

Pay heed to non-financial info, says Enron whistleblower

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A company's non-financial information such as corporate governance and culture as well compensation system could ultimately impact its financial ability to weather a crisis or avoid being another Enron, said Enron whistleblower Lynn Brewer.

She said post-Enron legislation like the Sarbanes-Oxley Act in the US, aimed at increasing transparency, was not sufficient to curb a repeat of big accounting fraud cases.

There was an obvious conflict of interest when auditors were paid by the companies they audited, which was why independent organisations were needed to assess the integrity of a company, she said.

Brewer, the founder and president of the Integrity Institute Inc in the US, which assesses and certifies a company's non-financial information, was speaking to reporters in Kuala Lumpur on Sept 5.

She is in town to present a talk at a Sept 6 seminar organised by the Chartered Institute of Management Accountants (CIMA) and participate in a roundtable by the National Integrity Institute.

The Edge is the official business weekly for the CIMA seminar, which is themed "The Value of Integrity -- Understanding the Hidden Value of Business Intangibles".

Brewer's Integrity Institute Inc is an independent body that is not paid by companies to assess and certify their non-financial information.

Non-financial information includes corporate citizenship, culture and governance, executive compensation, leadership in the quality of internal communications, and stakeholders' perception, she said.

Brewer was one of several Enron whistleblowers who reported on the company's misdeeds in 2001.

She was recruited to work for Enron in March 1998 to head a risk management group in energy operations, before moving on to e-commerce initiatives for Enron's water subsidiary, and later to Enron broadband services.

Ironically, she was hired to look into the company's off-the-balance-sheet partnerships, which in Enron's case, were created to hide losses from the general public, she said. She pointed out that in several companies in the US, such partnerships were used legitimately.

In her almost three years in the Houston-based energy company, she came across several discrepancies.

"I witnessed numerous instances of illegal and corrupt dealings, including bank fraud, espionage, power price manipulation, and gross overstatements to the press, public and financial world," she said.

Despite blowing the whistle at least five times inside the company, her efforts fell on deaf ears. She finally contacted Enron's employee assistance hotline, only to be told by the service provider that she should hire a lawyer.

"In the US, if you have a cocaine addiction, you can call the employee assistance programme to get help for your addiction.

"But if you're blowing the whistle, they will tell you that 'Ma'am, inasmuch as our fees are paid by Enron, I can't take your call. You'll have to hire a lawyer.' So I went and hired a lawyer."

Since leaving Enron, Brewer has founded the Integrity Institute Inc and travelled the world in speaking engagements to talk about her experience and views on how corporate governance can be better put in place.

She is also the author of "House of Cards: Confessions of an Enron Executive", which she said she wrote because few people in authority were willing to listen to her.

Brewer said in 2001, she had reported the misdeeds to the Energy and Commerce Committee, but nothing came out of it.

"The number of whistle-blowing reports has increased from 6,400 to 40,000 a month, two years after the passage of the Sarbanes-Oxley legislation. Clearly, it is not deterring what's going on," she said.

Brewer said past cases showed that some individuals who had violated Sarbanes-Oxley were not convicted.

She said she did not think the legislation, enacted in reaction to a crisis and which cost companies a lot to comply with, was an efficient way to deter such problems.

Her institute works with two of the four large accounting firms in the US, she said, but declined to name the firms.

“It is a way for companies to communicate with shareholders that they are not the next Enron, that their methods met the standards (assessed) by an independent body.

“We are not a watchdog organisation, we are not a rating agency. We work with companies to (help them) understand the impact that non-financial performance could have on the financial performance.”

The institute will begin beta tests in January next year, Brewer said, adding that several companies have already expressed interest in being assessed.

She said the institute is also open to working with companies worldwide. The institute is setting up operations in South Africa and the UK, and eventually probably Asia.

“The story of Enron, and it’s often the case in too many companies, is it’s as much about those who refused to tell the truth as it is about those who refused to listen,” Brewer said.

“From my perspective, the moral of the story is that leaders today need to begin to open their eyes and their ears to those people who are in the trenches every day and looking at what is going on inside the organisation.

“I think all the information is there. They just refused to see it. Oftentimes, they are relying on financial information to communicate the state of the company when in fact, most of the time, those financial numbers have been manipulated in one form or another.”

In 2001, the year Enron’s problems imploded, the US Securities and Exchange Commission received about 6,400 whistle-blowing reports every month and there were about 10,000 publicly traded companies, she said.

In 2004, the regulator received about 40,000 whistle-blowing reports a month, she added.

If we assume 75% of those were frivolous reports, the fact remained that the SEC was receiving more whistle-blowing reports than there were public listed companies every month, she said.

What does that mean from a global perspective? A company in Malaysia that is doing business with firms in the US could find itself linked to these companies without understanding what was going on, and could end up being caught up in one of these scandals very similar to Enron, she said.

Brewer said between 2000 and 2001, Enron received a 300% increase in internal reports from whistleblowers. About 30% of these reports involved criminal activity, 74% of which were reports of fraud, she said.

"The key to Enron's failure was that every day, when the Enron stock was going up by a dollar, most of us were making thousands, if not millions of dollars a day, because our own income was tied to Enron's stocks going up," she said.

"Some days, I was making US\$20,000 to US\$30,000 (RM75,180 to RM112,770). So there was a complacency on everybody's part to sort of look the other way from what was really going on.

"While blowing the whistle inside the company and telling senior management what was going on, I was also cashing in on stock options, which made me equally guilty with everybody you read about in the news.

"Sadly enough, it was that willingness to look the other way by 20,000 people, (that) it went on for as long as it did and ultimately, it imploded."

Brewer said she was able to sell out all her stock options because under Enron's severance package, one had to cash in on the stock options within 60 days of leaving the company.

While she managed to cash in on that, she lost all her retirement pension worth about US\$70,000 when the company's problems came into the open.

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