Alexander (Sandy) Pepper July 22nd, 2025

Robert Maxwell and the institutional weakness of the City of London

*The collapse of Robert Maxwell's media empire after his death in 1991 laid bare the informality of the institutional framework in the City of London. Greater regulation has failed to fix all the problems. **Sandy Pepper** writes that a return to ancient philosophers, especially Aristotle, with his focus on character, would benefit corporate governance.*

In 1991 the collapse of Robert Maxwell's business empire blew up the institutional framework of the City of London. It is a story that has been told many times, most recently by John Preston in *Fall: The Mystery of Robert Maxwell*.

History matters in business education. I have used the story of the fall of the Maxwell empire to teach about corporate governance and business ethics, but also critically about the importance of character. This matters in today's business world as much as it ever did. Indeed, perhaps more than ever.

The story

On 5 November 1991, Robert Maxwell, a media mogul and owner of the Daily Mirror, was pronounced dead after his body was found in the Atlantic Ocean. He had last been seen alive on his luxury yacht, the Lady Ghislaine. The coroner's official ruling was of accidental death by drowning, though some commentators still believe that Maxwell took his own life.

Soon afterwards his publishing empire collapsed as banks called in their loans. At the same time, a massive hole was discovered in the Mirror Group Newspapers pension fund. Money had been fraudulently diverted at Maxwell's direction to shore up the finances of his business empire.

In 1992, most of the Maxwell companies filed for bankruptcy. A Department of Trade and Industry report into the affairs of MGN, published some years later, was highly critical of many City firms, including Maxwell's bankers, several law firms, and MGN's auditors Coopers & Lybrand Deloitte. (Full disclosure: at the time I was a partner in C&LD and, although I was not personally involved in the Maxwell audit, I knew many of the people who were).

What went wrong?

From a corporate governance and regulatory perspective, what went wrong? Before the Maxwell case, governance in the City of London was largely determined by a set of informal institutions. The focus was on character and competence. The motto of the London Stock Exchange was "dictum meum pactum", "my word is my bond".

The audit and legal professions were largely self-regulated. The problem with all of this was with a small number of malevolent actors who were determined not to play by the rules. Maxwell was able to drive a coach and horses through the City of London's informal institutions.

Institutional framework

The Nobel prize-winning economist Douglass C. North defines institutions as: *"the rules of the game in a society, or, more formally, the humanly devised constraints that shape human interaction."* These constraints can be formal (laws, codes, regulations) or informal (social norms, traditions, ethical frameworks). They structure incentives in human exchange and determine what behaviours are acceptable or punishable.

In the wake of the Maxwell debacle, the City of London gradually moved away from its informal institutional framework. In 1992 the Cadbury Report made these recommendations: separating the responsibilities of a company's chair and CEO, appointing a minimum number of non-executive directors, instituting an audit committee for all companies and putting much greater emphasis on financial controls and transparency.

Cadbury was followed by Greenbury in 1995 (which focused on executive pay), Hampel in 1998 (principles-based governance), Turnbull in 1999 (risk and internal controls), Higgs in 2003 (the role of non-executive directors), Smith also in 2003 (audit committee effectiveness), and Walker in 2009 (governance and risk management in the financial sector).

The "Combined Code on Corporate Governance", created following publication of the Hampel report, was incorporated into the London Stock Exchange's Listing Rules in 1998. The role of the Financial Reporting Council, established in 1990 to improve financial reporting standards, was later expanded to cover corporate governance. In 2012 the FRC gained statutory powers and took over responsibility for audit regulation which had previously been handled by the auditors' own professional body.

Regulation by itself is not enough

Yet, for all the rules and regulations, problems remain with the UK's corporate governance regime. The Financial Reporting Council (FRC) has been criticised for weak oversight after several high-profile corporate failures, most notably the spectacular collapse in 2018 of Carillion, a major provider of public sector outsourcing services.

In 2019 the Government announced that the FRC would be replaced by a stronger body to be known as the Audit, Reporting and Governance Authority, although six years later reform along these lines is still pending.

Perhaps we need to learn that formal institutions—official codes, rules, regulations and regulators—are equally susceptible to the actions of malign actors who are determined to exploit any loopholes that they can find. Maybe there is merit in focusing once again on character and competence. Lessons can be learned from a parallel with the history of ethics.

A return to Aristotle

The focus of ancient philosophers, especially Aristotle, was on character. Virtuous acts, they said, are those carried out by virtuous people. In the 17th and 18th centuries, Enlightenment philosophers shifted their focus from character to actions. John Locke built a system of ethics based on the rights of man (life, liberty and property). Emmanuel Kant based his theory of ethics on duties, the so-called "categorical imperative": we should always treat people as an end, not a means, and before acting we should ask, "what if everyone did this"? Jeremy Betham and John Stuart Mill constructed an ethical system based on utility: which actions will lead to the greatest good of the greatest number?

By the middle of the 20th century, ethical arguments about the rights and wrongs of different actions had become so complicated that philosophers had taken to arguing about the meaning of the words themselves. What does "good" actually mean?

It took a highly intelligent, bold and outspoken female philosopher, Elisabeth Anscombe, to challenge the prevailing orthodoxy in two famous articles published in the 1950s: "Does Oxford philosophy corrupt youth?" and "Modern moral philosophy". Anscombe argued that ethicists had substantially lost their way and called for a return to Aristotelian virtue ethics.

The lesson

The lesson? Perhaps in much the same way 21st century corporate governance requires a renewed focus on character and competence. We need good people, as well as regulators and rules. It's a case of “both-and”, not “either-or”. More emphasis is needed on the development of people of character and competence.

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