PFI might think about selling some or all of it to realise their gain.

So was it really a fraud? If the above was all I saw at

Enron, it's hard to see this as the ingredients that led to the corporate crime of the century. Certainly I never saw a hint of the incredibly complicated structures and their triggers, designed by Enron FD Andrew Fastow, that had a key role in bringing the company down.

I think it may be unwise to focus on the financial trickery surrounding Fastow's fraud. What's really interesting is how an organisation could get to the point where the scurrilous transactions we have read about were signed off internally and became acceptable.

WHAT REALLY WENT WRONG AT ENRON?

So what drove a successful organisation staffed by talented individuals to the point where it could enter into arrangements that carried such big risks?

I think it's something to do with the real reason why I left – the depth of ambition and ruthless drive I encountered at the company. The feeling that, if you didn't step on someone else's throat to get up the next rung your own throat would probably be stepped on. The feeling that, to succeed at Enron, you needed to become someone you really didn't want to be. I'm not trying to disparage the good colleagues I had who hung on for the ride, but it wasn't for me.

ENRON LIVES!

So here's something for the financial boffins among us. Those who think they're OK because their controls are in order, and that the world's a safer place with the incarceration of the Enron executives. This time, call it a prediction.

In a world where investors are desperate to believe that anything in infrastructure is "safe", private equity executives get a big share of deals if they can flick them on to the next institution, and banks are lending on astronomical Ebitda multiples, then we've got a culture characterised by some pretty serious envelope pushing. The same sort of envelope pushing I remember seeing at Enron. That's all I'll say.

After leaving Enron and working for Deloitte in corporate finance, Mark now advises his own clients at smaller deal sizes. Mark will shortly be presenting seminars on the Enron collapse in Cambridge and London. Please email seminars@keenadvice.co.uk