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GOVERNANCE FAILURE CASES IN UK

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Abstract:

Corporate Governance - Before 1990, it was an unknown subject. But after 1990, it emerges as a new area of knowledge for improving accountability and transparency in corporate system. In UK, it was emerged in 1991, with the formation of Cadbury Committee on account of failure of Maxwell, BCCI and Polypack.

KEY WORDS:

Governance Failure Cases , Commerce International , Bank of Credit .

INTRODUCTION

BCCI - Bank of Credit and Commerce International

BCCI (International Bank, 7th largest private bank in the world by assets) had head office in Karachi and London (Incorporated in Luxemburg) founded by Agha Hassan Abedi (Pakistani Financier; begin his career by working for Habib Bank in Karachi, Pakistan) in 1972. It was failed in 1991 (Friday 5th July' 1991)

Person Responsible from Scam/ Failure - Agha Hassan Abedi and Swaleh Naqvi (CEO of BCCI)

Detailed Reasons for failure;

BCCI systematically relied on associations with and payments to, prominent political parties and political leaders in most countries in which BCCI operated. Through its political relations BCCI secure Central Bank deposits of Third World countries; its provision of favours to political figures; and its dependence on those figures to provide BCCI itself with favours in times of need. These relationships were systematically turned to BCCI's use to generate money needed to support its books. This was ultimately resulting into improper conduct and corruption.

Overexpansion - BCCI failed because the bank used its depositor's money for its expansion plans. BCCI earns huge profit from 1974 to 1978, after that the bank showed an alarming level of bad debts due to non-guaranteed lending.

BCCI did not disclose its real financial position all losses were concealed in Cayman Island subsidiary.

Unauthorized Deals - BCCI bought/ took control in First American Bank through unauthorized deals (through its Cayman Island subsidiary). First American Bank, a Washington based holding company with offices from Florida to New York and its chairman was former U.S. defence secretary Clark Clifford.

Clark Clifford allow a group of Arab investors to buy First American Bank's shares on one condition that they supplement their personal funds with money borrowed from banks with no connection to BCCI, but many shareholders had borrowed money from BCCI by pledging their First American stock as collateral security and if they do not make interest payment, BCCI took over their shares. In this manner, BCCI acquire more

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than 60% shareholding in First American Bank.

Increase in Non-performing Loans - Gulf group (a shipping company), was a major customer company of BCCI. Gulf group commenced to get into difficulties and it was unable to repay its loans to BCCI. BCCI also gave loans to Gokal Companies and loans given to the Gokal companies were three times the bank's capital.

Money Laundering - During 1980's BCCI was involved in money laundering with drug dealers in Colombia. In October 1988, US Police and Custom Officers arrested seven BCCI official in Tampa, Florida in drug- trafficking and money laundering charges.

Poor Auditing - PWC (Price Waterhouse Cooper) was the auditor of BCCI overseas (Cayman Island, E & Y (Earnest and Young) was the auditor of BCCI (London) and BCCI SA (Luxemburg). The Bank of England and the Institute of Moneta ire Luxembourgeois (Luxemburg Bank Regulatory Body) ordered BCCI to change its auditor and appoint only one auditor, because BCCI provides financial benefits to its auditor's & auditor's acting as a private consultants to BCCI. Audit Report given by auditor failed to represent true financial affairs of the Bank.

After failure - In 1944, the Government of Abu Dhabi, which took over BCCI, agreed to pay \$1.9 billion to the depositor's pool. BCCI creditor also instituted a \$1 billion suit against the Bank of England as the regular body. To date liquidators have recovered about 75% of the creditor lost money.

Maxwell Communication Corporation and Mirror Group Newspaper

British Printing Corporation (Publishing Company) had business in UK, founded by Hazell Sun in 1964. In 1982 Robert Maxwell acquired British Printing Company and changed its name to British Printing & Communication Corporation, and in October 1987 it was renamed as Maxwell Communication Corporation. It was failed in 1991

Person Responsible for Failure – Robert Maxwell, his two sons – Kevin Maxwell & Ian Maxwell and two directors of the company

Amount of Fraud/Scam/Failure - More than \$400 Million

Detailed Reasons for Failure

In 1980, Maxwell began a foremost growth program. He began to purchase shares in the British Printing Corporation (BPC). BPC had been created in February 1964 from the merger of Purnell & Sons Ltd. with Hazell Sun Ltd.

Purnell & Sons had been established in 1849. In July 1980, Maxwell launched a dawn raid to acquire large number of shares on BPC and acquired 29.5 percent of its shares. In February 1981, Maxwell launched a takeover proposal for BPC with the agreement of the National Westminster Bank, BPC's most important creditor but after some time the Pergamon Press (controlled by Maxwell) agreed to inject 10 million euros into BPC in return for a controlling interest in BPC. Maxwell became deputy chairman and chief executive of BPC and in May 1981 Pergamon owned 77 percent of BPC and Maxwell had become chairman.

To finance Maxwell Communication Corporation's (MCC) enormous U.S. acquisitions, Maxwell deserted most of the printing side of MCC's business to focus on publishing. In January 1989, MCC begin to dispose of over US\$1.4 billion worth of MCC's printing and non-core subsidiaries. In September 1989, MCC secured US\$3 billion in medium-term credit to re-finance the loans taken at the time of the purchase of Macmillan and OAG. MCC used some of the borrowings to purchase Merrill Publishing, the U.S. educational books group, for \$260 million in the same month and at the same time MCC's disposals continued with the flotation of 44% of Macmillan's former language instruction subsidiary, Berlitz International, in December 1989, raising \$130 million. An agreement was made at the end of March 1991 to sell Pergamon Press to Elsevier for 440 million euros.

Maxwell Communication Corporation's high debt, exacerbated by its hunger for acquisition and expansion as well as the economic weather, was known to be important. But, it was not until Maxwell's death in November 1991 that the true dimensions of MCC's fiscal sickness.

Maxwell was listed in the London Stock Exchange and Robert Maxwell; chairman and CEO of the company abuse his power in a scandal that was named as, greatest fraud of the 20th century (Stiles and Taylor, 1993).

Expansion - The Company borrowed heavy loans to finance its expansion plans that led to the accumulation of huge private debts that could never be fully acknowledged. As estimate, the company borrowed more than

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\$3 billion to finance its expansion plans.

Fraud in Pension Fund - Company was started to take-out money from its pension funds as loan. Because no money had coming from banks and banks were refused to give any further loan to the company. Millions of pound was borrowed from pension funds to gear-up the financial position of Maxwell.

Fakes Transaction - Maxwell was using the shares of one company as collateral security for taking a loan, intended for another company. Robert Maxwell moving the assets between the companies as best suited to his overall interest.

After failure

Robert Maxwell assumed suicide

His two sons and two directors were declared as bankrupt and went on trial for fraud.

After 1996, the company was sold off to the management buy-out & it is now known as Polestar.

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