An analysis of the Enron story raises the question again as to whether there is room for ethics in business, given the current *modus operandi* of major corporations and financial markets. It would be easy to say that ethics has no place in decision-making, that the multifarious pressures on senior executives and managers turn them into machines programmed for a single purpose: to maximise profits over the year, and even over a quarter. But is this a realistic description? I don’t think so. First, while operating in the same economic and financial environment, the majority of companies do not plan or act as did Enron. Moreover, the reasons for Enron’s fall lie not in the environment but, precisely, in a profound failure in the ethical dimension, underlying a chain of erroneous decisions.

**New forms, old problems**

Discussions of Enron and similar cases usually try to place the blame on the current market economy: excessive short-termism, a boom in financial engineering, financial criteria taking precedence over industrial or production matters, and, above all, an economy distorted and fragmented because the players’ sole motivation is personal enrichment.

Such criticism is always useful, but it merely scratches the surface, bringing to light new forms but not necessarily a substantial change. In a case like Enron’s, it fails to address the underlying question. In fact, the story is timeless: we could be dealing with any company whose operations are loss-making, or which has taken on too much risk. It is the old story of the flight forward, the search for ways to conceal a company’s real situation from the public (even from the company itself) in the hope that things will get better on their own, that the as-yet unreported losses will be recovered, that the risks will be dispelled, and that creditors’ trust can be restored without having to maintain the cover-up. Unfortunately, that is not how things normally turn out.

Market deregulation and instant communications have led many non-financial companies to expect greater returns on their investments and to
place greater emphasis on cash management. These trends have also fostered the unprecedented development of businesses that are based specifically on speculation, on tangibles or intangibles. The spread of financial activity internationally has made it even easier to take on debt and undertake increasingly leveraged operations, which increase the return on equity. As a result, international investment bankers can offer executives an ever-widening range of novel – and sometimes risky – financial and investment solutions. And sometimes there is the temptation of large short-term profits.

However, things have evolved since ‘Enron and Co.’ a few years ago. Partly as a result of the resulting scandal, and partly because of the markets’ development, expectations have changed, laws have been strengthened, audit firms have become more demanding and, generally, the perception of risk has changed. An example from a field with which I am personally familiar – insurance: after 11 September 2001, in a context of low interest rates and a slump in many stocks, insurance and reinsurance companies have become much more cautious about underwriting, they charge adequate premiums, apply rigorous cost controls, and, in short, are now seeking operating profits in their industrial activity, regardless of financial performance. The companies that were reluctant to heed the siren song of financial gain and maintained greater rigour in their operations are now obtaining particularly good results. In this case, at least, ‘financialisation’ has receded spectacularly.

An unfinished revolution

As some analysts have observed, even within the context of the stock market and financial boom some years ago, a case like that of Enron, made possible by the situation at the time coupled with novel financial techniques, in fact hinged on an extreme and exceptional use of a number of motivational instruments and systems. The very dynamics of the business (speculative by nature), the unbridled application of short-termist motivation systems, and rash management decisions all contributed to putting the company in a situation of potential or actual losses, which management sought to conceal by various means, for image and rating reasons, when a transparent view would probably have shown that the conglomerate’s continuity and equilibrium were already damaged and that they were unlikely to find an untraumatic solution. The Enron managers’ attitude was undoubtedly influenced by pressure from financial analysts and by the desire to maintain the company’s good image in the market.

To prevent a recurrence of ‘Enron’ and similar cases, is it therefore necessary to curtail the process of opening companies to the scrutiny of equity analysts? I believe that to generalise this case would be an error of method