

BOARD AGENDA

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The heavy cost of boardroom disasters



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The size and global reach of modern businesses means that the repercussions of scandals and collapses are more severe than ever.



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Where was the board? This is the cry that emerges among investors and in the financial press each time a company disastrously collapses or becomes enmeshed in a scandal.

The board of directors are, in principle, the guardians of the company, the people who ensure it is well-managed, financially secure and operates in the best interests of its shareholders and, increasingly, other stakeholders. Yet, time after time, when companies come crashing to the ground, it emerges that the board has failed in its fiduciary duty to the organisation to ensure it is managed responsibly and sustainably, and to all stakeholders including shareholders to ensure their interests are not harmed.

Sometimes this is out of ignorance. In the aftermath of disaster, when the press and the regulators begin picking over the wreckage and analysing the black boxes, it emerges that the board literally had no idea what was going on inside the company for which it was supposedly responsible.

Even when worrying signals were detected, the board failed to join the dots and develop a complete picture of what was happening. “Asleep at the wheel” is the phrase one regulator used to describe a singularly inept board, and it is hard to dispute this. In other cases, members of the board were knowingly complicit in what was happening, turning a blind eye to financial irregularities, sexual harassment and assault, unsafe working conditions and a host of other abuses.

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Ignorant or criminal, that is often the choice, and it is hard to know which is worse. The really damning indictment of our systems of corporate governance around the world is that there is nothing new about this. Scandals, collapses and bankruptcies have been going on for centuries. Over the course of time, we have learned a great deal about how and why they happen, yet they still happen with shocking regularity.

In the same way that we know much more about how and why wars start—and yet more people died in wars in the twentieth century than in any preceding century—our knowledge of how and why business disasters happen does not seem to be doing us any good. Indeed, some people simply shrug and accept these things as transaction costs, an unavoidable part of the system that nonetheless has produced incredible wealth around the globe. As Norman Dixon says in his book *On the Psychology of Military Incompetence*, “like the common cold, flat feet or the British climate, [failure] is accepted as a part of life”.

But it should not be this way. We should not, as Dixon says, grow blasé about the scandals that rock economies and societies and cause enormous amounts of personal suffering and hardship all around the world. We should not tolerate abuses of power by toxic executive teams, CEOs and chairs, nor should we tolerate the failures of those who are ineffective.

We should be holding those responsible for corporate failures to account and making changes to prevent these boardroom disasters from happening in the future. Now more than ever in the aftermath of the global pandemic that has put hundreds of millions out of work, destroyed thousands of companies and brought entire economies to their knees, we need to have proper governance.

Boards must improve and take responsibility. If they fail to do so, our chances of economic recovery and continuing to economic prosperity will become vanishingly small.

In this book, we will look not so much at the disasters themselves but as to why they happen. Why do they fail to act as the independent guardians they should be? And more importantly, what can be done about this? How can we strengthen boards, improve their culture and competence and give directors and others the power to take action and prevent disasters from happening?

We will attempt to answer those questions, in the hope of providing a better, stronger and more responsible foundation on which to build a system of corporate governance. Whatever happens in the future, we need to do better and not accept these disasters as the cost of wealth creation.

Collective responsibility

The problem of failures of corporate governance is not going away, and it will not go away without purposive action from all of us: investors, customers, employees, taxpayers and citizens. Although scandals and collapses are probably no more numerous than in previous years, because of the size and global reach of modern businesses—and other organisations too— when they do fail, the repercussions are more severe than ever.

The costs of these failures and scandals are borne by us all. Lost jobs, lost tax revenue, ruined lives and the social and psychological harm that follows, pollution and environmental degradation that destroys ecologies and harms health, and of course, injury and death; these are externalities we pay for wealth creation, the costs of corporate failure that spread through every corner of society.

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There is no single solution to the problem. We all need to work together, as citizens, as shareholders, as regulators, to put pressure on boards to improve. Above all, boards themselves need to take charge of the situation and realise that the entire business sector is being tarnished by a small percentage of irresponsible actors. Is there a role here for helping to police each other?

Given the scale and complexity of the problems we face in the modern world—the looming climate emergency, rampant inequality, economies shattered by the pandemic—we all need business to succeed. The constant stream of collapses and failures cannot continue.

We need more and better education and training for directors (hence this book). We need more and better stakeholder engagement. We need more independence of thought and action, to ensure directors have the power to make real change. Above all else, we need a new sense of responsibility, an understanding of what being an independent director and board member means and how board decisions affect the lives of all of us. Incredible wealth creation happens through these businesses. We need them to do better.



*This is an excerpt from **Disaster in the Boardroom: Six Dysfunctions Everyone Should Understand** by Gerry Brown and Randall S. Peterson (Palgrave Macmillan).*