

Corporate Collapses and (Legal) Ethics

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Abstract : Numerous corporate scandals, which included investment scams, corporate malfeasance, unethical conduct and conflicts of interest, contributed to the collapse of WorldCom, Global Crossing, Xerox, Tyco, Enron, Sprint, AbbVie and Imclone and led to alarmed investors abandoning public securities markets and the tumbling of U.S stock markets. These companies suffered significant financial losses due to substantial and fraudulent misstatements and other illegal, corrupt or unethical practices. Executives were convicted of fraud and sentenced to prison. The corporate financial scandals, governance failures, and the ensuing public outcries led to mandatory legislation, e.g. the Sarbanes-Oxley Act in the USA. In European corporate scandals such as Parmalat, Royal Dutch Ahold, Vivendi, Adecco and Elan, the boards missed financial misrepresentations. In South Africa, Steinhoff is the most well-known example of corporate collapse, but now we can also add Tongaat Hulett. It seems as if fraud and corruption may be the major sources of these corporate collapses. In most instances, there is either the active involvement of the directors and managers in these fraudulent or corrupt practices, or there is a negligent or even intentional failure to act by directors to prevent these activities. However, besides directors and managers, auditors and lawyers failed in most of these companies to fulfil their professional duties. In most of these major collapses, the ethics of especially auditors and directors could be questioned. This paper will first provide a brief overview of corporate collapses. Secondly, the reasons for these collapses, with a focus on unethical conduct, will be discussed.

Keywords : professional duties, corporate collapses, ethical conduct, legal ethics, directors, auditors

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