

## Note to the Students

Dear Students of Section A and G, Sem 6

I am sending you some major governance failures in a tabular form. This is broad framework. For details kindly listen to the voice notes sent by me in your class group.

Stay safe and healthy.

Best Wishes

Aruna Jha

### MAJOR CG FAILURES IN DEVELOPED WORLD

Name	Persons of Prominence	Description of Crisis	Major Governance Issues				
			Powerful Executives	Ambitious mergers/remuneration structure	Absence of checks and balances	Audit Failure	Unethical bs practices
Maxwell	Robert Maxwell	a. Pledging of assets and shares for loans without disclosing it to stock exchange	RM was CEO as well as chairman	Led to financial problems	Oversight by BODs and regulators	Coopers and Lybrand could not unearth the pension fund fraud	a. Illegal buybacks
		b. As soon as he died at sea, banks called in loans and his theft of 933 million pounds from pension funds of employees came to limelight					b. People of repute were appointed as directors

Enron	Kenneth Lay, Jeffery Skilling, Andrew Fastow	Off balance-sheet entities were created to conceal losses	BoD played into the hands of Skilling and Fastow. Kenneth Lay was the chairman and CEO for many years	Executives were paid more than the industry average. Short term profits were emphasised.	Oversight by BoDs, Audit Committee, rating agencies and SEC	Arthur Anderson received more compensation for rendering non-audit services than audit work. It was conflict of interest.	Directors had conflict of interest. Short term profits were encouraged over long- term performance
WorldCom	Bernie Ebbers, Scott Sullivan	Revenue Expenditure was being treated as revenue to inflate earnings	Ebbers was never questioned by BoDs and was given huge loans without collateral	Overvalued acquisitions and constant pressure to maintain share prices	Most of the Board members were former employees, shareholders or directors of companies acquired by WorldCom. Audit Committee was ineffective and internal audit department was under the control of CFO	Arthur Anderson could not detect accounting fraud and did not look into huge loans given to Ebbers	No Code of Conduct. Policies encouraged individual financial success.
Vivendi Universal	Jean Messiers	Unbridled acquisitions at huge premiums	Messiers had support of shareholders, Board, rating agencies and media	Overvalued acquisitions and constant pressure to maintain share prices	Many of the directors were personal friends of Messiers Rating agencies and market regulator found napping		Inflated earnings and non-disclosure of material commitments