

# JPC has missed the opportunity of cleansing the system

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BY OUR BUSINESS CORRESPONDENT

"If there is one lesson to be learned from the high profile corporate failures of Enron, WorldCom, Marconi and the lot, it is that we must move away from the western model of a box ticking approach to corporate governance. Enron had ticked every box. The chairman of its audit committee was a person of impeccable reputation and no less than the Dean of Standard Business School, Law, rules and regulations are never an answer for the issues of heads and heart", said Dr. Mehra at a press conference following his hugely attended seminars on "Unleash the Power of Corporate Boards" in Mumbai, Calcutta and Delhi.

"To think that Enron, Marconi and Vivendi are simply isolated cases where corporations have cheated the innocent public is to show evidence of extreme naivete. Lynn Turner, Chief Accountant of the SEC from 1998-2001, who was earlier a partner of Cooper & Lybrand, admitted in a TV interview, "All the Big Five accounting firms helped Wall Street investment banking firms to engineer hypothetical transactions to make companies look better than they actually were", added Dr. Mehra.

Dr. Mehra said, "Instead of bashing Enron, we should be grateful to it for throwing open the murky world of corporates and providing us an opportunity of getting real with the huge problem of cleansing it. Arthur Levitt, the former chairman of Securities and Exchange Commission tried for four years to curtail the power of accounting profession. He could not succeed even in having a meeting of the Big Five

in his office. Finally, he had to hold it in the office of one of them. Paul Sarbanes and Mike Oxley have gone a long way since then in establishing an Accounting Oversight Board with majority of non-financial members and banning non-audit work. Yet, Naresh Chandra Committee has not drawn lesson from it to clip the power of India's accounting profession and has failed to recommend establishment of the oversight board in India".

"Enron has also debunked the myth of role models. Enron itself was declared the "most innovative company" by Fortune for five successive years. McKinsey, the super consulting firm, was consultant to Enron and collected fees of \$10 million a year. A McKinsey director attended board meetings and the CEO himself was a former McKinsey partner. Super star CEO Jack Welch is suspected of not generating but managing earnings of General Electric Corporate preacher George Soros himself has been fined for insider trading. Corporate hero Messier of Vivendi has the police raiding his premises. Jean Claude Trichet, who is to head the European Central Bank, has been put on trial for massing Credit Lyonnaise accounts. It is interesting to note that all these cases are fairly old. Had these come up for decisions in the pre-Enron world then, as in the case of Lord Archer's libel case, the outcome would have been entirely different. The pendulum has since moved completely to the other direction. Instead of CEOs, judges are becoming super stars," asserted Dr. Mehra.

Eliot Spitzer's (New York Attorney General) success in bringing US's top financial institutions and corporate giants like Sandy Weil to

their knees was due to the power of internet. It was the evidence of their inhouse e-mails that helped him to build cast iron cases against Solomon Smith Barney and Merrill Lynch. In the under certain world of today, there is one certainly that if you try to hide behind stealth and translucence, you are certain to be found out".

Dr. Mehra claimed, "India's Joint Parliamentary Committee has missed a terrific opportunity in cleansing its political system in the way George Bush has done after Enron scandal in the US. It has failed to capitalise on the post-Enron righteous reaction and indict those responsible for UTI scam which has inflicted so much suffering to India's common man and has been the largest single factor responsible for shattering public confidence in the stock markets".

Dr. Mehra said that the basic reason for the recent corporate collapses is the "mortal fear in which the today's CEO lives of the stock market which forces him to inflate quarterly earnings. We have to educate investors ignore quarterly reports and take a long view of the company's performance."

He asserted, "the heart of corporate governance is the independence of directors. Directors will never be independent unless they are recruited and paid by an outside agency. World Council for Corporate Governance is establishing such an agency for non-executive independent directors. But, non-executive directors will be ineffective unless we can restrict the number of directorships an individual can hold and take up with non-performing directors". ■