



THE ENRON AND END GAME

By

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The collapse of Enron is the largest bankruptcy in US corporate history. In an Age of information and transparency, and with tens of thousands of people having some knowledge of the company's finances, the company still failed without warning. Enron sponsored individuals and entities in an attempt to gain influence, while scores of politicians as well as public and private organisations took money in the form of campaign and charitable contributions.

Beyond the US it has been reported that Enron's auditor, Arthur Andersen, early last year cleared the accounts of insurance company HIH, which shortly afterwards became Australia's largest corporate bankruptcy. These events have fuelled protests against capitalism and globalisation, with widespread calls for more legislation and governmental control of business. The ripples throughout the global economy are already spreading.

Again this is not a story about companies, it is a story about people, who let uncontrollable greed dictate their decisions. Many people will suffer as the result of the greed of the few. Seemingly, the prospects of rapid wealth were worth the risks of not doing what was right. It is hoped that companies globally will condemn this type of business practice, and will make fundamental changes with respect to transparency.

There is an important lesson for the consultant industry, of which I have been a member for nearly two decades. The first rule of consulting is telling a client what it needs to hear and not what it wants to hear. As consultants, we have a duty to provide reliable and realistic advice to our clients. Like companies, consultants have a responsibility to conduct themselves in an ethical manner. Integrity and honesty are at the foundations of our existence in civilised society.

We must strive to move beyond merely getting the final report out on time and responding to the next request for a proposal. Associated with quality is a dedication to mentoring and monitoring by senior consultants on behalf of the less experienced scientists and engineers in a consulting firm. These considerations do not mean that a consulting firm cannot be competitive, a basic principle of capitalism.

Mining companies must also realise consultants are not all equal in experience and expertise. Operating on the concept of the lowest bid to complete a critical engineering design component for a new mine may not universally provide long term reliability. This approach encourages consulting firms to use fewer and/or less experienced professionals to cut costs in order to meet the low bid requirement. Is there a point that as consultants we say a particular design cannot be completed.

This concept and approach has become particularly troublesome during these strained economic times. Spending additional money during the design and review stages of a project will increase the public's level of confidence, reduce the risk of environmental incidents, and ultimately the number of environmental mishaps.

The collapse of either a company or a tailings dam makes the task much harder the next time a consultant must present technical information to the public or an agency, and then ask to be trusted. Our technical knowledge has grown exponentially over the past century, but nonetheless, major environmental incidents still occur in the mining industry. In the meantime, consultants must somehow continue to lower their charges while maintaining the highest level of quality. The incremental cost of doing things right is generally small compared with the overall reduction in risk and potential environmental mishaps.

The ongoing environmental mishaps that occur in the mining industry due to geotechnical failures, mismanagement of cyanide and improper disposal of waste rock are not the result of our lack of knowledge. We have the experience and expertise to accomplish a particular engineering or scientific task correctly. The problem lies with the approach taken in applying the knowledge. We must plan more diligently, with more vision and take our time to do things right.

The problem lies with the speed with which each ore body must be developed. In contrast to our quest to mine every deposit, we now have some mining companies on a global basis reducing production in an attempt to shore up prices and increase demand for specific metals.

No matter how one uses a calculator, two and two will sooner or later add to four. One can bend the laws of science and engineering but one cannot break them. As the entire Enron and Arthur Andersen story have demonstrated, bigger does not mean better. It seems sometimes that doing the right thing is just too hard. One wonders if the transition in business management from scientists and engineers to accountants and lawyers has provided a new view of profitability. As consultants, we must challenge ourselves to set the professional pace. The legitimacy and longevity of our work will be our legacy.