

Lessons from Enron - Mark Goyder (2002)

Below are a number of questions for specific audiences which are included in the Tomorrow's Company publication 'Lessons from Enron' by Mark Goyder.

Some questions for...

So here is the agenda which I would like to offer to the many bodies that will play a part in ensuring that the Enron story is not repeated here.

...Boards

You are the company's ethics and risk committee. Clear your agenda so that there is time for the serious examination of corporate values and the gap between what is preached and what is practised in your company. It may tell you more than the report of the audit committee. Ask repeatedly what kind of behaviours and what kind of managers get on round here? Do the answers fill you with confidence? If not, dig deeper.

Are you encouraging a game of presentation, rather than underlying substance

...Institutional shareholders

Re-examine your time horizons. What kinds of performance are you rewarding and how durable is it? Are you incentivising people to boost the share price without regard to the future? Challenge the remuneration. Is it one-dimensional? If it is, how can you be sure that you are getting real or cosmetic improvements?

Question CEOs about the kind of atmosphere and culture they seek to create in their companies. See if they are managing the risks that go with big rewards for performance. You are right to invest a lot of credibility in CEOs and teams who deliver what they promise. But how much do you trust the earnings reported to you? What about cash and what about the underlying health of key relationships in the business? Are you encouraging a game of presentation, rather than underlying substance?

...Pension trustees

Question the more active of your fund managers. What are they doing to promote the underlying health of the businesses they invest in and to manage the risk around values, culture and governance? How are they rewarded? Are they encouraging an approach that delivers expected numbers at the expense of building value for the future? Is this what you want?

...Company secretaries

Open up the AGM. Encourage awkward questions as an insurance policy and a sign that the CEO and Chairman of your company are role models for open behaviour.

...the Remuneration committee

Is your approach to performance one-dimensional? If it is focussed on total shareholder return - over what timescale? How are you protecting tomorrow's shareholders against today's creative accounting? Where in the remuneration system are you sending signals that results are not to be achieved at any price to the values and integrity of the organisation?

...Business Journalists

How often do you ask the CEOs you profile about the things they are doing to ensure the business is still robust in ten years time? Do you ask them about the ethos of the business? Is the emphasis exclusively on performance and the next few quarter earnings? What about following the behavioural audit trail? Do you talk to employees and customers and at the underlying health of the organisation that is expected to continue delivering these results?