

BEYOND ASSURANCE

The Vacuum Enron Exposed, and the Reporting We Poured Into It

A year on from Sarbanes-Oxley, why the shortage was never of controls but of judgement,
and why it is emptiest at the level of the portfolio



Contents

1. Executive Summary	3
2. The Vacuum Was Never About Controls	3
3. What We Built Instead	4
4. The Portfolio Blind Spot	4
5. Why the Vacuum Refills	5
6. The Case That the Reforms Were Right	6
7. Filling the Vacuum for Real	7
8. Coda	7

The Vacuum Enron Exposed, and the Reporting We Poured Into It

Portfolio · No. 6

Originally written June 2003 | Re-edited and re-rendered for the WhereBeyond Edition, 2025

“A failure that no one is even looking for is a far deeper kind of failure than one the whole organisation is straining to catch, and it is the kind the reforms leave entirely untouched.”

1. Executive Summary

Eighteen months after the collapse that began the reckoning, and with Sarbanes-Oxley now the law that every listed company organises itself around, it is worth asking a plain question: has the governance vacuum that Enron exposed actually been filled? This essay argues that it has not — that we have mistaken the vacuum for a shortage of controls and reporting, when it was always a shortage of genuine decision-making discipline at the top of the organisation. The reforms of the past year have poured an extraordinary volume of assurance into the space. They have not poured judgement into it, because judgement is not the kind of thing a code can mandate.

Nowhere is the unfilled vacuum clearer than at the level of the portfolio — the full set of investments, programmes and initiatives through which an organisation actually deploys its capital and its attention. Here, boards remain largely unable to answer the questions that matter: where across everything we are doing is value being created, and where is it quietly being destroyed? The new machinery reports on each initiative's compliance and controls in ever greater detail while leaving the portfolio-level judgement — what to start, what to stop, what to starve — as unsupported as it was before Enron. The essay traces why the vacuum refills even as we work to fill it, takes seriously the case that the reforms were nonetheless right, and sets out what filling the vacuum for real would require. The short version: we have built an organisation that can prove it followed a process, and we still cannot tell whether we are spending our money well.

2. The Vacuum Was Never About Controls

It is tempting, and it has been convenient, to remember Enron as a failure of controls. On that reading the lesson is straightforward — tighten the controls, expand the disclosures, make the certifications personal, and the hole is filled. Much of the past year's reform proceeds on exactly this assumption. But it misreads what actually happened. Enron did not lack controls. It had an audit committee, external auditors from a firm then regarded as among the finest in the world, internal policies, board minutes, and disclosures that ran to hundreds of pages. What it lacked was a board and an executive willing and able to exercise genuine judgement about whether the enterprise made sense — to look at the structures being built and ask not "is this permitted?" but "is this real, and is this wise?"

That is the vacuum. It is not the absence of a control. It is the absence of the moment where someone with authority looks at the whole picture and forms an independent judgement about it, and is willing to act on that judgement even when the paperwork is in

order. A vacuum of that kind cannot be filled by more paper, because more paper is, if anything, the thing that helped conceal it. The tragedy of the great failures was not that no one filed the forms. It was that everyone filed the forms and no one, at the decisive moment, was exercising the judgement the forms were supposed to support.

“The vacuum was never the absence of a control. It was the absence of the moment where someone with authority looks at the whole picture and forms a judgement – and is willing to act on it even when the paperwork is in order.”

3. What We Built Instead

Faced with a shortage of judgement, we did the thing organisations reliably do when asked to supply something that cannot be manufactured to order: we built the nearest thing that can. We built reporting. The distinction between reporting and deciding sounds pedantic until you watch it play out across a full portfolio, at which point it becomes the whole story.

Reporting	Deciding
Describes what has happened	Chooses what will happen next
Optimises for completeness and defensibility	Optimises for the quality of the choice
Can be delegated, templated, and audited	Cannot be delegated without ceasing to be judgement
Answers "can we show we followed the process?"	Answers "are we doing the right things?"
Grows naturally under regulatory pressure	Must be deliberately protected or it atrophies

Everything about the current climate pushes energy into the left-hand column. Reporting is auditable; judgement is not. Reporting is defensible when things go wrong; judgement exposes the person who exercised it. Reporting can be demanded by a code and evidenced to a regulator; judgement can only be cultivated and can never be proven to have occurred. So the reporting apparatus has grown magnificently over the past eighteen months, and the decision-making discipline it was meant to serve has, in many organisations, quietly withered in its shadow – not because anyone chose to neglect it, but because the two compete for the same scarce resource, which is the attention of senior people, and only one of them shows up in an audit file.

