

401

125X PMS

The energetic messiah

By bending all the rules of the energy business, Kenneth Lay has turned Enron from a stodgy gas concern into a soaring new-economy company. But what has he learned along the way?

EXACTLY a year ago, the top brass from big oil and gas companies gathered in London. They brainstormed a bit, gossiped a lot and drank too much coffee. But when Kenneth Lay rose to speak, there was pin-drop silence. As the chairman of Enron sketched his vision for how liberalisation and deregulation would transform the world's energy markets, his rivals were busily scribbling notes. Some nodded dumbly. Others shouted out half-baked questions. Having expanded Enron's market capitalisation ninefold over the past decade, asked one boss, could he possibly top that? "We'll do it again this coming decade," he responded coolly. Mouths fell agape.

Enron is blazing a trail for its industry. After his speech, Mr Lay commented to an aide, with some surprise, that "some of these guys finally seem to get it." Yes, she responded smugly, "they were even using some of our language." Spend long enough around top Enron people and you feel you are in the midst of some sort of evangelical cult. In a sense, you are. Mr Lay, with his "passion for markets", is the cult's guru. His disciples are Enron's managers, an intelligent, aggressive group of youngish professionals, all of whom "get it". The "it" is the rise of market forces in the long-staid energy business.

Enron was born some 15 years ago in Texas, birthplace of many wacky cults, after the merger of two middling operators of natural-gas pipelines. At the time, the market for gas and electricity was heavily regulated or run by government monopoly almost everywhere. But Mr Lay was convinced that things would change. So he lobbied hard for deregulation, and positioned himself to capitalise on the slightest aperture or loophole in the law. Thanks to its take-no-prisoners attitude, and its highly sophisticated approach to managing risks, the firm has come to dominate America's markets for wholesale gas and electricity. The results are breathtaking: the firm's sales have leapt from \$4.6 billion a decade ago to \$40.1 billion last year, with most of that coming from trading energy. It is trying to repeat the trick in Europe and Japan.

Mr Lay is now setting out to remake Enron yet again, this time by forging into the digital economy. In a flurry of initiatives, he has propelled Enron into trading wholesale power on the Internet, into web sales of electricity to retail consumers, and even into Internet trading of bandwidth. As well as reaping first-mover advantage, his firm often brings impressive partners to such risky ventures. Its foray into retail electricity, for example, is with AOL and IBM, while Compaq and Sun Microsystems are helping to build the private infrastructure to trade bandwidth.

The response from investors has been astonishment, followed by praise. Enron's share price has rocketed far faster than those of other energy companies (see chart). Analysts continue to gush. Donato Essey of Merrill Lynch thinks that "Enron is uniquely positioned to be the General Electric of the new economy." With



characteristic confidence, Mr Lay responds that "we were a new-economy company before it became cool".

In sum, the Enron tale is every bit as remarkable as it seems. And Mr Lay's boast last year about growing his company ninefold once again, met with gasps at the time, certainly seems less outlandish now, especially when he maintains that "Enron's strongest growth is still ahead of us". Yet does nothing stand in the way of Mr Lay's domination of all he surveys? Is Enron really so flawless?

Hark, hubris

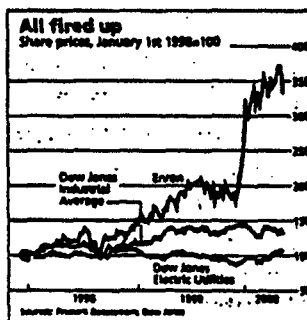
Mr Lay's response to these questions is revealing. Getting him to talk about the company's strengths is easy; asking him to admit even the slightest mistake is tougher than pulling teeth.

This is odd, for the blunderbuss approach to innovation that is intrinsic to such an opportunistic firm as Enron is bound to produce a few failures. Given all his successes, surely failures should be proudly displayed as red badges of courage? After ducking the question several times, Mr Lay eventually talks about such missteps as the firm's botched entry into the Californian retail market for electricity and a costly blunder involving North Sea gas some years ago. But his grudging replies, which tend to blame regulators, leave one wondering if he ever learns from such mistakes.

A similar pointer comes when he is asked about Enron's controversial power project in Maharashtra, India, where it has been accused repeatedly of corruption, lack of transparency, insensitivity to local citizens and complicity in human-rights abuses by police. The firm roundly denies all these charges as preposterous, and points out that Enron, unlike virtually every other foreign firm, has survived the Indian bureaucratic morass to complete a successful power station. Hats off—but what has Mr Lay learned from the experience? He responds with a blank stare. If he could do it again, might he do anything differently, if only to avoid the whiff of impropriety? Absolutely not, he roars.

Arrogance, even such big fans as Mr Essey agree, is Enron's great failing. And how does Mr Lay respond to this charge? To illustrate that it is baseless, he points to what he considers another great firm unfairly maligned by its critics as arrogant: Drexel Burnham

Lambert, a free-wheeling investment bank that shot from nowhere to market prominence in the junk-bond boom of the 1980s. Mr Lay speaks glowingly of the heyday of Drexel and of its star trader, Michael Milken, whom he counts as a friend: they were accused of arrogance, he grouches, but they were just being "very innovative and very aggressive". The comparison is not especially well chosen, for it is worth recalling what then happened: Mr Milken ended up in jail for pushing the law too far, and the arrogant Drexel collapsed in a heap of bad debts and ignominy. For all of its arrogance, Enron is hardly likely to share that fate—but hubris can lead to nemesis, even so.



Alexis E

LAY-SEC
000023343