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MEMORANDUM

To: Ken Lay, Grey Whalley, and Mark Frevert
From: Frank Luntz
Re: Initial Focus Group Observations & Recommendations
Date: October 19, 2001

OVERVIEW

The words I am about to write are direct, strong and may startle you but I am convinced of their accuracy.

I realize that at the end of the day, most of what I say here will be boiled down in terms of your bottom line: profitability and productivity. But that is *exactly* why you will hear me use words like *crisis* and *emergency*. From associates to VPs, your employees are telling us that these issues take up serious amounts of time during their workday. The negative environment they are working in has become more than just a distraction. It is now a barrier to the "excellence" and "performance" that Enron values so highly.

Having helped a number of large companies through similar problems, I can tell you firsthand that employees who are basically content with their jobs perform more efficiently and more effectively on a day-to-day basis. Employees who are frustrated at the levels we saw this week, tend to be less focused and less willing to give 110% when it matters most. So as I said before, this all comes down to your bottom line.

Your employees at the associate, manager, director and VP level made it very clear to us that they see a morale crisis among their colleagues at Enron. Sure, we live in unstable times, Enron prides itself on innovation and competition, and the precipitous drop in the stock price undoubtedly contributes to their expressions of insecurity and unease. But in listening to the four employee focus groups (stratified by level in the company), they are all waiting with growing impatience for senior management to provide a more clearly defined and less chaotic path toward the future.

The intensity and uniformity of responses cannot be dismissed. From systemic problems with HR to the lack of a corporate vision, there is a consensus at all four employee levels that Enron is at a crossroads and that the path you take in the coming months will determine whether you succeed in retaining and building a satisfied workforce or cause a mass exodus of employees.

1000 Wilson Boulevard ■ Suite 950 ■ Arlington, Virginia 22209 ■ Phone (703) 358-0080 ■ Fax (703) 358-0089

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