4. The Portfolio Blind Spot

At the level of a single initiative, an organisation can now describe itself in exhaustive detail. It knows the status, the risks, the controls, the spend to date. Raise your eyes to the portfolio – the twenty, or fifty, or two hundred things the organisation is doing at once –

and the detail dissolves into fog precisely where the most consequential judgements live.

Consider a composite drawn from several organisations I have observed at close quarters. A group runs a change portfolio of some sixty initiatives and a little over ninety million pounds of annual investment. Every initiative reports monthly. Every report is compliant. Each has a business case, a risk log, a governance forum, and, since last summer, a control narrative thick enough to satisfy any reviewer. Ask the board a portfolio question, though — of these sixty, which ten are creating most of the value, and which fifteen would we not fund again if the case came fresh today? — and the machinery falls silent. No report answers it, because every report looks down into its own initiative and none looks across. The organisation had built sixty telescopes, each pointed at a different star, and no one had built the instrument that shows the shape of the sky.

The figures, when someone finally forced them together in that group, were sobering. Roughly a fifth of the portfolio's spend was flowing to initiatives that no honest observer believed would deliver, but which continued because stopping them required an active decision that no forum was constituted to take, while starting them had required only a business case that no longer reflected reality. That fifth — some eighteen million pounds a year — was not lost to fraud or to any failure a control would catch. It was lost to the absence of portfolio-level judgement: the specific, unfilled shape of the vacuum Enron exposed, sitting in plain sight under a mountain of immaculate reporting.

What makes this blind spot more dangerous than any control gap is that a control gap is at least hunted. The entire apparatus of the past year is a machine for finding missing or broken controls; a weakness in a control has a hundred people now paid to look for it. The portfolio gap has no one. It is not that anybody judged the eighteen million well spent and was wrong; it is that no one, anywhere in the governance chain, was ever asked to judge it at all. Each of the sixty sponsors could account faithfully for their own initiative. Not one of them was accountable for the sentence that mattered — taken together, this is not a wise use of ninety million pounds — because that sentence belonged to no role, appeared on no report, and triggered no control. A failure that no one is even looking for is a far deeper kind of failure than one the whole organisation is straining to catch, and it is the kind the reforms leave entirely untouched.

An organisation can describe every initiative it runs in exhaustive detail and still be unable to say which of them it would fund again today. That gap — not the missing control — is the vacuum that remains.

5. Why the Vacuum Refills

If the vacuum is so visible once named, why does it persist, and why does it refill even in organisations working hard to fill it? Because the forces that hollow it out are structural, and they are stronger now than they were before the reforms, not weaker.

- Reporting crowds out deciding for the same attention. Senior time is the binding constraint. Every hour spent assuring an initiative's controls is an hour not spent judging whether the initiative should exist. The reforms have vastly increased the first demand without increasing the supply of hours, so the second is what gives way.
- Stopping requires a decision; drifting does not. A business case, once approved, has momentum. Continuing it is the default and needs no one's signature. Stopping it needs a named person to make an unpopular call, and the current climate has made

named people more cautious, not less. So initiatives that should die instead drift, funded by inertia.

- The portfolio has no natural owner. Each initiative has a sponsor who will defend it. The portfolio as a whole — the question of the mix, the balance, the things that should be traded off against each other — belongs to everyone and therefore to no one. Assurance has a home; portfolio judgement is homeless.
- Defensibility has become the dominant instinct. After the year we have had, the safest posture for any executive is the one that can be defended afterwards. Reporting is defensible. A bold portfolio judgement — we are stopping fifteen good-looking initiatives to concentrate on ten — is exposure. The incentive structure now rewards the posture that fills the vacuum least.

