MINORITY SHAREHOLDERS WATCH GROUP

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ETHICAL CONDUCT

LESSONS FROM ENRON SCANDAL

"THOSE who do not learn from history are doomed to repeat it."

The quote in its original form, by writer and philosopher George Santayana, reads: "Those who cannot remember the past are condemned to repeat it."

The Enron scandal of the early 2000s remains one of the most notorious corporate failures in history. The shocking downfall of this energy giant revealed a web of deceit, accounting fraud and unethical practices that led to massive financial losses and shattered the trust of investors and the public.

The lessons derived from the Enron debacle are invaluable, offering critical insights into corporate governance, ethical conduct, transparency and the dangers of unchecked ambition.

Importance of ethical leadership

Enron's collapse serves as a stark reminder of the significance of ethical leadership within organisations. The company's senior executives created a toxic culture that valued short-term gains and personal enrichment over ethical behaviour and long-term sustainability.

Leaders must prioritise ethical conduct, establish a code of ethics and ensure its enforcement. Ethics training, whistleblowing mechanisms and a strong ethical tone at the top are crucial to preventing ethical lapses and fraud.

In Malaysia, the listing requirements mandate certain corporate governance structures and processes while the Malaysian Code on Corporate Governance advocates the application of better corporate governance structures and processes.

But these will continue to remain mere structures and processes devoid of ethics and morality.

Enron did have all the structures and processes, but these were overridden by man. Structures and processes are one thing, but to do the right thing is another.

You may have all the structures and processes and still go belly-up if you do not have the right corporate culture. You will be able to conform with the law, rules and the code, but not be able to perform with honesty and integrity.

Need for effective corporate governance

Enron's board of directors failed to oversee the company's activities and hold the management accountable. The board lacked independence, was influenced by conflicts of interest and did not exercise sufficient scepticism.

The Enron scandal highlights the vital role of an independent and vigilant board of directors that actively monitors corporate affairs, challenges management decisions, and acts in the best interests of shareholders and stakeholders.

Effective corporate governance mechanisms, including transparent reporting, robust internal controls and regular audits, are essential for preventing fraud and ensuring accountability.

The aftermath of the financial crisis of the late 1990s gave birth to the first Malaysian Code on Corporate Governance 2000. And there have been several iterations since then.

Now, 23 years later, we should be in a better position regarding corporate governance. While we have bred application of the practices in the code, there is an even more important need to choose better people to helm boards and management.

Importance of transparency and disclosure

Enron's deceptive financial reporting and complex off-balance-sheet transactions concealed the company's true financial health. The scandal underscores the critical need for transparency and full disclosure in financial reporting.

Companies must provide accurate, comprehensive and understandable information to investors and stakeholders, allowing them to make informed decisions. Regulatory bodies like the Securities Commission are crucial in establishing and enforcing disclosure requirements.

Transparency builds trust, enhances market integrity and fosters a level playing field for all participants. Transparency and disclosure are the lifeblood of any exchange.

It is news that creates changing circumstances which is a prerequisite to a robust exchange with volume and better price discovery.

Regulators should come down hard on those who do not adopt timely disclosure of material information for that is a breeding ground for a far greater evil called insider trading, a statutory crime under the Capital Market and Services Act 2007.

Everybody likes a level playing field. Transparency and timely disclosure enable such a playing field.

The necessity of regulatory oversight

The Enron scandal exposed regulatory gaps and weaknesses that allowed the company to manipulate the system. It prompted a significant overhaul of financial regulations, leading to the passage of the Sarbanes-Oxley Act in 2002. The act strengthened financial reporting requirements, increased auditor independence and enhanced corporate governance.

Enron serves as a reminder that effective regulatory oversight is vital to safeguarding the interests of investors and ensuring the integrity of financial markets. Ongoing monitoring, enforcement, and periodic updates of regulations are necessary to adapt to evolving business practices and protect against fraud and misconduct.

Conclusion

The Enron scandal left an indelible mark on the corporate landscape. Ethical leadership, effective corporate governance, transparency and robust regulatory oversight are essential to a healthy and sustainable business environment.

Companies must prioritise ethical conduct, establish strong governance structures, maintain transparency and adhere to regulatory requirements. By learning from Enron's failures, organisations can work towards restoring trust, fostering accountability, and creating a more resilient and responsible business environment.

Malaysia has not been spared of its share of mini-Enrons. Seasoned investors and regulators are able to roll off a string of public-listed companies which have fallen victim to Enron-like afflictions.

No structure or process will ever be a substitute for good virtue and righteousness. No structure or process will ever be a substitute for morality and integrity. No structure or process will ever be a substitute for "a few good men". And *A Few Good Men* is a 1992 American legal drama worth watching.

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The writer is chief executive officer of Minority Shareholders Watch Group