STATEMENT OF JOHN DUNCAN

Before the Permanent Subcommittee on Investigations
Committee on Governmental Affairs
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Chairman Levin, Senator Collins, and Members of the Subcommittee. Good morning, and thank you for the opportunity to address the Subcommittee.

My name is John Duncan. From 1967 to 1985, I was a director of one of Enron's predecessor companies, Houston Natural Gas, and I was there when Enron began in 1985. I have served as Chairman of the Enron Board's Executive Committee since 1986. Thus, I am the Enron director who has served the longest period of time. Until the fall of 2001, I considered it one of the great companies in this country, and I was proud of Enron. I resigned from the Board in March 2002.

I received my bachelor's degree in business administration from the University of Texas. I set out to become a businessman, to start and run my own company. With the exception of my first job in a family business and a stint in the United States Air Force during the Korean War, I have not drawn a payroll check from a company of which that I was not either the founder or a co-founder.

I was a co-founder and President of Gulf + Western and founder of Gulf Consolidated Services. Both companies had small beginnings and wonderful success stories. During the course of my career, I have served on the boards of seven New York Stock Exchange companies. I have also served and chaired the boards of several important community institutions, including the Houston YMCA, the Chancellor's Council of the University of Texas, Southwestern University in Georgetown, Texas, and the Board of Visitors at the M.D. Andersen Cancer Center.

I provide that background to the Subcommittee to suggest that I have had substantial experience with and exposure to the workings, role and the duties of a company's Board of Directors, and limitations. That is what I want to talk about today. In particular, I want to focus on what I believe are the elements of an effective Board, and why I believe the tragic events at Enron occurred.

First, I believe that the directors must be individuals who possess integrity and intelligence. They also should collectively bring a broad spectrum of knowledge and experience in the areas of business, finance, and the company's particular industry. People usually acquire this experience by having operated a company with a significant budget or by having obtained a unique experience from another profession that is relevant to the company's mission.

The directors of the Enron Board certainly possessed these qualities. In my opinion, my colleagues are highly ethical, and of good character. As far as intelligence goes, I will simply say that if education is any measure, I believe I was the only one of a few directors who did not have a Masters or Doctorate degree. Our directors are experienced, successful businessmen and women, experts in the areas of finance and accounting, and had experience in leading large institutions. Others, like our overseas directors, also brought an expertise in certain areas of the world in which Enron saw tremendous business potential.

Second, I believe an effective Board must be dedicated and diligent in addressing the matters that are presented. The directors need to do their homework, analyze the issues, ask penetrating questions, and make decisions that are in the best interests of the company and its shareholders.

In my opinion, the Enron directors met these criteria. We worked hard. We prepared for meetings. We asked probing questions and imposed controls and procedures that management and outside advisors were required to follow. I know that my colleagues here today will address those in more detail. We were willing to say "No" to management when we did not agree with their recommendations.

A good example of the Board exercising these responsibility to act independently and in the Company's best interests occurred last September, when all company indicators were still positive and before any outside director was aware that Enron was in trouble. At least two transactions were presented to the Executive Committee and turned down for price and strategic reasons. The Executive Committee and Board were requested by management to authorize the purchase of two pulp mills for in excess of $300 million in October 2001. The Committee declined to approve those acquisitions because we were concerned about the performance of the previous acquisitions in that industry, the purchase price, and we wanted to preserve financial flexibility in light of the September 11 tragedies. We postponed our decision, and as we all now know, subsequent events soon overtook us.

I did not sit on the Audit and Finance Committees, but I did "sit in" as a guest at some of their meetings. My colleagues asked probing questions of the management and independent accountants. In my opinion, these Committees thoroughly executed their duties.

Third, I think that a Board cannot be successful unless it feels comfortable relying on the intelligence and integrity of the management and other advisers who are presenting matters to it. With over 20,000 employees, over 200 company lawyers writing contracts, and over 400 accountants posting the books, we needed to rely on reports given by the officers of the Company. Quite frankly, there is no other way that we could direct effectively a company of that size. We felt confident relying on Enron's senior management because we believed we had hired some of the best and brightest executives in the country. National, independent publications and organizations recognized and lauded these people for their intelligence, leadership, and creativity.

Finally, I believe the management and other advisors reporting to the Board must provide the complete truth, good or bad, to the Board so that it can make fully informed decisions. We now know this did not happen at Enron. The Board implemented mechanisms and controls to ensure that, at the very least, it obtained early warning signals of impending problems. Among many other procedures, we created a Risk Management Officer position and staffed that department with nearly 100 employees. That officer was responsible for reporting to the Board the most significant concerns and credit issues that faced the Company.

It is now quite clear that significant information about the related party transactions was withheld from us. We were not aware, for example, of the problems with Chewco, were not informed of Raptor III, were not told of the $800 million recapitalization of the Raptors in late 2000 and early 2001, were not told that employees in addition to Andrew Fastow were participants in these and other partnerships, and were unaware that they had reaped substantial windfalls from their participation.

As late as the August 14, 2001 Board meeting, the Board was briefed on the financial condition of the company. The report was "earnings up," balance sheet "stable," "possible credit rating improvement in year 2002." Various Power Point slides indicated to the Board that the Company's good business was improving. The Powers Report and the reports we have all now read in the press indicate that for many months prior to August 2001, members of management and our outside auditors were well aware of the problems facing the company—but they did not tell us.

In sum, I do not believe that Enron's fall would have been avoided had the Board asked more questions, implementing more controls, or avoiding certain financing projects because they were too complicated or risky. Rather, if management had implemented the controls as they assured us they had, if just one of the company's officers or employees had fulfilled his or her corporate duty to reveal these problems to just one director, or if the outside auditors had executed their obligation to convey to us the concerns they expressed privately and documented among themselves, I do not believe that we would be here today.

I am prepared to respond to questions from the Subcommittee.

Thank you.