These forces do not switch off because a code tells them to. They are the water pressure against which any attempt to fill the vacuum must work, and the reforms, for all their virtue, have raised the pressure.

6. The Case That the Reforms Were Right

I have written so far as a sceptic, and honesty requires me to make the strongest case against my own argument, because it is a serious one and I do not think it is wrong.

The case runs like this. Judgement, the reformers would say, is exactly what failed, and judgement is precisely what cannot be trusted on its own — that was the entire lesson. When Enron's board was invited to exercise independent judgement, it exercised the judgement that everything was fine. "Trust our people to decide well" is not an alternative to the reforms; it is a description of the culture that produced the disaster. Reporting and controls may be a poor substitute for judgement, but they have one overwhelming virtue: they are visible, and what is visible can be checked by someone outside the charmed circle. Sarbanes-Oxley, the Higgs and Smith reviews, the coming revision to the Combined Code — none of these pretend to manufacture wisdom. They build a floor beneath which an organisation cannot sink unnoticed, and a floor is worth having even if it is not a ceiling. Better an organisation drowning in defensible reports than one sailing confidently on the untested judgement of a few clever men.

This is right, and it disciplines my argument rather than defeating it. The reforms were necessary. The floor is real and worth its cost. My claim is not that we should not have built it; it is that we have mistaken the floor for the building. Having laid a floor of assurance, we have told ourselves the structure is complete, when the rooms where judgement actually happens — above all the room where the portfolio is weighed as a whole — remain unbuilt. The reforms guard against the organisation that decides badly in the dark. They do nothing for the organisation that never really decides at all, and merely reports, in excellent light, on its own drift.

"The reforms laid a floor of assurance and we mistook it for the building. They guard against the organisation that decides badly in the dark; they do nothing for the one that never really decides at all."

7. Filling the Vacuum for Real

If the vacuum is a shortage of judgement, and specifically of judgement exercised across the portfolio as a whole, then filling it is not a matter of more reporting. It is a matter of building, deliberately and against the structural current, the places where portfolio judgement can actually happen. Four things distinguish an organisation that has begun to do this from one that has merely reported more.

1. Give the portfolio an owner with the authority to stop things. Judgement across the mix needs a home and a name. Someone must be accountable not for any single initiative but for the shape of the whole, and must hold the authority to starve or stop, not merely to review. Without the power to stop, portfolio governance is commentary.
2. Make stopping as routine as starting. If beginning an initiative requires a case, ending one should require no more ceremony than beginning it, and should happen on the same cadence. An organisation that can start sixty things and has never learned to stop fifteen is not managing a portfolio; it is accumulating one.
3. Report across, not only down. The instrument the composite group lacked — the one that shows the shape of the sky rather than a single star — has to be built on purpose. It asks portfolio questions: concentration of value, balance of risk, the initiatives that would not be funded again today. This is not more reporting; it is reporting turned ninety degrees, from assurance about each thing to judgement about the whole.
4. Protect the judgement from the assurance. Because reporting will always crowd out deciding if the two are left to compete, the decision must be given time and standing that the assurance cannot colonise. The portfolio conversation cannot be the item at the end of the agenda after the control reports have consumed the room. It must be the item the room is for.

None of this is exotic, and none of it requires waiting for a code to demand it. It requires only the recognition that assurance and judgement are different substances, that the past year has given us a great deal of the first, and that the vacuum Enron exposed was always a shortage of the second.

8. Coda

A decade from now, someone will write the history of this period, and the easy version will say that the reforms fixed the governance failures of the early years of the century. The truer version will be more uncomfortable. It will note that we responded to a crisis of judgement by building an apparatus of assurance, that the apparatus was necessary and largely good, and that we then allowed ourselves to believe the apparatus was the answer. It will observe that the specific vacuum — the inability of an organisation to look across everything it is doing and judge it as a whole — was visible the entire time, sitting under the reports, costing real money in plain sight, and that filling it required not another control but something harder to legislate and easier to postpone: the willingness to decide, to stop, and to be judged for the choice. The forms are all in order. Whether we are spending our money well remains, as it was before Enron, a question that no amount of reporting will answer for us — and the only question worth building a governance system to address.