

# Why ENRON MATTERS

## to the Investor Relations Officer

BY BRAD ALLEN

Does Enron matter to investor relations? Why does it matter specifically to IROs? Hasn't enough been said about the financial failure of Enron in 2001? This spectacular corporate collapse has inspired books and movies and the personal and professional tragedies and scandals involved have been chronicled, dramatized and dissected through-and-through. "Enough," you say? Also, there have been plenty of corporate scandals, and they keep coming. So why pick on Enron?

But the Enron story has long legs! A made-up corporate name has now passed into the language as its own noun and verb. "Enron" has become a shibboleth for greed, arrogance, incompetence and criminality as well as loss, betrayed loyalty, disillusionment and faithlessness. Add the suffix "-itis" and Enron-itis becomes a negative social condition that calls politicians to action and the larger community to attention. Enron

has helped to spawn whole new regulatory schemes, consulting practices, revenue streams and business models with a whole new acronym swamp of words — SOX, 404 Cert., PCOAB. Powerful stuff! In such a short period of time a nonsense name becomes a cultural coin with layers of meaning, association and connotation.

So, Enron still matters!

Many behaved badly in this story (in addition to the corporate players). The enablers to Enron's massive fraud — bankers, lawyers and accountants — were swept up in the scandal.

The business press lionized the same management who later were revealed to be con men. Enron was not the cause, but the most visible and vivid symptom of an era. Enron was in some ways just a part of the larger landscape. The times were a peculiar period where the business culture was swept up in a "greater fool" frenzy that everyone was afraid to get off the merry-go-round.

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“Enron” will be a case history for years to come in the professional training of lawyers, accountants, financial analysts and business journalists. It should become a part of the body of knowledge in IR practice as well. So what meaning does Enron have for the practice of investor relations?

### First, Enron matters as a cautionary tale.

The practice of investor relations reached a significant milestone with the conviction and sentencing of Mark Koenig, former NIRI member and former Enron IRO. But it's a cautionary tale for the rest of us, less because of his own personal and professional downfall — the price he paid — and more the role he played in the unfolding drama.

Enron also means “complex business model” and the prosecutors understood that they needed to simplify their case to the jury. Koenig was the first witness in the trials of CEO Jeff Skilling and Chairman Ken Lay. The prosecutors went to school, on IR and concluded that our role is a logical starting point to try to unravel the tangled puzzle of who knew what when. *Enron* is also a reminder that, ultimately, the market works. It was not enterprising journalist, hard nosed accountants, diligent lawyers or zealous regulators who first questioned the wall of smoke that Enron management had thrown up. It was investors, short sellers primarily — looking to make a buck — who were motivated to dig through the dense footnotes and find the truth.

### Second, Enron matters as a focusing and defining saga.

Enron matters because it brings focus and definition to what we do — IR should, in its best days, communicate risk and communicate reward. Then the capital markets determine a value and set a price. That's what we all learned in Investments 101, right? The defense put forward by CEO Skilling was that the company suffered from poor PR, causing a “run on the bank.” If that defense had won, we should have all gone into selling used cars, because it wouldn't matter what we did, as long as the shine and the spin was right.

Good IR people are hard wired optimists. We all face the reality of cultural, institutional, professional and personal pressures that shape our practice, that force us to look “glass half full” at the world. That's the sizzle, the spin, the PR, if you will. It is important to translate complex business strategies, accounting treatments, macro economic factors into plain English that helps investors understand the potential rewards of a business.

But think about it. If you accept that reward **and** risk are what we are about, we typically spend 90 percent plus of our time

in the reward zone. But plain English descriptions of reward should be balanced with plain English descriptions of the risks. If the **only** place we deal with risk is in the safe harbor statement of the press release and 10K, we are not dealing in a balanced way with the equation. And ultimately, it only increases the skepticism of investors — from Aunt Edna in Toledo to our favorite PM on Park Avenue.




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### Third, Enron matters because what we do matters.

Remember the Albanian Lek crisis? No? I'm serious — this matters. A decade ago, the infant post-Soviet Union Albanian government was thrown into chaos and civil war. Long simmering ethnic tensions exploded into open fighting, spawning a massive refugee crisis. Maybe it would have happened anyway but the precipitating event was the collapse of a government-sponsored pyramid scheme in which citizens lost their entire life savings. They **trusted** that the system would keep their investments safe. Trust in the capital markets assumes that everyone shares in an open and transparent playing field where risks are known and rewards are shared. It's an important set of shared assumptions, sort of like understanding that red lights mean “stop” and green lights mean “go.” Without that shared set of assumptions...well, we all could be in trouble.

IROs are in a unique position. At the same time we are players and participants, observers and translators. We are ambassadors, if you will, between the capital markets and the companies we represent. It's easy to say, and difficult to do, but each time we face a conflict or ethical dilemma, Enron can serve as a cautionary tale, a focal point and a reminder that what we do matters. If we collectively allow our role, our job, our value to be defined by the Jeff Skilling defense, then the integrity of the capital markets will erode, just a little, bit by bit.

Finally, each year, when you renew your NIRI membership, you are expected to acknowledge the NIRI code of ethics and agree to adhere to it. I encourage each renewing member to really read the NIRI Standards of Practice and the Code of Ethics, put them into the context of your own complicated and real world situation and experience — and continue to believe that what we do really matters. And that ethics matter! 

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